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COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	CALGARY
APPLICANT	ALBERTA ENEGY REGULATOR
RESPONDENT	LEXIN RESOURCES LTD.
DOCUMENT	**AFFIDAVIT OF LAURA CHANT**
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AFFIDAVIT OF LAURA CHANT SWORN MARCH 11, 2017

I, Laura Chant, of Calgary, Alberta, MAKE OATH AND SWEAR:

1. I am employed as an Insolvency Management Specialist with the Alberta Energy Regulator ("**AER**") and as such have direct personal knowledge of the matters herein deposed to except where stated to be based upon information, in which case, I do verily believe such matters to be true.

The Parties

2. Lexin Resources Ltd. ("**Lexin**") is incorporated under the laws of the Province of British Columbia, and is extra-provincially registered in Alberta. Lexin was initially incorporated under the name Compton Petroleum Corporation ("**Compton**"). It changed its name to

MFC Energy Corporation ("**MFC Energy**") on March 11, 2014, and then to Lexin Resources Ltd. on February 2, 2016. Attached hereto and collectively marked as **Exhibit "A"** are copies of Corporate Registry searches for Lexin.

3. From the corporate searches I am aware that the directors of Lexin are Michael J. Smith, of Central Hong Kong, China, and Jasmina Cezek of Quarry Bay, Hong Kong and the named officer is Rob Jennings of Vancouver, British Columbia.

4. The AER believes that Lexin is part of a group of companies (the "**Lexin Group of Companies**"). Attached hereto and marked as **Exhibit "B"** is an organizational chart (the "**Organizational Chart**") indicating potential connections between Lexin and other corporations in the Lexin Group of Companies, which the AER has prepared based on information it has assembled.

5. Lexin is an AER licensee, and I am aware that it currently holds 1,662 operational licenses (1,380 wells, 81 facilities and 201 pipelines) (the "**Sites**"); and Lexin holds licences respecting 134 abandoned wells, 5 abandoned facilities and 6 abandoned pipelines (the "**Abandoned Sites**"). The Sites and the Abandoned Sites are hereinafter collectively referred to as the "**Sites and Abandoned Sites**".

6. The AER is a corporation established by the *Responsible Energy Development Act*, SA 2012, c. R-17.3 ("***REDA***"). Under REDA the AER is tasked with overseeing the safe, efficient, orderly and environmentally responsible development of energy resources in Alberta. The AER issues permits, licenses, registrations, authorizations, and other instruments related to the production and extraction of energy resources, and oversees all aspects energy resources activities in Alberta including penalizing companies and individuals who fail to comply with AER requirements.

Background and Conduct of Lexin to January 31, 2017

7. I am aware that the AER's experience with Lexin is unprecedented in terms of the conduct of the licensee and range of issues and safety and other risks involved.

8. I am aware that in April, 2016, Lexin was directed by the AER in an environmental protection order issued under s. 113 of the *Environmental Protection* and *Enhancement Act* to address, with the other working interest participants (**"WIPs"**) in the site in question, a serious surface casing vent flow issue. On June 1, 2016, one of the WIPs contacted the AER to advise that Lexin had not paid its share of the costs in this connection and was not returning calls. A copy of the correspondence is attached hereto and market as **Exhibit "C"**.

9. I am aware that in or about April, 2016, Lexin ceased to report its production volumes and the like to Petrinex, the data collection and management organization to which licensees are required to report. Because Lexin has not been reporting to Petrinex, the revenues it has been generating from its AER licensed sites since that time are unknown to the AER, the Government of Alberta or the public.

10. I understand that on February 5, 2016, the AER issued to Lexin a notice of non-compliance for failure to install a dilution gas meter at a sour gas facility, and failure to remove numerous bags of spent catalyst from the grounds of the facility (the "**Non-Compliance Notice #1**"). On June 15, 2016, the AER issued an order to Lexin for failure to comply with Non-Compliance Notice #1 (the "**Metering and Removal Order**"). A copy of the Metering and Removal Order is attached hereto and marked as **Exhibit "D"**.

