Grant Thornton

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COURT:	**COURT OF QUEEN'S BENCH OF ALBERTA**
JUDICIAL CENTRE:	**CALGARY**
APPLICANT:	**ALBERTA ENERGY REGULATOR**
RESPONDENT:	**LEXIN RESOURCES LTD., 1051393 B.C. LTD., 0989 RESOURCE PARTNERSHIP, LR PROCESSING LTD. and LR PROCESSING PARTNERSHIP**
DOCUMENT:	**SUPPLEMENT TO THE RECEIVER'S EIGHTH REPORT JULY 16, 2018**

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3. Re-Bidding Information Sheet to the High River bidders – July 5, 2018

Introduction

1. On March 20, 2017, on application by the Alberta Energy Regulator ("**AER**"), the Court of Queen's Bench of Alberta (the "**Court**") granted an order (the "**Receivership Order**") appointing Grant Thornton Limited (the "**Receiver**") as receiver and manager of Lexin Resources Ltd. ("**Lexin**" or the "**Company**").

2. On June 13, 2017, on a consent basis the Court approved a receivership order ("**Expanded Receivership Order**") adding the following Lexin related entities to the within Receivership proceedings:

   a) 1051393 BC Ltd. ("**105**");

   b) 0989 Resource Partnership ("**0989**");

   c) LR Processing Ltd. ("**LR Ltd**"); and

   d) LR Processing Partnership ("**LR Partnership**");

   (collectively the "**Additional Lexin Entities**" and collectively, along with Lexin, the "**Lexin Group**").

3. The purpose of this supplemental report to the Eighth Report (the "**Eighth Report Supplement**") is to provide the Court and other interested parties with updated information on the High River area asset sales process as it relates to the adjourned application by Midstream Canada Ltd. ("**Midstream**") seeking to lift the stay of proceedings and transfer operatorship from Lexin to Midstream in respect of a substantial portion of the High River assets subject to the sales process.

Limitations of Report

4. The information contained in the Eighth Report Supplement has been obtained from the available records of the Lexin Group, publicly available information, information obtained from various Lexin Group stakeholders, and discussions with former Lexin Group

employees. The information was not audited nor otherwise verified by the Receiver as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about the Lexin Group. Accordingly, unless otherwise stated, we do not express an opinion or any other form of assurance on the information presented herein. The Receiver may refine or alter its observations as further information is obtained or is brought to its attention after the date of this Eighth Report Supplement.

5. The Receiver assumes no responsibility or liability for any loss or damage occasioned by any party because of the circulation, publication, reproduction, or use of the Eighth Report Supplement. Any use that any party makes of this report, or any reliance on or decisions to be made based on it is the responsibility of such party.

6. A copy of the Eighth Report Supplement and other relevant documents in the receivership proceedings are available on the Receiver's website at: www.grantthornton.ca/Lexin.

Confidential Appendix

7. In order to avoid publicly disclosing certain information that would be prejudicial to third parties or the Receiver's efforts to maximize realizations from the sale of the Lexin Group's Property, prior to completing the sale of that Property, the Receiver has marked an appendix to this report as confidential and omitted it from the report that will form part of the public record. This confidential appendix has been submitted to the Court for review and the Receiver will be applying for an order sealing this confidential appendix until further order of the Court.

High River Area Sales Process

8. As referenced in the Eighth Report, the Receiver noted that if it did not receive a binding PSA from the top bidder on the High River area assets by June 4, 2018, that it would initiate a re-bidding process for these assets. The High River area assets represent almost 60% of the $67 million in the proved and probable reserve value of the Lexin Group, effective March

31, 2017, as per the GLJ Petroleum Consultants' report and as outlined in the Sayer Energy Advisors Ltd. ("**Sayer**") marketing materials.

9. As no binding PSA was received from the top bidder, on June 6, 2018, the Receiver initiated this re-bidding process and, via Sayer, sent the document attached as **Appendix 1** to the bidders who had submitted bids on the High River area assets in October 2017.

10. By the June 27, 2018 bid deadline established in this document, the Receiver received bids from the various bidders, including an unsolicited bid from a bidder who had not bid on these High River area assets in October 2017. The unsolicited bid also included an offer on the Mazeppa Gas Plant, an asset that had not been included in the High River re-bidding process. A summary analysis by the Receiver of the bids received by June 27, 2018 is contained as **Confidential Appendix 2**, which appendix the Receiver is requesting be sealed pending further order of this Court.

11. While the Mazeppa Gas Plant does not form part of the High River Assets, the Mazeppa Plant is the plant through which High River production is processed.

12. The Receiver was subsequently advised by the AER of certain relaxations of their regulatory terms that the AER was prepared to offer to the unsolicited bidder in order to secure a transaction on the Mazeppa Gas Plant. After learning about these terms, the Receiver indicated to the AER that all bidders should be advised of, and be entitled to the same terms offered to the unsolicited bidder. The AER agreed, and on July 5, 2018, the Receiver, via Sayer, sent the document attached as **Appendix 3** to the High River area asset re-bidders. The bid deadline established in the re-bid process has been extended to July 26, 2018, in order to provide bidders with sufficient time to consider the AER's terms outlined therein.

13. The above information, and the Confidential Appendix 2, is being provided to this Court as it has relevance to the considerations involved with the adjourned Midstream application, which has been re-scheduled for July 20, 2018.

DATED at Calgary Alberta, the 16th day of July 2018.

