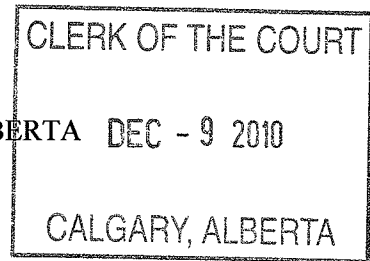


COURT FILE NUMBER **0801-08487**
COURT **COURT OF QUEEN'S BENCH OF ALBERTA**
JUDICIAL CENTRE **CALGARY**
PLAINTIFF(S) **ALBERTA TREASURY BRANCHES**
DEFENDANT(S) **APEX ENERGY (CANADA) INC.**
DOCUMENT **THIRD REPORT OF THE COURT APPOINTED
RECEIVER AND MANAGER OF APEX ENERGY
(CANADA) INC. and CERTAIN ASSEST OF
WORKMAN ENERGY LTD.**



Dated December 8, 2010

DELOITTE & TOUCHE INC.

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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INTRODUCTION AND BACKGROUND

Introduction

1. On October 7, 2008, Deloitte & Touche Inc. ("Deloitte") was appointed by the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"), as Receiver and Manager (the "Receiver") of all of the current and future assets, undertakings and properties of Apex Energy (Canada) Inc. ("Apex" or the "Company"). A copy of the Receivership Order can be found on Deloitte's website at www.deloitte.ca under the Insolvency and Restructuring link.
2. In June 2000, Apex entered into a joint venture agreement (the "MW Joint Venture") with Workman Energy Ltd. ("Workman"). Pursuant to the MW Joint Venture, Workman was granted an interest in certain of Apex's petroleum and natural gas properties. On March 20, 2009, the Receivership Order was amended such that Deloitte was also appointed as Receiver and Manager of Workman's right, title and interest in and to the Workman Interests; as such term was defined in the MW Joint Venture.
3. The Receivership Order was the result of an application by Alberta Treasury Branches ("ATB"), who hold security over all of Apex's current and future assets, undertakings and properties (the "ATB Security").

Background

4. Apex is privately owned and was incorporated in Alberta in 1993. The Company held an interest in approximately 45 properties on which there were 67 producing natural gas wells and 15 producing oil wells, as well as a large number of shut-in natural gas and oil wells (the "PNG Assets").
5. As set out in two Orders granted by the Court on July 22, 2009, the PNG Assets were sold pursuant to the following two transactions:
 - a. Certain properties located in the Sturgeon, Mitsue, Utikuma and Evi areas (referred to throughout the sale process as the "W5 North Package") were sold to Canadian Natural Resources Limited ("CNRL", the "CNRL Sale"); and
 - b. The PNG Assets, excluding the W5 North Package, were sold to 1476697 Alberta Ltd., which company later became known as Harness Petroleum Inc. and is currently known as Mako Energy Canada Inc. ("147", the "147 Sale")

Purpose of Report

6. On December 15, 2010, the Receiver will be making an application to the Court (the "December 15 Application") for the following:

-
- a. Approval of the Receiver's Interim Statement of Receipts and Disbursements for the period from October 7, 2008 to December 7, 2010;
 - b. Approval of an interim distribution to ATB, up to the value of the ATB Indebtedness (as defined below), of all funds held in trust and any further amounts that have been or may be collected by the Receiver, net of a holdback for estimated estate administration costs (defined below as the Final Payments);
7. This report constitutes the Third Report of the Court-Appointed Receiver (the "Third Report"). The Third Report is being filed in support of the December 15 Application.
 8. The first report of the Court-appointed Receiver dated April 2, 2009 was filed in support of an application for Court approval of a sale process with respect to the marketing of the PNG Assets.
 9. The second report of the Court-appointed Receiver dated July 16, 2009 was filed in support of the Receiver's application on July 22, 2009 for Court approval of both the CNRL Sale and the 147 Sale (the "Sale Application"). The Confidential Supplementary Report of the Court-Appointed Receiver was also provided to and sealed by the Court on July 22, 2009 in support of the Sale Application.

ASSETS & LIABILITIES

Accounts Receivable

10. Pre-Receivership accounts receivable totaling \$382,757 (the "Pre-AR") and post-Receivership rental receivables (the "Post-Rentals") totaling \$34,609 have been referred to Joint Venture Management Inc. ("JVMI") for collection. The collection of both the Pre-AR and the Post Rentals are doubtful. Both the Pre-AR and the Post Rentals are being collected on a contingency basis by JVMI.