11. To my knowledge, Lexin has not complied with the Metering and Removal Order.

12. Following information from Lexin and other sources that Lexin had terminated most of its staff and would not be able to respond to an incident or emergency should one occur at or relating to a sour gas facility licensed to it, on August 9, 2016, the AER issued to Lexin an order (the "**Mazeppa Order**") directing, *inter alia*, that Lexin and LR Processing Ltd., a related party which has an ownership interest in the the Mazeppa sour gas facility (the "**Mazeppa Sour Gas Facility**") and infrastructure, immediately suspend and discontinue its operations. Lexin's Mazeppa Sour Gas Facility is located in the Municipal

District of Foothills near High River, Alberta, approximately 76 km from the City of Calgary. A copy of the Mazeppa Order is attached hereto and marked as **Exhibit "E"**.

13. To my knowledge, Lexin has only partially complied with the Mazeppa Order. I am advised by AER closure and liability staff that Lexin disputes that it is properly the licensee of the Mazeppa Sour Gas Facility, and asserts that the license should be held by LR Processing Ltd. Attached hereto and collectively marked as **Exhibit "F"** are copies of correspondence between the AER and Lexin touching on this matter.

14. I am advised by AER closure and liability staff that despite an invitation by the AER for Lexin to submit a transfer application regarding the Mazeppa Sour Gas Facility license, no application has been received.

15. In August 2016, numerous closure and abandonment orders (the "**Closure and Abandonment Orders**") were issued against Lexin for, *inter alia*, expired surface rights (3 wells) and mineral rights (26 wells). A copy of the Closure and Abandonment Orders are collectively attached hereto and marked as **Exhibit "G"**. To my knowledge, expired surface rights and mineral rights often result from a failure of a licensee to make its payments under either the surface or mineral lease.

16. Also, to my knowledge, Lexin has not complied with the Closure and Abandonment Orders.

17. On October 25, 2016, the AER issued an order to Lexin to take immediate steps to clean up a hydrocarbon spill at another sour gas facility (the "**Clean-up Order**"). The AER first informed Lexin of this spill on July 28, 2016. Lexin had not cleaned it up, despite statutory obligations to do so and notwithstanding having received from the AER a notice of non-compliance issued in August 2016 for this spill ("**Non-Compliance Notice #2**"). A copy of the Clean-up Order is attached hereto and marked as **Exhibit "H"**.

18. To my knowledge, Lexin has not complied with the Clean-up Order.

19. "Global Refer" status is an AER enforcement status that results in all of the licensee's applications being processed as non-routine and provides for the imposition of possible additional terms or conditions on any approvals, business associate codes, or licenses granted. On November 24, 2016, I understand that the AER sent a letter to Lexin (the "**Global Refer Letter**") stating that "Global Refer" status had been imposed on Lexin because of its inability or unwillingness to comply with regulatory requirements. A copy of the Global Refer Letter is attached hereto and marked as **Exhibit "I"**.

20. On November 28, 2016, I understand that Crescent Point Energy Corp. ("**CPEC**") contacted AER's enforcement staff by letter to express concern that Lexin was not fulfilling its obligations as operator of Lexin's joint venture properties in which CPEC has a working interest (the "**CPEC Letter**"). In the CPEC Letter, CPEC asked the AER to grant CPEC formal permission to access forty (40) wells, so that CPEC could ensure that the wells were left in a safe condition and did not pose a risk to the public or environment. A copy of the CPEC Letter is attached hereto and marked as **Exhibit "J"**.

21. On December 1, 2016, I understand that the AER received a letter from Pengrowth Energy Corporation ("**Pengrowth**") stating that it was taking over operatorship of twenty-nine (29) wells it owns jointly with Lexin, because of Lexin's failure to pay gas royalty arrears and failure to provide required production reporting to the AER and Pengrowth (the "**Pengrowth Letter**"). A copy of the Pengrowth Letter and related correspondence between Pengrowth and Lexin, collectively, are attached hereto and marked as **Exhibit "K"**.

