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COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

APPLICANTS

IN THE MATTER OF THE SECTION 43 OF THE
TRUSTEE ACT, RSA 2000, c. T-8

AND IN THE MATTER OF THE WINDING-UP OF DIXIE
ENERGY TRUST

DOCUMENT

SECOND REPORT OF THE CLAIMS ADMINISTRATOR

OCTOBER 15, 2015

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

CLAIMS ADMINISTRATOR

ERNST & YOUNG INC.
1000, 440 - 2nd Avenue SW
Calgary, Alberta T2P 5E9
Attention: Bob Taylor
Telephone: 403 233 7112
Email: bob.taylor@ca.ey.com

COUNSEL

Dentons Canada LLP
15th Floor, Bankers Court, 850 - 2nd Street SW
Calgary, AB T2P 0R8
Attention: David Mann
Phone: 403 268 7097
Email: david.mann@dentons.com

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INTRODUCTION

1. On January 20, 2015 Dixie Energy Ltd. (the "Administrator"), in its capacity as administrator of Dixie Energy Trust ("Trust"), obtained an order of this Honourable Court pursuant to the *Trustee Act, RSA 2000, T-8* (the "Claims Procedure Order").
2. The Claims Procedure Order appointed Ernst & Young Inc. ("EY") as claims administrator (the "Claims Administrator") of the Trust in respect of the winding-up of the Trust (the "Winding-Up").
3. The Claims Procedure Order established a process for the Claims Administrator to solicit claims from all holders of trust units of the Trust (the "Unitholder Claims Procedure") and all creditors in respect of the Trust (the "Creditor Claims Procedure").

Purpose of this Report

4. The purpose of this second report (the "Second Report") of the Claims Administrator is to:
 - a) provide an update on the status of the Trust's Winding-Up;
 - b) advise this Honourable Court of the Claims Administrator's review of the Trust's outstanding and potential liabilities;
 - c) update the results of the solicitation of Unitholder Claims and Creditor Claims;
 - d) summarize the distribution process for the Initial Distribution (as defined below); and
 - e) respectfully recommend that this Honourable Court make an order approving the Proposed Second Distribution (as defined below);

Terms of Reference

5. In developing this Second Report, the Claims Administrator has relied upon unaudited financial information prepared by the Administrator, the Trust's books and records and discussions with the Administrator's management. The Claims Administrator has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants*

Canada Handbook and, accordingly, the Claims Administrator expresses no opinion or other form of assurance in respect of the information.

6. All references to dollars are in Canadian currency unless otherwise noted.
7. Capitalized terms not defined herein are as defined in the First Report and orders previously issued in respect of these proceedings.

BACKGROUND

8. The Administrator administrates the Trust on behalf of Computershare Trust Company of Canada and Olympia Trust Company, the Trustee of the Trust (collectively, the "Trustee").
9. Computershare Investor Services Inc. also acts in a capacity as depository agent (the "Depository Agent") for the Trust.
10. The Trust was established pursuant to the laws of Alberta, and indirectly through several subsidiary entities (collectively, hereinafter referred to as "Dixie") held oil and gas properties in the southern United States, primarily in Mississippi, Louisiana, and Alabama.
11. The Trust is an unincorporated open-ended limited purpose trust, which was created and settled on June 29, 2012. It is governed by the Second Amended and Restated Trust Indenture dated February 28, 2013, between Olympia Trust Company and the Administrator, as amended by the supplemental indenture made as of June 6, 2014 (collectively the "Trust Indenture").
12. Commencing in 2013, the Administrator explored the market to obtain financing for the Trust to develop its oil and gas properties. The Administrator was unable to generate investment interest; however, in 2014 the Administrator sourced an offer from a third party (the "Purchaser") to purchase all or substantially all of the Trust's operating assets for a purchase price of \$47.5 million USD (the "Sale Transaction"). In connection with the Sale Transaction the Administrator proposed the Winding-Up of the Trust (the Sale Transaction and the Winding-Up are referred to collectively as the "Proposed Transaction").
13. The Administrator's Board of Directors (the "Board") concluded, after its own consideration, its receipt of fairness opinions and the recommendation of a special

committee of the Board, that the Proposed Transaction was in the best interests of the Trust and should be placed before the Unitholders for their approval. Accordingly, the Board recommended that Unitholders vote in favour of the Proposed Transaction in the form of a Sale and Winding-Up Resolution. A special meeting of the Unitholders was held on December 29, 2014 and the Unitholders approved the Sale and Winding-Up Resolution by 99.92% of votes cast.

14. The Sale Transaction closed on December 29, 2014, and pursuant to the Sale and Winding-Up Resolution, the Unitholders authorized the Trustee to apply to the Court for the appointment of EY as Claims Administrator and for the approval of a process for the Winding-Up of the Trust.
15. Following completion of the Sale Transaction and after the payment of liabilities (including the repayment of outstanding loans), taxes and expenses related to the Sale Transaction and the Winding-Up, the Trust's property comprised approximately \$31.8 million of cash.

