



COURT FILE NUMBER: 1701-03460

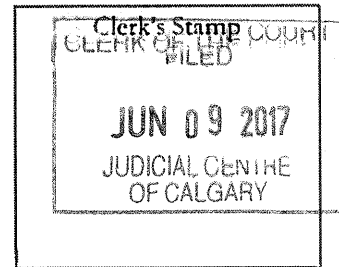
COURT: COURT OF QUEEN'S BENCH
OF ALBERTA

JUDICIAL CENTRE: CALGARY

APPLICANT: ALBERTA ENERGY REGULATOR

RESPONDENTS: LEXIN RESOURCES LTD.

DOCUMENT: RECEIVER'S THIRD REPORT
JUNE 9, 2017



ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING DOCUMENT

RECEIVER

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1. Court Order, May 8, 2017

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 March 22, 2017, Lexin filed an application for leave to appeal the Receivership Order with the Alberta Court of Appeal. Lexin’s leave to appeal application was originally scheduled to be heard April 5, 2017; was adjourned to May 16, 2017 and has since been adjourned by consent of both AER and Lexin on a *sine die* basis.
3. On March 30, 2017 and April 28, 2017, the Receiver issued its First Report (the “**First Report**”) and Second Report (the “**Second Report**”), respectively.
4. On May 8, 2017, the Court approved an order (“**Order**”) providing for the following:
 - a) Approval of the Receiver’s actions to date as outlined in the First Report and the Second Report;
 - b) An increase in the Receiver’s authorized borrowings, together with the Receiver’s Borrowings Charge from \$200,000 to \$1,200,000;
 - c) A direction that no funds advanced by the AER to the Receiver shall be used for the purposes of advancing litigation against the AER.
 - d) The granting to the Receiver all of the powers of examination afforded to a trustee in bankruptcy pursuant to Sections 163 to 167 of the Bankruptcy and Insolvency Act (“**BIA**”) and a process for serving persons with a notice of examination; and
 - e) A clarification on matters arising from the processes that followed from the Document Protocol Order of April 4, 2017.

A copy of this Order is attached as **Appendix 1**.

5. Lexin has filed a notice of appeal in respect of portions of the Order. In particular, Lexin has sought to appeal the funding condition associated with the borrowings as well as the grant of examination powers to the Receiver pursuant to sections 163 to 167 of the BIA. Lexin has requested that this appeal be held in abeyance until further notice. The Court of Appeal has advised that Lexin's request to suspend the appellate deadlines is premature given that the appeal record is not due until September 11, 2017, and invited Lexin to revisit the request closer to September, if necessary.
6. The purpose of this report (the "**Third Report**") is to provide information with respect to expanding the receivership proceedings to include: 0989 Resource Partnership ("**0989**"), 1051393 BC Ltd. ("**105**"), LR Processing Partnership ("**LR Processing**") and LR Processing Ltd. ("**LR Ltd.**") (0989, 105, LR Processing and LR Ltd. are sometimes collectively referred to as the "**Additional Parties**"). The Third Report is limited to information on the expansion of the receivership proceedings. Updates on other matters referenced in the Receiver's prior reports will be addressed in future reports.
7. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein shall adopt the meaning as defined in the Receivership Order, the AER's originating application materials, the affidavit of Laura Chant sworn on March 11, 2017 (the "**Chant Affidavit**") and previous Receiver's reports.

Limitations of Report

8. The information contained in the Third Report has been obtained from the available records of the Company, publicly available information, information obtained from various Company stakeholders, and discussions with former Lexin 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 Company. Accordingly, 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 report.

9. 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 Third Report. Any use that any party makes of this report, or any reliance on or decisions to be made is the responsibility of such party.
10. A copy of the Third Report and other relevant documents in the receivership proceedings are available on the Receiver's website at: www.grantthornton.ca/Lexin.