22. On January 19, 2017, I understand that the AER issued a declaration under section 106(1) of the *Oil and Gas Conservation Act* ("***OCGA***"), naming Michael J. Smith, Jasmina Cezek and Rob Jennings as persons in direct or indirect control of Lexin, and declaring that Lexin has, *inter alia*, contravened AER requirements or failed to comply with orders of the AER or is indebted to the AER (the "**Section 106 Declaration**"). A copy of the Section 106 Declaration is attached hereto and marked as **Exhibit "L"**.

23. I am aware that section 106 of the OGCA applies where the AER considers it in the public interest to make a declaration naming one or more directors, officers, agents, or other persons who, in the AER's opinion, were directly or indirectly in control of a licensee, approval holder, or working interest participant that has (i) contravened or failed to comply with an order of the AER or (ii) has an outstanding debt to the AER, or to the AER to the account of the orphan fund, in respect of suspension, abandonment, or reclamation costs.

Recent Conduct of Lexin Resulting in Court Proceedings

24. On January 31, 2017, I understand that Lexin advised the AER by letter (the "**Deadline Letter**") that it was not sure that it would be able to provide "proper health and safety overview and measures for [its] sour wells" beyond February 15, 2017 (the "**Deadline**"), which Lexin expressly acknowledged would create serious health and safety risks for all concerned. A copy of the Deadline Letter is attached hereto and marked as **Exhibit "M"**.

25. The AER responded to the Deadline Letter by letter of February 6, 2017 demanding that Lexin address its outstanding non-compliances and ensure that its Sites are maintained in a manner that ensures that the public and the environment are protected ("**Demand Letter**"). In the Demand Letter, Lexin was directed to advise by February 10, 2017 what steps it intended to take to ensure the sour gas wells were maintained in a safe condition. A copy of the Demand Letter is attached hereto and marked as **Exhibit "N"**.

26. Lexin replied by letter dated February 10, 2017 (the "**Reply Letter**"). The Reply Letter did not include any information regarding the steps Lexin intended take to ensure the wells were maintained in a safe condition. A copy of the Reply Letter is attached hereto and marked as **Exhibit "O"**.

Court Proceedings and other Developments

27. As a result of AER concerns regarding the lack of compliance, site maintenance and care and custody provided by Lexin, the AER issued an order suspending all of Lexin's

operations and licenses on February 14, 2017 (the "**Suspension Order**"), a copy of which is attached hereto and marked as **Exhibit "P"**.

28. I am aware that it is extremely rare for the AER to have issued a suspension order affecting so many licensed sites.

29. I am also aware that if all the AER licensed sites were to be orphaned for abandonment purposes, the current inventory of the Orphan Well Association ("**OWA**") would almost double and result in it expending very significant abandonment costs which will be borne by the industry, and potentially Albertans, generally. It is in the public interest and is the AER's objective to endeavour to avoid this from happening. To the extent that this can be avoided by effective sale and transfer, prior to any abandonment, of those Lexin Sites where Lexin has a 100% working interest or where the remaining WIPs are not considered viable (hereinafter referred to as the "**OWA Sites**"), the public interest will be served, including in respect of effective development of resources, because viable resources will not be stranded as would occur with abandonment.

30. In light of the Deadline Letter, the Demand Letter, the Reply Letter and the Suspension Order, and in response to the AER learning that Lexin and others had been removing equipment from Sites resulting in potential safety and environmental risks, the AER served upon Lexin an Originating Application filed in Court of Queen's Bench Action Number 1701-02272 (the "**AER Proceedings**") in which the AER sought:

    (a) a Court Order directing that no person remove equipment from the sites on which Lexin is the licensee without the AER's approval or court order (the "**Equipment Relief**"); and

    (b) if necessary, a Court Order directing that Lexin, its directors, agents, and employees, comply with each of the terms of the inspection direction issued by the AER to Lexin on February 14, 2017 (the "**Inspection Relief**").