INITIAL DISTRIBUTION

16. It was proposed that an initial distribution from the Trust of the remaining Trust property be made to the Unitholders. The Claims Administrator undertook a review of the Trust's liabilities and solicited claims pursuant to the Unitholder Claims Procedure and the Creditor Claims Procedure, the results of which were described in the First Report to Court.
17. As a result of the Claims Administrator's review and the solicitation of claims, the Claims Administrator, in consultation with the Trustee and the Trust, determined that a distribution of 70% of the Trust's total property of approximately \$31.8 million be distributed to the Unitholders.
18. The Claims Administrator recommended to this Honourable Court the amount of the initial distribution, and on April 7, 2015 this Honourable Court granted an order authorizing a payment to Unitholders of \$0.39 per unit totalling \$22,262,198.01 (the "Initial Distribution").
19. On April 15, 2015, pursuant to the Unitholder Claims Procedure, the Depository Agent issued payments (by cheque), to the registered Unitholders who had surrendered their

Unit Certificates to the Trustee for cancellation. Payments of \$21,826,085 were issued to 71 Unitholders, holding approximately 99% of the units.

20. Between April 16, 2015 and July 31, 2015, the Depository Agent made additional payments of \$173,737 to 32 Unitholders, as those Unitholders surrendered their Unit Certificates to the Trustee.
21. On August 6, 2015, additional payments of \$261,801 were made to 33 Unitholders by the Depository Agent whose Unit Certificates were deemed cancelled on July 31, 2015 pursuant to the Unitholder Claims Procedure.
22. Additional payments of \$574.47 will be made by the Depository Agent, in conjunction with the payment of the Proposed Second Distribution, to the four remaining Unitholders for which the Depository Agent now has current mailing addresses.
23. As at October 7, 2015 approximately 93% of Unitholders, representing 99.5% of all units held have cashed their Initial Distribution cheques.

LIABILITY REVIEW

24. The Trust continues to wind down its operations. As a result, it is proposed that a second distribution from the remaining Trust property be made to the Unitholders. To determine the quantum of the Second Distribution to be made to the Unitholders, the Claims Administrator has reviewed, or engaged in, as applicable, the following:
 - a) the estimated distribution schedule prepared by the Administrator and noting:
 - i. the largest outstanding liability, approximately \$0.5 million CAD, relates to the 2015 stub-period tax return for Dixie Energy Holdings (Canada) Inc. which will be finalized after Dixie Energy Holdings (US) Ltd. and Dixie Energy (US) Inc. are wound up; and
 - ii. the estimates used for remaining Winding-Up related expenses (legal fees, professional fees, etc.) appear to be conservative;
 - b) the 2014 US tax returns, prepared by the Trust's external tax advisors (one of the larger international accounting, tax and advisory firms), and concurred with the tax treatment; and

- c) the 2014 Canadian tax returns, prepared by the Trust's external tax advisors (one of the larger international accounting, tax and advisory firms), and concurred with the tax treatment.
25. Neither the Trust nor the Claims Administrator has been contacted by any governmental authority in Mississippi, Louisiana, and Alabama in respect of any environmental, abandonment or reclamation obligations.
26. The Administrator advises that since the Trust's inception no uncharacteristic tax planning strategies have been used. Our review of previously filed tax returns revealed no reassessments of those tax returns by either the Canada Revenue Agency ("CRA") or the Internal Revenue Service ("IRS").

UNITHOLDER CLAIMS PROCEDURE

27. The Claims Procedure Order established a process by which the Claims Administrator identified all registered holders of trust units of the Trust ("Unitholders"), as of November 10, 2014 (the "Record Date"), who had a claim as a Unitholder against the Trust (a "Unitholder Claim").
28. As no discrepancies with the Unitholder registry were identified through the Unitholder Claims Procedure, the Unitholder registry was closed on March 23, 2015. Transfers of Trust units after March 23, 2015 were not permitted unless, in the opinion of the Claims Administrator, material extenuating circumstances existed and such circumstances were satisfactory to the Claims Administrator. There were no transfers of Trust units subsequent to March 23, 2015.
29. No Unitholders contacted the Claims Administrator requesting to be notified of any future proceedings with respect to the Trust.

CREDITOR CLAIMS PROCEDURE

30. The Claims Procedure Order directed the Claims Administrator to solicit claims from all creditors in respect of the Trust (a "Creditor") for the purpose of identifying those Creditors with valid claims against the Trust (a "Creditor Claim"), and for the determination of such Creditor Claims.

31. As at the date of this Second Report, no additional claims have been received by the Claims Administrator and it appears that all trade payables relating to the operations of the Trust have been paid.
32. No creditor contacted the Claims Administrator requesting to be notified of any future proceedings with respect to the Trust.