Properties located at Nixon/ Wandering River

11. At the date of Receivership, Apex listed accounts receivable due from Leys Energy Inc. ("Leys"), Rage Energy Ltd. ("Rage") and Raptor Capital Inc., now known as Valparaiso Energy Inc. ("Raptor"), which totaled \$890,124. Leys, Rage and Raptor will collectively be referred to as the "AR Companies". None of the AR Companies have any ongoing operations and all of the AR Companies report only nominal assets, consisting mainly of various working interests in properties located in the region known as Nixon/ Wandering River (the "Nixon Assets"). Mako Energy Canada Inc. ("Mako"), formerly 147, is the only other significant working interest owner in the Nixon Assets and also acts as operator of the Nixon Assets.
12. In October 2009, Leys quitclaimed certain working interests in the Nixon Assets to Apex in satisfaction of its account receivable. Raptor also expressed willingness to either quitclaim its interest in the Nixon Assets to Apex or to participate in the sale of the Nixon Assets, ultimately paying any sale proceeds to Apex in satisfaction of Raptor's account receivable. In addition, Apex had filed an operator's lien against Rage prior to the Receivership, pursuant to which the Receiver had the

capacity to sell and collect the proceeds from Rage's interest in the Nixon Assets, which would then be applied against Rage's account receivable.

13. It was anticipated that the highest recovery on the Nixon Assets would be obtained by selling the working interests of the Receiver, Rage, Raptor and Mako together. The Receiver, Raptor and Mako agreed to market the Nixon Assets with the assistance of Sayer Energy Advisors (the "Nixon Sale Process"). Certain properties, which represented abandonment liabilities, were initially included in the Nixon Sale Process but were later excluded from the Nixon Sale Process due to the fact that the leases on those properties had expired, thereby preventing those properties from being transferred to a new purchaser. One unconditional offer for \$20,000 from Conserve Oil (the "Conserve Offer") was eventually generated by the Nixon Sale Process but was deemed to be uneconomic in light of the costs required to prepare all of the required sale documents and to complete the transaction.
14. Based on the results of the Nixon Sale Process, the Receiver is of the opinion that the Nixon Assets are not saleable. The Receiver intends to quitclaim Apex's interest in the Nixon Assets in order to discharge any future corresponding abandonment liabilities. Mako has indicated that they will accept the quitclaim of the Receiver's interest in the Nixon Assets. As the interests held by both Rage and Raptor had not been transferred to the Receiver, no further action is required in respect of the interests held by those parties.

Properties for Abandonment/ Reclamation

15. Pursuant to both the 147 and the CNRL Sales, all abandonment and reclamation liabilities associated with the PNG Assets were transferred to the respective purchasers, with the exception of those related to the following two wells, which were originally included in the W5 North package:
 - a. Sturgeon Lake 100/16-16-070-26W5 - Surface 4-22 (the "Sturgeon Well"); and
 - b. Bear Canyon 100/07-11-083-13W6 (the "Bear Well", collectively the "SB Wells").
16. The Energy Resources Conservation Board (the "ERCB") previously agreed to assume the licenses, abandonment and reclamation liabilities associated with the SB Wells pursuant to the Orphan Well fund. On November 17, 2010, Alberta Environment requested that the Sturgeon Well be deemed orphan for reclamation by the ERCB. The Receiver understands that Alberta Environment is still attempting to contact the other joint interest partners to see if they have the financial wherewithal to abandon the Bear Well. If unsuccessful, Alberta Environment will also request that the Bear Well be deemed orphan for reclamation by the ERCB.

ADMINISTRATIVE MATTERS

17. The following administrative matters are currently outstanding:
 - a. Mako, formerly 147, previously entered into a Contract Operator Agreement to reacquire the freehold leases for three wells at Sullivan Lake and Highvale (the "NT Wells"). The NT Wells formed part of the assets that were sold to 147 pursuant to the 147 Sale; however, the NT Wells

could not be transferred due to the fact that the corresponding leases had expired. Mako has indicated that they are in the final stages of re-acquiring the leases for the NT Wells, the licenses for which can then be transferred to Mako; and

- b. Final reconciliation and payment of the following amounts, which are not estimated to exceed \$54,900 (the "Final Payments"):
 - i. Amounts due to Niven Fischer Energy Services Inc. ("Niven Fischer"), who assisted the Receiver in managing Apex's ongoing operations and to the Receiver's legal counsel, which are not estimated to exceed \$25,000 in total;
 - ii. Amounts due to Apex's joint interest partners, which are currently being reconciled by Niven Fischer, which are not estimated to exceed \$25,000 in total; and
 - iii. Approximately \$4,900, which may be due to Canada Revenue Agency ("CRA") for employee source deductions (the validity of CRA's claim has been challenged by the Receiver and is currently being reviewed by CRA).