Grant Thornton Limited,
in its capacity as receiver of
Lexin Resources Ltd., 1051393 BC Ltd., 0989 Resource Partnership, LR Processing Ltd. and LR Processing Partnership
and not in its personal capacity

Andrew Basi, CPA, CA, CIRP, LIT
Senior Vice President

Michael Costello, CPA, CA, CBV
Senior Consultant

Lexin Resources Ltd. et al
Canvassing for update/re-bidding process for High River area (including Silver) assets

1. Parties for inclusion in canvass: bidders on High River area assets at October 5, 2017 deadline from Sayer Sales Process
2. Bid deadline: June 27, 2018 (i.e. 3 weeks from June 6, 2018 Sayer canvassing date)
3. Assets included in bidder's offer: aside from providing a well list as part of an updated bid, a facility list and a pipeline license list should also be provided in order to assist the Receiver's in its decision-making outlined below
4. A PSA template (for subsequent execution by the successful bidder) has been posted to the Sayer data room, which PSA template includes the following otherwise non-standard expectations that should be included in a bidder's updated bid:
    a. Time frame for closing: 90 days from Court approval of the sale in order to allow the Receiver thereafter to bring mineral and surface leases current by the closing date (or such longer time as is required to accomplish this task)
    b. Deposit required on binding PSA execution: 20% of purchase price (in part to provide sufficient funds to the Lexin estate for funding 4a above)
5. Criteria for Receiver's decision-making:
    a. Estimated net realization to the Lexin estate after consideration of potential priority arrears owing to the effective date of sale for surface lease, mineral lease, royalty and property tax arrears, as well as the potential equipment proceeds claim contingency, from the bidder's gross sale price
    b. Bidder conditions required for closing of their offer in the form of a binding PSA, including:
        1. Whether the obtaining of a new AER Directive 67 (*Eligibility Requirements for Acquiring and Holding Energy Licenses and Approvals*) BA code/license will be required by the bidder to conclude their offer
        2. Whether relief will be sought from the AER on provisions under Bulletins 2016-16 and 2016-21 (*Licensee Eligibility – Alberta Energy Regulator Measures to Limit Environmental Impacts Pending Regulatory Changes to Address the Redwater Decision* and *Revision and Clarification* thereof, respectively) for a post-transaction LLR position of the bidder of 2:1 or greater
        3. Expected number of AER approvals for permitting or re-permitting of facility licenses (in light of requirement to process gas at a plant other than Mazeppa where the High River area gas was previously processed at)
        4. Whether, if ROFRs are exercised, in whole or in part, the bidder still wishes to conclude their offer
        5. Whether operatorship over the assets operated by Lexin prior to their suspension in February 2017, is required to be in place at closing
        6. Whether third party financing will be required to conclude the bidder's offer (or proof of financing, if not required)
        7. Whether all equipment located at the Lexin-licensed sites offered upon is expected to be included within the offer
        8. Whether physical inspection of the equipment located at these sites is required prior to executing a binding PSA
    c. Due diligence time frame required by bidders for clearing of the above items, including ROFR review time frame (Note: All applicable farm-out and CO&O agreements with Exxon – now Midstream - are located in the Sayer data room)
    d. Bidder's proof of financing, third party or otherwise
    e. Likelihood of AER acceptance of required license transfers and permitting/re-permitting of facility licenses

CONFIDENTIAL APPENDIX 2

Lexin Resources Ltd. et al
Canvassing for re-bidding process for High River area (including Silver) assets, inclusive of Mazeppa Gas Plant

During the High River re-bidding process, the Receiver received an unsolicited bid on the High River assets, inclusive of the Mazeppa Gas Plant. The Receiver became aware that certain concessions were made by the AER to the unsolicited bidder. In order to ensure the fairness of the marketing process, the Receiver has requested that the same terms be made available to other bidders who may not be aware of the relief that the AER is willing to provide.

In light of this and in view of AER's efforts to strive, where possible, to minimize proliferation of AER-licensed facilities, the AER has indicated that it would prefer an outcome that would result in both the High River area assets and the Mazeppa Gas Plant returning to operation. In order to facilitate same, and on the pre-condition that the purchaser for the Mazeppa Gas Plant is in good standing and meets the AER's requirements to hold an AER license, we have been informed by the AER that they are prepared to consider granting liability management ratio relief as follows:

- provided that, as part of the transfer, the transferee submits and the AER approves a closure plan (the "Plan") for the Mazeppa Gas Plant (F2588) that provides for:
    1. the full dismantlement of the sour side of the facility within 12 months of transfer; and
    2. a reasonable period of time for remediation and reclamation, the AER will accept $2.6 million in security for the Mazeppa Gas Plant at the time of transfer; and
- provided the licensee implements the Plan as approved and remains in full compliance with AER requirements, the AER will defer collecting full security for the Mazeppa Gas Plant and reassess the liability management ratio annually as decommissioning takes place on the site.

If bidders would like to further pursue matters related to the Plan with the AER, the contact person there is Bola Talabi, whose email and phone contact details are bola.talabi@aer.ca and 403-297-2391. Please copy Sayer Energy Advisors (Alan Tambosso or Tom Pavic) on any written correspondence with the AER at ATambosso@sayeradvisors.com or TPavic@sayeradvisors.com.

In light of this development, the Receiver, via Sayer, is accepting amended bids from bidders, inclusive of the Mazeppa Gas Plant, on the basis outlined above, until noon Thursday, July 26.

The Receiver will not be making a determination on the High River asset bids submitted on June 27 until the above process is brought to a conclusion and both the previous bids and any new bids from this above process are reviewed concurrently by the Receiver.