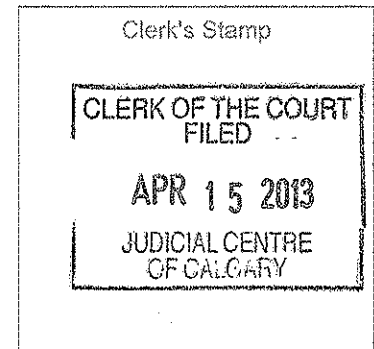


COURT FILE NO.: 1101-07137
COURT Court of Queen's Bench of Alberta
JUDICIAL CENTRE Calgary
PLAINTIFF(S) **BURNSWEST CORPORATION**
DEFENDANT(S) **RILEY RESOURCES INC.**



DOCUMENT **APPLICATION BY DELOITTE & TOUCHE INC. IN ITS CAPACITY AS RECEIVER AND MANAGER OF THE UNDERTAKINGS, ASSETS AND PROPERTY OF RILEY RESOURCES INC.**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT
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File No. A124875
Attention: Jeffrey L. Oliver

NOTICE TO RESPONDENT(S):

This application is made against you. You are a respondent.
You have the right to state your side of this matter before the master/judge.
To do so, you must be in Court when the application is heard as shown below:

DATE: *Friday, April 19, 2013 (matter scheduled on the Commercial List)*
TIME: 11:00 a.m.
WHERE: Calgary Courts Centre, 9th Floor, North Tower, 601 - 5 St. SW, Calgary, Alberta
BEFORE: The Honourable Justice G.C. Hawco

Go to the end of this document to see what you can do and when you must do it.

Remedy claimed or sought:

1. The time for service be abridged to the time given and service be deemed good and sufficient.
2. Orders seeking the following relief:
 - (a) approving the reported actions of Deloitte & Touche Inc. in its capacity as receiver and manager (the "**Receiver**") of the property, assets and undertakings (the "**Property**") of Riley Resources Inc. (the "**Debtor**"), since March 23, 2012, with respect to the administration of these receivership proceedings;
 - (b) approving the Receiver's Statement of Receipts and Disbursements for the period from May 26, 2011 to March 31, 2013;
 - (c) approving the professional fees and disbursements of the Receiver for the period from December 8, 2011 to March 31, 2013 and the professional fees and disbursements of the Receiver's legal counsel for the period from January 1, 2012 to March 31, 2013, including estimates to complete the administration of the receivership;
 - (d) approving a final distribution to the Energy Resources Conservation Board (the "**ERCB**") in the amount of approximately \$71,897 (the "**ERCB Settlement**"), representing the net estimated abandonment and reclamation liabilities due from Riley related to the remaining assets of the Debtor located in Central Alberta (the "**Central Assets**"), which the Receiver does not believe are saleable;
 - (e) approving a final distribution of approximately \$318,365 to Burnswest Corporation ("**Burnswest**"), the Debtor's sole secured creditor, up to the total amount of its indebtedness, which has an outstanding principal balance of approximately \$1.2 million;
 - (f) authorizing and empowering the Receiver to assign any proceeds (the "**Equipment Proceeds**") arising from the sale of the equipment owned by the Debtor located on the wells described as 11-10-068-18W4, 01-35-061-17W4 and 12-34-067-18W4 (the "**Abandonment Wells**") to Burnswest;

- (g) authorizing and empowering the Receiver to assign the refund of \$54,608 held by Alberta Energy related to crown royalties (the "**Crown Refund**") to Burnswest;
- (h) authorizing and empowering the Receiver to assign any and all refunds for goods and services taxes (the "**GST Refunds**") to Burnswest;
- (i) authorizing and empowering the Receiver to assign any insurance refunds (the "**Insurance Refunds**") to Burnswest;
- (j) discharging Deloitte & Touche Inc. as the Receiver;
- (k) releasing the Receiver from all claims against it that arise from or are in any way connected to the Receiver's administration of the receivership, except where such claims arise from gross negligence or wilful neglect;
- (l) granting leave to the Receiver to apply to this Court for advice and directions as may be necessary to carry out the terms of the Order sought; and
- (m) such further and other relief as this Honourable Court deems appropriate.

Grounds for making this application:

3. Deloitte & Touche Inc. was appointed the Receiver over the Property of the Debtor by Order of the Honourable Justice Streckf on May 26, 2011 (the "**Receivership Order**").