31. A copy of the Originating Application filed in the AER Proceedings is attached hereto and marked as **Exhibit "Q"**.

32. I understand that by Order of the Court, the Equipment Relief was granted on February 14, 2017, on an interim basis, was extended on February 17, 2017, and was then ultimately granted on the merits on March 3, 2017 (the "**Equipment Order**"), and the Inspection Relief application was adjourned *sine die* on March 3, 2017 with a right provided to the AER to return to the Court on three days' notice. Attached hereto and marked as **Exhibit "R"** is a copy of the Equipment Order, excluding Schedule A which also addresses the adjournment of the Inspection Relief application.

33. I understand the AER has designated the OWA Sites as orphans for suspension purposes. As a result of that process, the OWA is authorized to assist in carrying out Lexin's responsibilities respecting the OWA Sites. With respect to the Sites other than the OWA Sites where the AER believes there is a viable WIP in a site licensed to Lexin, I understand the AER is working with the WIPs to ensure care and custody of those Sites is provided.

34. The AER had hoped that orphaning the OWA Sites for suspension purposes where the OWA would assist Lexin with its obligations to suspend the Sites pursuant to the Suspension Order, coupled with a Court Order granting the Equipment Relief and contemplating the Inspection Relief, if necessary, would go a long way toward securing the Sites from a safety and environmental perspective.

35. I am advised that the since issuing the Suspension Order and filing the AER Proceedings on February 14, 2017, the following has occurred.

36. I understand that on February 23, 2017, Lexin wrote to the AER indicating that it did not have the funds to comply with Environmental Orders issued to Lexin by the AER, a copy of which is attached hereto and marked as **Exhibit "S"**.

37. I understand that on February 27, 2017, in the AER Proceedings, counsel for Lexin served an application ("**Lexin Proceeding #1**"), seeking:

(a) an Order in the nature of *mandamus* directing the AER to forthwith take reasonable steps to remedy all health, safety, and environmental issues that may exist at the wells, facilities, and pipelines for which Lexin is listed as the licensee (the "**Mandamus Relief**"); and

(b) an Order directing the AER to issue abandonment orders for the Lexin Sites that have already been designated as orphans by the AER for the purposes of suspension and have those sites transferred to the OWA (the "**Abandonment and Transfer Relief**").

A copy of Lexin Proceeding #1 is attached hereto and marked as **Exhibit "T"**.

38. Lexin Proceeding #1 was adjourned until March 22 and 23, 2017, on which days the Court will hear argument on its jurisdiction to hear Lexin's application (the "**Jurisdiction Hearing**"). Attached hereto and marked as **Exhibit "U"** is a copy of an Order granted by the Court on March 3, 2017 respecting Lexin Proceeding #1 (**the "Jurisdiction Order**").

39. I am aware that after the Equipment Order was granted, on March 7, 2017, counsel for Lexin served on the AER an Originating Application filed in a new proceeding (Court of Queen's Bench Action Number 1701-03310), also returnable on March 22 and 23, 2017 ("**Lexin Proceeding #2**"). Lexin Proceeding #2 seeks, *inter alia*, the same Mandamus Relief and Abandonment and Transfer Relief as is sought in Lexin Proceeding #1. A copy of Lexin Proceeding #2 is attached hereto and marked as **Exhibit "V"**. (Also included in **Exhibit "V"** is a Notice of Question of Constitutional Law, which Lexin served on AER on Thursday, March 9, 2017 which is also returnable on March 22 and 23, 2017).

40. No evidence has been filed in Lexin Proceeding #2, however in and by each of Lexin Proceeding #1 and Lexin Proceeding #2, Lexin has indicated it is not capable of providing

the appropriate care and custody of its sites to ensure that environmental and safety concerns are properly addressed.