LEGAL OPINION ON SECURITY

18. The Receiver's legal counsel, Borden Ladner Gervais LLP, completed an independent review of the ATB Security and determined that the security held by ATB in Alberta is valid and enforceable. The Receiver did not request an independent legal review of the security held by ATB in Saskatchewan, as the bulk of the properties that were held by Apex in Saskatchewan (the "Saskatchewan Properties") were in various stages of abandonment and reclamation and, as such, any value assigned to the Saskatchewan Properties, prior to their sale, would have been nominal.
19. Pursuant to the Order granted by the Court on January 22, 2010 (the "January 22 Order"), the Receiver was authorized to make an interim distribution of \$1.335 million to ATB. As of November 24, 2010 and taking into account the Interim Distribution, ATB estimated that their outstanding secured claim at \$2.107 million (the "ATB Indebtedness").

STATEMENT OF RECEIPTS AND DISBURSEMENTS

20. Attached hereto as "Schedule 4" is the Receiver's Statement of Receipts and Disbursements for the Interim Period from October 7, 2008 to December 7, 2010 (the "SRD"). The excess of cash receipts over cash disbursements represented by cash in the bank as at December 7, 2010 is approximately \$902,085.
21. Since its appointment, the Receiver has collected approximately \$4.374 million in cash receipts, which includes those proceeds generated by both the CNRL Sale and the 147 Sale.
22. Since its appointment, the Receiver has paid total cash disbursements of approximately \$2.137 million.

23. As noted above, pursuant to the Order granted by the Court on January 22, 2010 (the "January 22 Order"), the Receiver was authorized to make an interim distribution of \$1.335 million to ATB.

PRIORITY CLAIMS & ADJUSTMENTS

24. Also, pursuant to the January 22 Order, the Receiver was ordered to hold funds in trust in the amount of \$636,815 pending determination of the following claims and adjustments:

- a. Six builder's liens (the "Lien Claims") claimed against various Apex properties, which totaled \$321,815;
- b. A trust claim advanced by two of Apex's joint venture partners (the "Trust Claim"), which was estimated to total \$150,000; and
- c. \$165,000 for post-closing adjustments related to the CNRL Sale and the 147 Sale.

25. The January 22 Order set out a process for determining the Lien Claims. Following review of the Lien Claims, the Receiver allowed claims totaling \$41,185 and disallowed claims totaling \$280,640 (the "Disallowed Claims"). The deadline for the filing a Notice of Motion objecting to a Notices of Dispute was set for February 26, 2010, by which date only one objection had been raised with respect to a lien filed by Rockwell Servicing Partnership in the amount of \$10,885 (the "Rockwell Claim"). The Rockwell Claim was eventually settled in the amount of \$6,000.

26. The Trust Claim has now been settled for \$10,500 (the "Settlement Amount"). The Settlement Amount has been paid in full and releases have been signed by the joint venture partners, who advanced the Trust Claim.

27. Final statements of adjustment have now been completed in respect of both the CNRL Sale and the 147 Sale and no further post-closing adjustments are anticipated.

28. The Receiver currently estimates that funds totaling \$54,900 will be required to make the Final Payments, defined above, which will be required to complete the administration of the estate

CONCLUSION

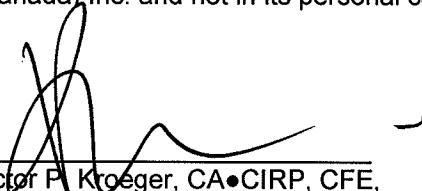
30. As noted above, the administration of this receivership is nearly complete. There will be a shortfall in satisfying the ATB Indebtedness; therefore, there will be no funds available for distribution to the unsecured creditors.

31. On December 15, 2010, the Receiver will be making an application to the Court for the following:

- a. Approval of the Receiver's Interim Statement of Receipts and Disbursements for the period from October 7, 2008 to December 7, 2010; and

- b. Approval of an interim distribution to ATB, up to the value of the ATB Indebtedness, of all funds held in trust and any further amounts that have been or may be collected by the Receiver, net of holdback for estimated estate administration costs.

DELOITTE & TOUCHE INC.,
in its sole capacity as Receiver of Apex Energy
(Canada) Inc. and not in its personal capacity.