PROPOSED SECOND DISTRIBUTION

33. After the payment of the Initial Distribution, the Administrator estimates that approximately \$9.95 million is available for distribution to the Unitholders. The Claims Administrator has reviewed the Administrator's calculations and the Trust's estimated liabilities as outlined earlier in this Second Report. Attached as Appendix "A", is a summary of the estimated total quantum of funds that will be available for distribution to the Unitholders.
34. The Claims Administrator, in consultation with the Trustee and the Trust, has determined that a distribution of 86% of the remaining Trust property is available for distribution to the Unitholders, being approximately \$8.56 million (the "Proposed Second Distribution"), is appropriate at this time.
35. The remaining 14%, being approximately \$1.39 million (the "Holdback"), will be maintained for: i) contingent liabilities yet to crystallize; and ii) the possibility of currently unknown liabilities coming to light.
36. It is the Claims Administrator's view that the Administrator has identified and estimated the liabilities of the Trust. However, the identified liabilities remain estimates and the Claims Administrator, with the concurrence of the Trustee and the Administrator has recommended the Holdback for the following reasons:
 - a) it will be necessary to file 2015 stub-period final tax returns in Canada and the United States;
 - b) the Claims Procedure Order did not establish a claims bar date. It is the Claims Administrator's view that providing additional time for any potential unknown creditors not made aware of the Winding-Up of the Trust or the Creditor Claims Procedure to file or bring forward a claim is reasonable. It is the Claim Administrator's view that any such claims would be immaterial;

- c) to provide sufficient time for the Administrator to undertake the necessary steps in Winding-Up each of the Trust's subsidiaries based on applicable statutory requirements; and
 - d) Article 11.06 of the Trust Indenture contemplates the Trustee distributing the Trust's property after paying, retiring or discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Trust and providing for an indemnity against any other outstanding liabilities and obligations.
37. The Proposed Second Distribution will be made by the Trustee to registered Unitholders within seven business days after approval of the distribution by this Honourable Court. Attached as Appendix "A", is a distribution summary setting out the amount that will be distributed to each registered Unitholder.
38. Registered Unitholders will receive from the Depository Agent the appropriate tax forms in due course as required for Unitholders to file their 2015 tax returns.

NEXT STEPS

39. Dixie has eight subsidiaries registered in four jurisdictions in the United States. The Administrator has filed notices of dissolution with all the appropriate authorities and a Certificate of Cancellation/withdrawal has been received from one jurisdiction. The remaining Certificates of Cancellation/withdrawals are expected to be received prior to the end of this year.
40. After the Proposed Second Distribution is made, the Trust will continue to wind down its operations which will, among other things include:
- a) paying the remaining operating expenses of the Trust;
 - b) responding to any queries regarding the 2014 year-end tax returns;
 - c) sequentially winding-up the Trust's subsidiaries once Certificates of Cancellation are received; and
 - d) preparing 2015 stub-period tax returns when appropriate.
41. As the Winding-Up concludes and the amount of the Trust's liabilities are crystalized, the Claims Administrator anticipates there will be a final distribution to Unitholders. At

this time, the Claims Administrator is unable to estimate when the final distribution to Unitholders will be made. The Claims Administrator will apply to this Honourable Court for approval of such final distribution.

RECOMMENDATION

42. The Claims Administrator respectfully recommends that this Honourable Court make an order granting the relief set out in Paragraph 4 e) of this Second Report.

Dated at Calgary, this 15th day of October, 2015

ERNST & YOUNG INC.
in its capacity as Court-Appointed
Claims Administrator of Dixie Energy Trust
and not in its personal or corporate capacity

A handwritten signature in black ink, appearing to be 'R. Taylor', written in a cursive style.

Robert J. Taylor, FCA
Senior Vice-President

**In the Matter of the Winding-Up of
Dixie Energy Trust
Cash Available for Distribution to Unitholders
As at October 14, 2015**

Appendix "A"

	CAD	USD	Total CAD
Cash as at December 31, 2014	\$ 405,199	\$ 912,671	
Proceeds from Sale Transaction	-	47,480,822	
Debt repayment on closing	-	(13,063,823)	
Operating costs	(2,655,110)	(6,085)	
Currency conversion/account transfers	33,992,900	(29,000,000)	
GIC redemption	-	100,000	
Taxes paid	-	(5,594,878)	
Estimated taxes receivable (payable)	(500,000)	193,022	
Estimated net costs to wind-up	(486,000)	(30,000)	
	\$ 30,756,989	\$ 991,730	
Initial Distribution	(22,262,198)	-	
	\$ 8,494,791	\$ 991,730	
FX rate		1.30	
CAD available for distribution	\$ 8,494,791	\$ 1,289,249	\$ 9,784,039.70