41. Also after the Equipment Order was granted, I understand that the AER received a letter from Groia & Company of Toronto, counsel for Lexin, on March 6, 2017, stating that it had significant concerns with health, safety and environmental issues at the sites and facilities for which Lexin in a licensee, and stating that Lexin is unable to address these issues (the "**Health and Safety Letter #1**").

42. The Health and Safety Letter #1 also stated that Lexin does not know if its 1-800 emergency line for reporting health, safety and environmental emergencies is currently operational, as Telus had advised that it would be disconnecting the line shortly, and in any event that Lexin does not have the resources to handle any calls to that line as it now only has 2 employees. The Health and Safety Letter #1 also stated that the pond levels at the Mazeppa Sour Gas Facility are dangerously high and that there is a "real danger of an overflow and environmental damage as a result thereof." A copy of the Health and Safety Letter #1 is attached hereto and marked as **Exhibit "W"**.

43. AER responded to the Health and Safety Letter #1 by letter dated March 7, 2017 (the "**AER Response Letter**"). In that letter, AER asked Lexin to confirm whether the 1-800 emergency number is operational, and confirm that it will take steps to provide a response in the event of an emergency. A copy of the AER Response Letter is attached and marked as **Exhibit "X"**.

44. In response to the AER Response Letter, Lexin sent another letter dated March 8, 2017, (the "**Health and Safety Letter #2**") stating again that Lexin has no funds to address its obligations and asking the AER to take steps to mitigate safety risks. Lexin did not confirm whether its 1-800 number for emergency response is still working or whether steps will be taken by Lexin in the event of an emergency. A copy of the Health and Safety Letter #2 is attached and marked as **Exhibit "Y"**.

Debt and Security Claims

A. ***AER and OWA***

45. I am advised by finance staff of the AER that Lexin has failed to pay the 2016 AER administration fee and 2016 orphan fund levies and associated penalties for nonpayment of $1,188,910.66. These levies are collected from industry participants to fund AER administration costs and the OWA's suspension, abandonment and reclamation activities. Specifically, Lexin has refused or neglected to pay the following Administration Levies and the Orphan Fund Levies in the amount of $1,188,910.66 (the "**Debt**"):

(a) 1st 2016 Orphan Fund Levy Payment invoice dated March 23, 2016, in the amount of $58,005.34, which is attached hereto and marked as **Exhibit "Z"**;

(b) 1st 2016 Orphan Fund Levy Payment Penalty invoiced on May 3, 2016, in the amount of $11,601.07, which is attached hereto and marked as **Exhibit "AA"**;

(c) 2016 Administration Levy invoiced on May 18, 2016, in the amount of $892,478.12, which is attached hereto and marked as **Exhibit "BB"**;

(d) 2016 Administration Levy Penalty invoiced on July 5, 2016, in the amount of $175,340.13, which is attached hereto and marked as **Exhibit "CC"**;

(e) 2nd 2016 Orphan Fund Levy Payment invoiced on August 8, 2016, in the amount of $56,052.89, which is attached hereto and marked as **Exhibit "DD"**; and

(f) 2nd 2016 Orphan Fund Levy Penalty invoiced on September 21 2016, in the amount of $11,210.58, which is attached hereto and marked as **Exhibit "EE"**.

46. I understand that AER has a statutory lien pursuant to section 103 of the *OGCA* in respect of the AER Debt, applicable upon Lexin's interest in any wells, facilities and pipelines, land or interests in land, including mines and minerals, equipment and petroleum substances (the "**Lien**"). This statutory Lien is stated to have priority over all

other liens, charges, rights of setoff, mortgages and other security interests. As such, AER is a secured creditor of Lexin.

47. I am also advised by closure and liability staff of the AER that the AER has taken steps to enforce its Lien through garnishment activities. This has resulted in the collection of $112,659.48 from third parties, so that the total amount currently outstanding with respect to the foregoing amounts is $1,076,251.18 (the "**Amount Outstanding**").

