

November 23, 2017

UPDATE

Completing the Federal Bankruptcy Proof of Claim Form for Unpaid Surface Lease Rentals from Lexin Resources Limited (0989 Resource Partnership)

Background

On February 14, 2017, the Alberta Energy Regulator (the "AER") issued an order suspending all of the operations and regulatory licences issued to Lexin Resources Ltd. ("Lexin") due to concerns about the company's ability to safely manage Lexin licensed oil and gas sites.

On application by the AER, the Alberta Court of Queen's Bench issued a receivership order, placing Lexin into receivership on March 20, 2017. Further, on June 13, 2017 a receivership order was granted with respect to 1051393 B.C. Ltd., the 0989 Resource Partnership (the "0989 Partnership"), LR Processing Ltd. and LR Processing Partnership, each an affiliate of Lexin (collectively with Lexin the "Lexin Group").

Most recently, on October 25, 2017, the Court granted a bankruptcy order with respect to each of Lexin and the 0989 Partnership.

Grant Thornton Limited ("Grant Thornton") has been appointed as receiver (the "Receiver") over all of the Lexin Group's assets, including all proceeds derived from those assets (the "Property"), without taking possession or control of the oil and gas assets. The oil and gas assets remain in possession of the Orphan Well Association (OWA) and the working interest participants (WIPs). In addition, Grant Thornton has also been appointed as the trustee in bankruptcy (the "Trustee") over the bankrupt estates of each of Lexin and the 0989 Partnership.

Part of the Receiver's mandate in the receivership proceedings is to sell the Property of the Lexin Group. Once the Property of the Lexin Group has been sold by the Receiver, the Receiver will then seek the Court's permission to make distributions to the Lexin Group's creditors based upon their respective priorities.

The majority of surface lease rentals owed to landowners are owed by the 0989 Partnership. Landowners may also be familiar with either Lexin or the 0989 Partnership by their former names including: MFC Energy Corporation, Compton Petroleum Corporation, and MFC Resource Partnership or Compton Resource Partnership.

The Lexin Group's affected landowners recently received a Notice to Creditors advising them of the First Meeting of Creditors on November 14, 2017 and the opportunity to submit a Proof of Claim.

Landowner Questions

The Farmers' Advocate Office ("FAO") has received several questions from landowners on what this process means for them:

- What if I did not attend the First Meeting of Creditors? Should I submit a Proof of Claim form to Grant Thornton?

Affected landowners were not required to attend the November 14, 2017 First Meeting of Creditors. The purpose of the meeting was to affirm the appointment of Grant Thornton as the trustee in bankruptcy of each of the bankrupt estates of Lexin and the 0989 Partnership. It also provided an opportunity for creditors to ask questions about the bankruptcy proceedings generally. You can still submit your Proof of Claim after the First Meeting of Creditors, even if you did not attend.

The FAO is advising landowners to submit their Proof of Claim as an unsecured creditor for surface lease rentals outstanding up to October 25, 2017 to Grant Thornton in addition to their Section 36 application to the Surface Rights Board (SRB) for any years outstanding.

Secured creditors (those who obtain collateral for exchanging funds) are paid first through the federal process, so the chances of collecting through this process are minimal. If there is a distribution to unsecured creditors, the Trustee will review the Proof of Claim forms received to determine each unsecured creditor's share of the proposed distribution. Only creditors who submit a Proof of Claim form will be eligible to receive a distribution.

- How do you complete the Proof of Claim form?

Instructions on how to complete the Proof of Claim have been provided by Grant Thornton in the recent Notice to Creditors. This is a simple application that should not require the assistance of an advisor/consultant or legal counsel. Landowners should be aware that there is no cost recovery process for any expenses or time spent engaging in the federal bankruptcy process.

