

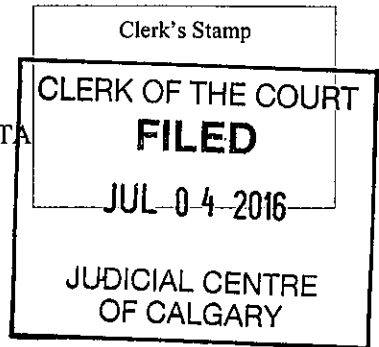
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COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF BANK OF MONTREAL

DEFENDANT BUMPER DEVELOPMENT CORPORATION LTD. and
BUMPER DEVELOPMENT CORPORATION



DOCUMENT **THIRD REPORT OF THE RECEIVER**

JULY 2, 2016

ADDRESS FOR SERVICE AND
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DOCUMENT

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TABLE OF CONTENTS OF THE THIRD REPORT OF THE RECEIVER

INTRODUCTION	3
TERMS OF REFERENCE	4
CANSTONE APPLICATION	5
CANSTONE DEMAND.....	7
CLAIMS AGAINST BUMPER	7
CONCLUSION.....	8

INTRODUCTION

1. Effective February 16, 2016 (the “Receivership Date”), pursuant to an order of the Honourable Justice B. Nixon granted in these proceedings (the “Receivership Order”), Alvarez & Marsal Canada Inc. (“A&M”) was appointed receiver (the “Receiver”), without security, of all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “Property”) of Bumper Development Corporation Ltd. (“Bumper Canada”) and Bumper Development Corporation (“Bumper US” or the “Guarantor”) (collectively, “Bumper” or the “Company”) pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c B-3, as amended., (the “BIA”) in the within action (the “Receivership Proceedings”).
2. The Receivership Order empowers and authorizes, but does not obligate, the Receiver to, among other things, manage, operate and carry on the business of Bumper and to take possession and control of the Property of Bumper and any and all proceeds, receipts and disbursements arising out of or from the Property, and to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business.
3. Prior to the Receivership Date, on June 4, 2015, A&M was engaged by Borden Ladner Gervais LLP (“BLG”) as counsel to the Bank of Montreal (“BMO”) under the Credit Agreement dated March 27, 2015, between BMO and Bumper and its subsidiaries, to act as consultant to BLG to review, report and make recommendations to BLG on the business, assets, affairs and operations of Bumper. A&M’s role as consultant concluded on the Receivership Date.
4. Prior to the Receivership Date, Bumper sold certain oil & gas assets to Canstone Energy Ltd. for a purchase price of \$35 million (the “Canstone Pre Sale”). The Canstone Pre Sale closed on September 30, 2016 and was subject to a purchase price credit, interim adjustments and post-closing adjustments.

5. On May 13, 2016, this Honourable Court granted an Approval and Vesting Order with respect to certain other oil and gas assets sold to Forent Energy Inc. (the “Pekisko Assets”). Pursuant to paragraph 19 of the Approval and Vesting Order, the Receiver held back, as security for the disputed priority claim, the sum of \$125,000 (the “Disputed Priority Claim”) from the sale proceeds of the Pekisko Assets for 30 days pending an application to be filed by Canstone Energy Ltd. (“Canstone”) respecting a claim it is asserting with respect to post-closing adjustments relating to the Canstone Pre Sale.
6. On June 10, 2016, an application was filed with this Honourable Court by Canstone (the “Canstone Application”) for a declaration that the sum of \$121,401 (the “Disputed Priority Amount”) is or was held by the Receiver and should be remitted to Canstone. On June 30, 2016, materials were filed by BMO in response to the Canstone Application opposing the Canstone Application.
7. The purpose of this third report (the “Third Report”) is to provide this Honourable Court with information in connection with the application and other material filed by both Canstone and BMO that may assist this Court in its decision with respect to the Canstone Application.
8. Capitalized words or terms not defined or ascribed a meaning in the First Report, the Supplemental Report to the First Report and the Second Report is as defined in the Receivership Order.
9. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

10. In preparing this Third Report the Receiver has relied upon the representations of certain former management and employees of Bumper and on financial and information contained in Bumper’s books and records. The Receiver has not performed an audit, review or other verification of such information.