48. I understand that Lexin is required to post with the AER a security deposit in the sum of over $70 million to comply with the AER liability management ratio program requirements under AER Directive 006: Licensee Liability Rating (LLR) Program (the "**LLR Program**"). I am aware that the LLR Program requires such security to avoid the cost of suspending, abandoning, remediating, and reclaiming wells, facilities, or pipelines from being passed on to the orphan well fund and ultimately, potentially, to the Alberta public.

49. I am advised by OWA staff that they have incurred costs as a result of assisting in the suspension of Lexin's sites and that such costs constitute a debt to the orphan fund which is administered by the AER. Attached and marked as **Exhibit "FF"** is a copy of a letter sent by the OWA dated March 10, 2017 indicating that it has incurred said costs (the "**OWA Debt Letter**").

B. *Other Claims*

50. I am advised that the Department of Energy in Alberta has indicated that Lexin has an unpaid balance of $3,525,393.04 in its gas royalty account owing. I also understand that Lexin's annual rental is overdue on approximately 25 mineral agreements held by Lexin, among other things. Attached hereto and marked as **Exhibit "GG"** is a copy of a letter sent by the Department of Energy indicating that Lexin has outstanding accounts with the Department of Energy dated March 10, 2017. I am also advised that the Department of Energy is supportive of the AER's application for the appointment of a Receiver.

51. I am aware that Lexin has many secured creditor claimants. Attached hereto and marked as **Exhibit "HH"** is a Personal Property Registry ("**PPR**") Search Results Report ("**PPR Report**") for Lexin; attached hereto and marked as **Exhibit "II"** is a PPR Report for MFC Energy; attached hereto and marked as **Exhibit "JJ"** is a PPR Report for Compton (collectively, the "**PPR Reports**").

52. Based on my review of the PPR Reports, I am aware of the following registrations and security interest claims in respect of property of Lexin:

(a) Security Agreements: Caledonian Royalty Corporation and Alberta Treasury Branch, registered November 4, 2009, January 22, 2010, February 9, 2010, May 7, 2010, indicating security in Lexin's interest in certain petroleum, natural gas, and condensate, certain title documents, certain wells and other equipment, and all proceeds of whatever nature or kind of the above;

(b) Security Agreements: Caledonian Royalty Corporation, registered July 12, 2013, and September 16, 2016, indicating security in, *inter alia*, all present and after-acquired property of Lexin; and land charges being registered November 4, 2009 and September 16, 2016;

(c) Security Agreement: Compass Compression Services Ltd. ("**Compass**"), registered April 9, 2010 and July 20, 2016, respecting a compressor;

(d) Security Agreement and Land Charge: MFC Acquisition Inc., as Administrative Agent, registered September 23, 2011;

(e) Land Charge: MFC Industrial Ltd., registered September 11, 2012;

(f) Security Agreements: Summit Acceptance Corp, registered September 9, 2013, April 13, 2013, September 9, 2013, November 5, 2013, January 17, 2014, October 24, 2014, December 9, 2014, respecting a number of vehicles and related equipment;

(g) Security Agreement and Land Charge: MFC Energy Finance, registered December 14, 2015, respecting all present and after-acquired personal property of the Debtor;

(h) Security Agreement: Enerflex Ltd., registered January 8, 2016, respecting a compressor;

(i) Security Agreement: 1049597 BC Ltd. (“**104 BC Ltd.**”), registered January 19, 2016, respecting a long list of equipment and the proceeds of the listed equipment, including proceeds of proceeds;

(j) Security Agreement: AltaGas Processing Partnership, registered February 1, 2016, respecting goods and intangibles, including in mines and minerals and the proceeds thereof; and

(k) Security Agreement: Taqa North, registered May 3, 2016, respecting all of the Debtor’s right, title and interest in various substances.

53. A number of the foregoing entities have the initials “MFC” as part of their corporate name, and the PPR Reports indicate that they share the same address as Lexin’s registered office in British Columbia, namely:

1000 Cathedral Place
925 West Georgia Street
Vancouver BC, V6C 3L2

For this reason, and because Lexin carried on business under the former name “MFC Energy Corporation”, I believe they may be part of the Lexin Group of Companies.