Background

11. Lexin is a privately held corporation formed pursuant to the laws of British Columbia. The Company was engaged in the business of oil and gas exploration and production in Alberta.
12. The events leading up to the receivership of Lexin were outlined in the Chant Affidavit and in the First Report. In summary, Lexin had numerous regulatory orders issued against it by the AER which resulted in the suspension of all of Lexin's AER regulated assets. In an unprecedented step taken by the AER, the AER sought the appointment of a receiver to realize upon the assets of Lexin, attend to stakeholder and creditor issues in an orderly fashion and help address many of the outstanding environmental and safety issues at the Sites and the Abandoned Sites in a court supervised process.
13. Further background on the Company, its assets and events leading up to the receivership proceedings are available by reviewing the Chant Affidavit, the previous Receiver's reports and other materials filed in the proceedings.

Expansion of the Receivership Order

14. As outlined in the Receiver's prior reports, the Additional Parties are all related to Lexin. Lexin is a 99.999% partner in the 0989 partnership. The other partner in the 0989 partnership is 105, whose sole asset appears to be its 0.001% interest in 0989. 0989 holds 100% of the shares of LR Ltd., which in turn is the general partner of LR Processing.
15. The Receiver believes that a more effective sales process can be conducted with the Additional Parties included within the Receivership proceedings. This is because, as outlined

in the Receiver's prior reports, the Additional Parties are inextricably linked with Lexin's oil and gas assets, including:

- a) Beneficial interest in leases – while legal title, together with the applicable well licenses, may have been held in the name of Lexin, the leases appear to have been accounted for by Lexin as being 0989 assets and beneficial ownership of the underlying assets appears to belong to 0989;
- b) Wells and facilities - Lexin is the AER license holder of the wells and facilities, including the Mazeppa Plant, which appears to be beneficially owned by LR Processing, with legal title to the real property held by LR Ltd;
- c) Joint Venture activity – much of Lexin's relationship with its Working Interest Partners and other contracting parties appears to have been conducted in the name of 0989;
- d) Equipment – the oil and gas equipment required for Lexin's oil and gas operations appears to have been owned or leased by 0989; and
- e) Pipelines – the pipelines that are required to flow sour gas for Lexin and 0989 in and around the High River area are licensed to LR Processing.

16. We understand that the AER and Lexin, together with the Additional Parties, are consenting to the expansion of receivership proceedings to include the Additional Parties.

17. Information with respect to a future sales process and related matters will be contained within a future report to be filed by the Receiver. However, it is the Receiver's view that the inclusion of the Additional Parties will result in a more efficient and effective sales process, allowing the Receiver to maximize value for the stakeholders.

18. The Receiver also notes that many of Lexin's stakeholders are also creditors or parties with interests in the Additional Parties, as noted from searches of the parties conducted at the Personal Property Registry ("PPR"). For example:

- a) MFC Energy Finance Inc., holds an “all present and after acquired personal property” registration as against both Lexin and 0989 at the PPR. A review of the underlying loan documentation demonstrates that the loan stated to have been advanced by MFC Energy Finance Inc. was advanced to 0989, with Lexin pledging a general security agreement in support of that loan;
 - b) Baker Hughes has registered a writ of enforcement against all of 0989, 105 and Lexin;
 - c) TAQA North has a security interest registered against each of 0989 and Lexin;
 - d) Marquinn Industries Ltd. has a security interest registered against each of Lexin and LR Processing (formerly MFC Processing Partnership); and
 - e) Triple Seven Integrity Management Inc. has registered a writ of enforcement against all of Lexin, 0989 (formerly MFC Resource Partnership) and LR Processing (formerly MFC Processing Partnership).
19. As outlined in the Second Report, LR Processing and LR Ltd. were previously petitioned into bankruptcy pursuant to an order dated November 25, 2016 (the “**LR Bankruptcy Order**”). The LR Bankruptcy Order was appealed on November 30, 2016 and the appeal has not been advanced.
20. Given all of the above, the Receiver is of the view that it is just and convenient to include the Additional Parties in these proceedings and that doing so will have a positive impact on the outcome of these proceedings, for the benefit of all stakeholders involved.

Recommendations

21. The Receiver respectfully recommends that the Court approve the inclusion of the following entities within the Receivership Order:
- a) 0989 Resource Partnership;

- b) 1051393 BC Ltd.;
- c) LR Processing Ltd.; and
- d) LR Processing Partnership

22. Subject to the above, the Receiver intends to continue its administration of the receivership and will provide further reporting to the Court in due course.