CANSTONE APPLICATION

Overview

11. Prior to the Receivership Date, on September 30, 2015 (the “Closing Date”), the Receiver is aware that Bumper and Canstone closed the Canstone Pre Sale. At the time the Canstone Pre Sale closed, Bumper and BMO were parties to a forbearance agreement (the “Forbearance Agreement”), which required the proceeds from the Canstone Sale to be paid by Bumper to BMO.
12. The Receiver understands that Bumper had only one Canadian operating bank account, which was held at BMO (the “Bumper CDN Bank Account”). All of Bumpers collected receipts and disbursements (operational or otherwise) occurred in the Bumper CDN Bank Account and, as a result, any funds deposited in this account were co-mingled with other deposits.
13. On the Closing Date, the Receiver is aware that the sales proceeds (less interim adjustments) due from Canstone to Bumper in respect of the Canstone Pre Sale were deposited into the Bumper CDN Bank Account by means of a wire transfer from Canstone’s counsel in the amount of \$28,260,411 (including GST of \$437,500). On the same day, a further amount, representing the deposit on the Canstone Pre Sale totaling \$3,150,606 (the “Deposit”), was deposited into Bumper’s account, as the Deposit was previously held in escrow with an escrow agent. In total, the sum of these two amounts equalled \$31,411,017 and represented all of the sale proceeds from the Canstone Sale. Immediately thereafter, a payment was made to BMO from Bumper in the amount of \$30,012,817, pursuant to the Forbearance Agreement. The remaining balance of approximately \$1.398 million went to pay Canada Revenue Agency for the GST collected on the Canstone Sale and marketing agent commission fees of approximately \$437,500 and \$960,000, respectively.

14. Pursuant to the Canstone PSA, a final statement of adjustments (“FSOA”) was to be finalized and agreed to within 120 days from the Closing date (on or around January 31, 2016). However, the Receiver understands that the FSOA was not finalized between the parties at that time.
15. On the Receivership Date, Bumper had approximately \$600,000 in the Bumper CDN Bank Account (the “Pre-Receivership Deposits”). Additional post-receivership deposits were also made into the Bumper CDN Bank Account (the “Post-Receivership Deposits”). Shortly after its appointment the Receiver closed the Bumper CDN Bank Account and transferred the Pre-Receivership Deposits and Post-Receivership Deposits to a new Receiver’s trust account (the “Transferred Funds”). The Transferred Funds have been utilized by the Receiver to administer the Receivership Proceedings.

Canstone Final Statement of Adjustments (the “FSOA”)

16. On February 17, 2016, one day after the Receivership Date, the Receiver was asked to participate in a meeting held at the Canstone office between the former management/employees of Bumper (now independent contractors of the Receiver) and Canstone to review and finalize the FSOA. The FSOA was prepared by the former management of Bumper and showed an amount owing from Bumper to Canstone equalling the Disputed Priority Amount.
17. The Receiver advised Canstone and former Bumper management at this meeting that the Receiver was not able to sign the FSOA to confirm the amount owing to Canstone as it had not been involved in its preparation nor completed a review of it.

Receiver’s review of the FSOA

18. Subsequently, the Receiver reviewed the FSOA and there is nothing to suggest that the calculation is inaccurate. A copy of the FSOA is included as Appendix E to the Affidavit of Mr. Phil Peterson sworn June 17, 2016.

CANSTONE DEMAND

19. Shortly after its appointment, the Receiver received a demand from counsel to Canstone that it immediately pay to Canstone the Disputed Priority Amount.
20. After reviewing the Canstone Sale with its counsel, on May 9, 2016, counsel to the Receiver advised Canstone's legal counsel that it believed that, at best, Canstone might have an unsecured claim against the estate of Bumper for the Disputed Priority Amount and that it did not believe Canstone had a "trust claim" that would give it priority over the secured creditor claims. Therefore, the Receiver advised that it would not be releasing the Disputed Priority Amount to Canstone, but would reconsider its position if Canstone could provide it with any additional materials or authorities to support its position.

CLAIMS AGAINST BUMPER

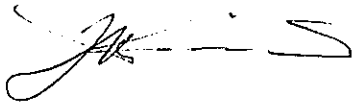
21. As at the Receivership Date, the amounts owed by Bumper to its creditors, according to its books and records, are approximately \$13.4 million. Bumper's two secured creditors are owed approximately \$12.8 million: BMO is the first priority secured creditor and is owed approximately \$11.4 million and Encana Corporation, a subordinate secured creditor, is owed approximately \$1.4 million. Bumper's unsecured creditor claims (including the Disputed Priority Amount) total approximately \$600,000 and are generally made up of trade creditors. The Receiver is still in the process of liquidating Bumper's estate and it remains uncertain whether recoveries will be sufficient to repay all amounts owing to BMO.

CONCLUSION

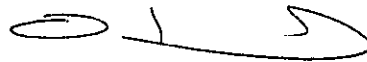
22. The Receiver initially concluded that the Canstone claim with respect to the Disputed Priority Amount did not have priority over the two secured creditor claims. Canstone disagreed with the Receiver's conclusion and has brought forward the Canstone Application to declare that Canstone is entitled to the Disputed Claim Amount and BMO is objecting to this claim. This Third Report sets out information to assist this Honourable Court as it relates to the materials filed by both Canstone and BMO and the Receiver has no further submissions.

All of which is respectfully submitted this 2nd day of July, 2016.

ALVAREZ & MARSAL CANADA INC.,
in its capacity as Receiver of Bumper Development Corporation Ltd.
and Bumper Development Corporation



Tim Reid, CPA, CA, CIRP, LIT
Senior Vice-President



Orest Konowalchuk, CPA, CA, CIRP, LIT
Vice-President