54. Further, 104 BC Ltd. also shares the same registered office and records office as Lexin. Attached hereto and marked as **Exhibit “KK”** is a copy of a BC Company Summary for 104 BC Ltd., indicating the address of its registered office, and also indicating its directors to be Gerardo Cortina and Samuel Morrow; also attached and marked as part of Exhibit KK are printouts from the website of MFC Bancorp Ltd. (“**MCF Bancorp**”) that

indicate its directors and officers. From my review of Exhibit KK (as well as Exhibit A), it appears that Gerardo Cortina is both a director of 104 BC Ltd. and MFC Bancorp; Samuel Morrow is both a director of 104 BC Ltd. and the Deputy CEO and CFO of MFC Bancorp; and Michael J. Smith is both a director of Lexin and the President, CEO and Director of MFC Bancorp. MFC Bancorp is an entity named in the Organizational Chart and which appears to be related to Lexin at least through common directorship.

55. The PPR Reports also indicate that there have been numerous Writs of Enforcement ("**Writs**") filed, enforcing judgments against Lexin, and numerous reports of seizure of Lexin property ("**Seizure**"), and statutory charges, including:

(a) Seizure: Vulcan County (seizure reports) respecting the amount of $940,853.00, on November 13, 2015; $15,646.03, on February 13, 2016; $41,366.43, on February 13, 2016; $21,246.44, on February 13, 2016; $28,965.54, on February 13, 2016; $20,975.47, on February 13, 2016; and $1,083,587.64, on April 5, 2016;

(b) Writ: Baker Hughes Canada Company respecting the amount of $105,348.46 as at September 7, 2016;

(c) Writ: Crown Debt Collections respecting the amount of $18,020.81 as at September 14, 2016;

(d) Seizure: Compass Compression Services Ltd. (seizure report) respecting a compressor as at September 15, 2016;

(e) Seizure: Deloitte Management Services LP (seizure report regarding Landlord's Distress) respecting the amount of $27,643.95 as at October 17, 2016;

(f) Seizure: Municipal District of Ranchlands No. 66 (seizure report) respecting the amount of $69,945.69 as at November 10, 2016;

(g) Writ: Her Majesty the Queen in Right of Alberta respecting the amount of $18,020.00 on October 12, 2016, and the amount of $46,910.50 as at January 17, 2017;

(h) Seizure: Summit Acceptance Corp (seizure report regarding section 54 of the Civil Enforcement Act) respecting the amount of $12,611.82;

(i) Writ: Triple Seven Management respecting the amount of $36,063.84; and

(j) Statutory Charge: Municipal District of Willow Creek No. 26 respecting the amount of $268,925.93, which is registered as a statutory charge.

56. Since the Equipment Order was granted on March 3, 2017, I understand that PPR claimants have contacted the AER seeking to remove equipment and intend to pursue Court proceedings. Attached hereto and marked as **Exhibit "LL"** is a letter from Douglas Nishimura, counsel for Compass, respecting the removal of a compressor from one of Lexin's Sites. Attached hereto and marked as **Exhibit "MM"** is a letter from Angus T. McKinnon from Lerners LLP in Toronto, counsel for 104 BC Ltd., advising that he has been retained and intends to bring a court application to vary the Equipment Order's terms if 104 BC Ltd. is not permitted to remove equipment which it claims to own outright.

C. Lexin is Insolvent

57. From admissions in Lexin's correspondence exhibited hereto as well as all of the amounts Lexin owes, some of which have been reduced to judgment, I believe that Lexin cannot meet its liabilities as they generally become due, and/or has ceased paying its current obligations in the ordinary course of business as they generally become due, and is insolvent.