DATED at Calgary Alberta, the 9th day of June 2017.

Grant Thornton Limited,
in its capacity as receiver of
Lexin Resources Ltd.
and not in its personal capacity



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

Michael Costello, CPA, CA, CBV
Senior Consultant

COURT FILE NUMBER **1701-03460**

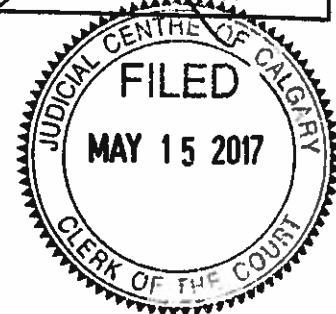
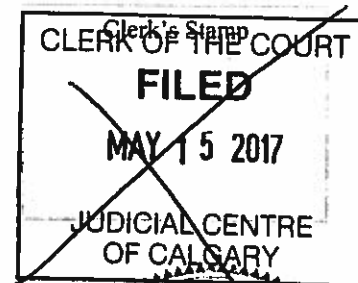
COURT **COURT OF QUEEN'S BENCH OF ALBERTA**

JUDICIAL CENTRE **Calgary**

APPLICANT **ALBERTA ENERGY REGULATOR**

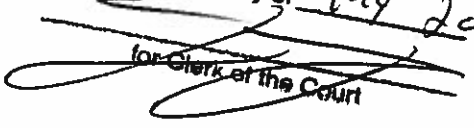
RESPONDENT **LEXIN RESOURCES LTD.**

DOCUMENT **ORDER: INCREASE RECEIVER'S BORROWINGS CHARGE & EXAMINATION POWERS**



ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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File No. 547730/000021

I hereby certify this to be a true copy of the original Order
Dated this 15 day of May 2017

for Clerk of the Court

DATE ON WHICH ORDER WAS PRONOUNCED: May 8, 2017

LOCATION WHERE ORDER WAS PRONOUNCED: Calgary, Alberta

NAME OF JUSTICE WHO MADE THIS ORDER: The Honourable Justice P.R. Jeffrey

UPON the Application of Grant Thornton Limited in its capacity as the court-appointed receiver (the "Receiver") of Lexin Resources Ltd. ("Lexin"); AND UPON having read the Second Report of the Receiver, dated April 28, 2017 (the "Second Report"), the Affidavit of Service of Rhonda Lastockin, filed, the Affidavit of Tatsiana Okun, dated May 2, 2017, and the pleadings and Receiver's reports previously filed herein, including the First Report of the Receiver dated March 30, 2017 and the receivership order granted on March 20, 2017 (the "Receivership Order"); AND UPON having heard submissions from counsel for the Receiver, the Alberta Energy Regulator ("AER"), Lexin, and no other counsel in attendance at this Application having made submissions,

IT IS HEREBY ORDERED AND DECLARED THAT:

Service

1. Service of notice of this Application is deemed good and sufficient and this Application is properly returnable today.

Borrowings Charge

2. The Receiver's Borrowings Charge provided by paragraph 22 of the Receivership Order is hereby increased from \$200,000 to \$1,200,000 and the Receiver shall be authorized to borrow, by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$1,200,000.
3. No funds advanced by the AER to the Receiver shall be used for the purposes of advancing litigation against the AER.

Examination Powers

4. The Receiver is granted all of the powers of examination afforded to a trustee in bankruptcy pursuant to sections 163 to 167 of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended ("BIA") (the "Examination Powers"), with the same force and effect as if the Receiver were a trustee in bankruptcy of Lexin, subject to the terms set-out herein.
5. The Receiver is hereby empowered to examine Mr. Michael Smith pursuant to the Examination Powers. The Receiver shall provide Mr. Smith with no less than forty-eight (48) hours' notice of the date, time and place of the Receiver's examination of Mr. Smith and Mr. Smith shall attend as stipulated in the Receiver's notice.
6. The Receiver may serve those individuals, other than Mr. Smith, identified at paragraph 90 of the Second Report, including any other person that the Receiver reasonably believes has knowledge of the affairs of Lexin, with a Notice of Appointment for Examination pursuant to this Order. The Receiver shall serve such persons with a Notice of Appointment pursuant to the *Alberta Rules of Court* and with a copy of this Order ("Notice of Examination"). Such person may object to the Receiver's Notice of Examination by advising the Receiver of same ("Objecting Party") within three days' from service of the Notice of Examination ("Notice of Objection"). Any Notice of Objection must state that the individual objects to the Receiver's Notice of Examination and the basis upon which the individual objects to being examined by the Receiver.
7. The Receiver shall be responsible for making arrangements with the Court to schedule an application to hear and determine any disputes arising from a Notice of Objection.
8. The onus shall be on the Receiver to establish why its powers should be extended to include the Examination Powers in each individual case.
9. Should a person fail to deliver a Notice of Objection within three days from service of the Notice of Examination by the Receiver, the Receiver shall be and is hereby granted the Examination Powers respecting such person.
10. The Receiver may conduct more than one examination of individuals pursuant to its Examination Powers and pursuant to a Notice of Examination.