Point 3D on the Proof of Claim mentions farmers, but it is recommended that landowners who are owed surface lease rentals check box 3A (i) for unsecured creditors who do not claim a priority. A statement of account is required as an attachment. For this you should include a copy of the surface lease (or a recent cheque stub) to substantiate the amount of annual payment. Any person over the age of 18 may sign as your witness.

- What years should I include on my Proof of Claim form?

You should include any surface lease rentals due and owing prior to the bankruptcy order on October 25, 2017, even if you have an application pending with the Surface Rights Board (SRB) for these amounts. Rentals becoming due after October 25, 2017 do not need to be included. Any rentals already paid by the SRB do not need to be included.

- Is there a deadline for submitting a Proof of Claim?

You can submit a Proof of Claim even if you missed the First Meeting of Creditors. There is presently no deadline to submit a Proof of Claim form. In the event the Trustee

anticipates making distributions to unsecured creditors, the Trustee will issue a notice to creditors establishing a firm deadline to provide Proof of Claim forms. A distribution cannot occur until the Receiver has sold the Lexin Group's Property in the Receivership proceedings and all secured claims have been paid in full.

The Receiver/Trustee maintains a website with respect to the Lexin Group's receivership and bankruptcy proceedings. Landowners are encouraged to check this website for updates regarding the proceedings. The website is accessible at:
https://www.grantthornton.ca/services/reorg/bankruptcy_and_insolvency/lexin.

- Isn't there a process with the Surface Rights Board (SRB)? Do I do that too?
Landowners have recourse for recovery of unpaid surface lease rentals under Section 36 (Compensation) of the *Surface Rights Act* in an application to the provincial Surface Rights Board (SRB).

Landowners should submit their applications to the SRB for any years that surface leases have not been paid, regardless of the date of the bankruptcy order. A landowner is entitled to apply for every year that surface lease rentals were not paid; there is no time limitation on previous years. After the initial application is submitted, the landowner will need to complete a streamlined form for each subsequent year that payments are missed.

The Section 36 form is a simple application that should not require the assistance of an advisor/consultant or legal counsel. There is a cost recovery process with the SRB, but landowners should be aware that cost claims are assessed on a case-by-case basis.

The FAO recommends that the Section 36 form be submitted to the SRB and the Proof of Claim form be submitted to Grant Thornton.

For more information on Recovery of Rentals, please visit <https://surfacerights.alberta.ca>. The SRB can also be reached by phone at 780-427-2444 (for toll free dial 310-0000 before this number) or by email at srb.lcb@gov.ab.ca.

- Why is my application to the Surface Rights Board (SRB) taking so long?
Part of the delay landowners are currently experiencing with the Surface Rights Board (SRB) relates to the volume of applications they are managing. Landowners are encouraged to be patient as the SRB handles this workload.

Additionally, during a federal bankruptcy or receivership process, there will be a Stay of Proceedings which prevents action from being taken against the debtor company until the federal bankruptcy or receivership process concludes. The SRB has the legislated authority to terminate a company's rights to a site due to non-payment of annual surface lease rentals. They may then direct payment of the owed surface lease rentals from General Revenue.

When there is a Stay of Proceedings, action cannot be taken against the company, so the SRB is unable to terminate the company's rights and subsequently direct payment of the owed rentals. This creates a timing issue for Section 36 applications to the SRB.

Due to the Lexin Group's receivership and bankruptcy proceedings, there is presently a Stay of Proceedings in place with respect to Section 36 applications pending before the SRB regarding unpaid surface lease rentals owed by the Lexin Group.

Please call the Farmers' Advocate Office (FAO) through the Ag Info Centre at 310-FARM (3276) or email farmers.advocate@gov.ab.ca if you have any questions.

If you have questions about the Lexin Group's receivership or bankruptcy proceedings you may refer to the Grant Thornton Website at:

www.grantthornton.ca/services/reorg/bankruptcy_and_insolvency/lexin

or you may wish to contact Grant Thornton Limited at 403-508-1371 or lexin.et.al@ca.gt.com