Just or Convenient to Appoint a Receiver

58. I believe that the Court appointment of a Receiver, and the stay of proceedings associated with such appointment, will assist the AER in its effort to provide for the efficient and orderly development of energy resources in Alberta. It will allow a court officer to assess, as necessary, the various claims to the property on Lexin's Sites and to thereby preserve and protect the value of Lexin's assets while the various claimants' interests are determined and ensure that those legally entitled to property and not others get the benefit of it. Although, by virtue of the Equipment Order, the AER now has the ability to monitor and have influence on the removal of equipment to ensure that it is being removed safely, it is not able to determine which parties have valid and priority interests in and to Lexin's property and the property located on the Sites. I believe that a court appointed Receiver is necessary to ensure that Lexin's property and the property on the Sites is preserved for those entitled to it, for the benefit of all stakeholders.

59. I am aware that prospective purchasers have expressed to the AER an interest in buying some of the Lexin Sites. For this reason, I believe that appointing a Receiver would facilitate the marketing of the Sites by an authorized court officer, as well as the sale, and legal transfer of title to viable purchasers. Sales could include the assumption of environmental and regulatory liabilities which would, in turn, potentially reduce Lexin's exposure by reducing liabilities.

60. Lexin has suggested that abandonment orders be issued for the Sites that have already been designated as orphans for suspension purposes by the AER. Selling Lexin's Sites and other property or transferring the same to responsible parties, rather than issuing abandonment orders, would be consistent with the AER's mandate because, should abandonment occur prematurely, that it would, in many cases, cause re-entry or new drilling to be uneconomical. This, in turn, could result in Alberta's resources being stranded and not used for their benefit and the benefit of others.

61. Thus, I believe that the appointment of a Receiver will assist in minimizing the risk to Albertans by ensuring that Lexin Sites are either sold or transferred to responsible parties and not prematurely abandoned.

62. The sooner that the Sites can be transferred to responsible parties, the sooner the OWA and working interest participants no longer need to provide care and custody over them and incur costs associated with same. This will therefore reduce the burden the OWA and industry associated with the Lexin Sites and potentially provide for the resumption of production for the benefit of Albertans.

<u>Consent of Receiver to Act</u>

63. I understand that Grant Thornton Limited (to be filed with the Court) has provided its consent to act as Receiver of Lexin as indicated therein.

<u>Conclusion</u>

64. By its own admission, Lexin is presently unable or unwilling to take necessary steps to adequately care for its sites. For that reason, I understand the OWA will respond to safety and environmental issues arising at the OWA Sites, as necessary, and the WIPs are being looked to in that regard for the balance of the operational Sites in which they have an interest. From everything I have seen and reviewed, Lexin appears to be insolvent.

65. In all of the circumstances, it is not only just or convenient but it is necessary, for a Receiver to be appointed by the Court and a stay of proceedings granted, in order to:

    (a) if necessary, provide potential supplementary financial support to the OWA in respect of responding regarding the OWA Sites;

    (b) provide breathing space and facilitate an orderly approach to claims pending a determination of entitlements to property of Lexin and that are located on the Sites, and thus preserve and protect the property of Lexin for the benefit of all stakeholders;

(c) undertake a professional marketing and sales process by a person with the appropriate legal authority for the sale of the Sites and in a timely way and capitalize on the interest expressed in purchasing the Sites by prospective purchasers;

(d) facilitate the legal transfer of title to property to viable responsible parties, including, potentially, any liabilities associated with the sites (which are otherwise the responsibility of Lexin, and which, if reduced, would benefit Lexin); and

(e) avoid irreparable harm being suffered by Albertans including the AER, OWA, industry participants and Alberta taxpayers if the status quo is continued.

66. I make this Affidavit in support of an application by the AER to appoint a Receiver over all of the property, assets, and undertakings of Lexin and for no improper purpose.

SWORN BEFORE ME at the City of Calgary, in the Province of Alberta, this 14th day of March, 2017.

A Commissioner for Oaths in and for the Province of Alberta

Patricia M. Johnston, Q.C.
A Commisioner for Oaths
in and for Alberta
being a Barrister and Solicitor

Laura Chant