11. Any individual examined by the Receiver pursuant to this Order shall be subject to all of the rights, responsibilities and obligations of an individual examined by a trustee in bankruptcy pursuant to sections 163 to 167 of the BIA.
12. Notwithstanding the foregoing, any individual examined by the Receiver pursuant to this Order shall be entitled to all of the protections afforded to witnesses at common law and pursuant to the Canadian *Charter of Rights and Freedoms*, being Part I to the *Constitution Act, 1982*, Schedule B to the *Canada Act 1982 (UK)*, 1982, c 11, respecting the right against self-incrimination and under the BIA.
13. The evidence obtained from any examination conducted by the Receiver pursuant to this Order shall only be used by the Receiver for purposes of the within Receivership proceedings. Any party who is adverse in interest to Lexin or the person being examined shall not be entitled to attend at the Receiver's examination of that person.
14. Notwithstanding section 163(3) of the BIA, the transcript of the Receiver's examination of any person pursuant to this Order shall be sealed on the Court file, kept confidential and not form part of the public record. The clerk shall file such transcripts in a sealed envelope attached to a notice that sets out the style of cause of these proceedings and states that:

in any other litigation, ✓ M.

THIS ENVELOPE CONTAINS CONFIDENTIAL MATERIALS FILED IN COURT FILE NO. 1701-03460. THE CONFIDENTIAL MATERIALS ARE SEALED PURSUANT TO THE SEALING ORDER ISSUED BY THE HONOURABLE JUSTICE P.R. JEFFREY ON MAY 8, 2017.

Document Protocol

15. Groia & Company shall provide further and better particulars of the records marked as privileged during a review of Lexin records seized by the AER and enclosed with correspondence from Groia & Company Professional Corporation to Borden Ladner Gervais LLP on April 17, 2017 and in particular, shall provide further descriptions of the records marked as Item B1, Item B2, Item B3, Item B6, Item B7, Item B9, Item B10 and Item B11.
16. The Receiver shall be permitted to provide relevant Lexin Emergency Records (as defined in paragraph 24 of the Protocol) to Lexin's working interest participants ("WIPs") who are acting as substitute or interim operators, charged with care and custody of Lexin Sites ("Qualified WIPs"), in accordance with the relevant provisions of the "Protocol for the Review of Records by the Court - Appointed Receiver of Lexin Resources Ltd. and the Urgent Disclosure of Records of Lexin Resources Ltd. to the Orphan Well Association" (the "Protocol") approved by the Court on April 4, 2017, in the same manner as the Lexin Emergency Records are provided to the Orphan Well Association and subject to the same terms and conditions as set out in the Protocol and as set out herein.
17. The Receiver shall only deliver relevant Lexin Emergency Records to Qualified WIPs who have provided the Receiver with an undertaking that the Lexin Emergency Records received by the Qualified WIPs shall only be made available to its personnel on a need to know basis, being such personnel responsible for the maintenance of facilities, operations, resource exploration, potential mothballing of facilities, or safety and health, and the Receiver has to obtain agreements in writing with Qualified WIPs setting out the terms on which the documents are to be released. M.

Activities of Receiver

18. The Receiver's activities as set out in the First Report and the Second Report, each filed herein are hereby ratified and approved.



Justice of the Court of Queen's Bench of Alberta