Victor P. Kroeger, CA•CIRP, CFE,
Senior Vice President

Schedule 1

Apex Energy (Canada) Inc.
Receiver's Statement of Receipts & Disbursements
For the Interim Period from October 7, 2008 to December 7, 2010

Receipts		Notes
Cash held in financial institutions	\$ 112,511	
Sale of Assets - CNRL	400,500	1
Sale of Assets - 1476697	2,600,302	2
Net 1476697 Adjustments (Operations & Joint Venture)	49,279	
Production Revenue	937,075	
GST on Production Revenue	46,233	3
Royalty Revenue	81,092	
Adjustments on Pre-Receivership Asset Sale	14,853	4
Accounts Receivable	27,561	
Joint Interest and Miscellaneous Revenue	104,465	
Total Receipts	<u>4,373,871</u>	
Disbursements		
Pre-Receivership AFEs - CNRL	176,918	5
Net CNRL Adjustments (Operations & Joint Venture)	34,249	
Net 1476697 Alberta Ltd. Adjustments (Operations & Joint Venture)	26,739	
Pre-Receivership AFEs - Cansearch	80,228	5
Production Accountant	46,090	
Royalty Accountant	45,452	
Joint Venture Accountant (includes JV & Geo Nexus)	44,540	
Operations Consultant	364,186	
Operations Consultant - Conveyancing	38,814	
Operations (Including Surface Leases & Land Rentals)	159,657	
Payments to Joint Venture Partners (Includes net OpEx)	119,210	
Capital Expenses	91,531	
Reserve Report (Semi Mechanical Update)	29,500	
Sale of Assets - Work Fee & Commission	146,252	6
Insurance	25,094	
Receiver's Legal Fees	203,997	
Crown Royalties	47,608	7
Pre-Receivership Indian Oil and Gas Canada	15,747	5
Post Receivership Gross-Overriding & Freehold Royalties	45,731	7
Pre-Receivership Gross Overriding & Freehold Royalties	54,135	5
Abandoned Properties (Surface and Mineral Leases)	47,580	5
Mineral Leases	22,539	
Property Taxes	134,968	5
Reimbursement of Funds Received in Error	2,637	
GST Paid	52,670	3
GST Remittances (Post-Receivership)	3,345	3
GST Remittances (Pre-Receivership)	9,321	5
Payments to Builders Lien Holders	47,185	
Settlement of Trust Claim	10,500	8
Miscellaneous Disbursements	10,365	
Total Disbursements	<u>2,136,787</u>	
Excess of Cash Receipts over Cash Disbursements	<u>\$ 2,237,085</u>	
Represented as follows:		
Interim Distribution to ATB	1,335,000	9
Cash in Bank	902,085	
	<u>\$ 2,237,085</u>	

Notes:

1. The sale of assets to Canadian Natural Resources Limited ("CNRL") was approved by the Court of Queen's Bench of Alberta on July 22, 2009 and closed on September 1, 2009.
2. The sale of assets to 1476697 Alberta Ltd., now known as Harness Petroleum Inc. ("Harness") was approved by the Court of Queen's Bench of Alberta on July 22, 2009 and closed on August 25, 2009.

3. Net GST Payable (Refund)

GST on Production Revenue	\$	46,233
GST Paid		(52,670)
GST remittances		(3,345)
Net GST Payable (Refund)	<u>\$</u>	<u>(9,782)</u>

GST elections were completed in respect of the the sale of asset to both CNRL and 1476697.

4. Amount due pursuant to a pre-receivship sale of assets to Fort Calgary.
5. Paid pursuant to the Order granted by the Court of Queen's Bench of Alberta on July 22, 2009.
6. Sayer Energy Advisors was retained to complete the sale of Apex Energy (Canada) Inc.'s ("Apex") petroleum and natural gas assets. Pursuant to their retainer agreement, Sayer Energy Advisors was paid a work fee of \$35,000 as well as commissions of 5% on the first million in sale proceeds and 3% on sale proceeds over \$1.0 million.
7. Post-receivership freehold and gross-overriding royalties and crown royalties have been paid in full for the period ended May 31, 2009, the effective date for the sales to CNRL and Harness.
8. Settlement of a trust claim advanced by two joint venture partners with respect to pre-CCAA revenues related to Apex's Peco 6-6 well.
9. Paid to the Alberta Treasury Branches pursuant to the Order granted by the Court of Queen's Bench of January 22, 2010.
10. Receiver's fees, totaling approximately \$343,402, have been paid directly by Alberta Treasury Branches.