The Central Assets

4. The Central Assets include five non-producing wells which have associated abandonment and reclamation liabilities.
5. The ERCB provided a recent Liability Rating View which attributed abandonment and reclamation liabilities of \$380,757 to the Central Assets. The ERCB is currently holding a deposit of \$72,928 for Riley pursuant to the License Liability Rating Program (the "**LLR Program**").
6. Two of the wells included in the Central Assets are described as 00/12-27-067-18W4 and 02/12-27-067-18W4 (the "**12-27 Wells**"). Riley is not a current working interest participant in the 12-27 Wells. Riley had a gross-overriding royalty interest in the 12-27

Wells, which is convertible, at Riley's election, to a working interest upon pay-out of the 12-27 Wells. Blacksteel Energy Inc., formerly Blacksteel Oil Sands Inc. ("**Blacksteel**") is the 100% working interest participant of the 12-27 Wells.

7. Since the 12-27 Wells are no longer producing, they will not achieve pay-out and Riley will not be entitled to convert its royalty interest to become a working interest participant in the 12-27 Wells. As a result, Blacksteel will remain the sole working interest participant in the 12-27 Wells.
8. Although Riley was not a working interest participant in the 12-27 Wells, it held the licences for the 12-27 Wells pursuant to a Farmout Agreement dated November 21, 2008 between Riley and Blacksteel.
9. On March 29, 2012, the Receiver issued two letters to Blacksteel whereby Riley resigned as operator of the 12-27 Wells (the "**Resignations**"). The issuance of the Resignations was done in an attempt to have the licenses for the 12-27 Wells transferred into the name of Blacksteel, as the 100% working interest participant.
10. The Receiver subsequently initiated the transfer of operatorship of the 12-27 Wells to Blacksteel (the "**Transfer**"). To date, Blacksteel has refused to provide its concurrence to the Transfer.
11. The ERCB has assessed the abandonment and reclamation costs for the 12-27 Wells at \$69,475. It is the Receiver's opinion that the abandonment and reclamation costs of the 12-27 Wells should be borne by Blacksteel as the 100% working interest participant in the 12-27 Wells.
12. The remaining three wells included in the Central Assets are described as 00/11-10-068-18W4, 00/01-35-061-17W4 and 02/12-34-067-18W4 (the "**12-34 Well**") (collectively, the "**Abandonment Wells**"), which also have associated abandonment and reclamation liabilities. There is also a facility located adjacent to the 12-34 Well (the "**12-34 Facility**").
13. Based on the results of a site specific assessment, which included both the 12-34 Well and the 12-34 Facility, the Receiver requested that the ERCB reduce the assessed abandonment and reclamation liabilities for the 12-34 Well and the 12-34 Facility. The ERCB indicated it would agree to a reduction for the 12-34 Facility, which would result in

assessed abandonment and reclamation liabilities of \$43,650 (the "**Facility Liability**"). The Receiver believes certain amounts assessed for the Facility Liability have been double-counted and that the Facility Liability should be \$24,050 (the "**Updated Facility Liability**").

14. The Receiver has requested that the ERCB assume responsibility for the Central Assets, excluding the 12-27 Wells, pursuant to the Orphan Well Fund.
15. The Receiver obtained an opinion from its legal counsel that any contingent claim by the ERCB for abandonment and reclamation liabilities would represent an ordinary unsecured claim, which would be subordinate to the secured claim of Burnswest.
16. Given the quantum of the ERCB's contingent claim and to complete the administration of the receivership in a timely manner, the Receiver proposes, despite the above advice, that \$71,897 be paid to the ERCB in final satisfaction of any claims the ERCB may have against Riley related to the abandonment and reclamation of the Central Assets. This amount excludes the abandonment and reclamation liabilities associated with the 12-27 Wells, which the Receiver believes are the responsibility of Blacksteel and includes the Updated Facility Liability.

Other Assets

17. The Receiver is seeking authorization of the Court to assign the Equipment Proceeds, if any, the Crown Refund, the GST Refunds and the Insurance Refunds to Burnswest.

Receipts and Disbursements and Professional Fees

18. The Receiver is seeking relief as it relates to necessary administration of the receivership estate, including the approval of professional fees, receipts and disbursements, and distributions to the only secured creditor of the Debtor.
19. The Receiver and Burnswest support this Application.
20. Such further and other grounds as counsel may advise and this Honourable Court may permit.

Material or evidence to be relied on:

21. All pleadings and proceedings filed in the within action.
22. The First Report of the Receiver dated August 23, 2011, filed.
23. The Second Report of the Receiver dated March 23, 2012, filed.
24. The Third Report of the Receiver dated April 12, 2013, filed.
25. The Receivership Order.
26. The inherent jurisdiction of this Honourable Court.
27. Such further and other material and evidence as counsel may advise and this Honourable Court may permit.

Applicable Rules, Acts and Regulations:

28. Rules 6.3 and 6.47, the *Personal Property Security Act*, R.S.A. 2000, c. P-7, the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 and the *Judicature Act*, R.S.A. 2000, c. J-2, as amended.
29. Such further and other Rules, Acts and Regulations as Counsel may advise and this Court may permit.

How the application is proposed to be heard or considered:

30. Application hearing before a Justice in Chambers on the date set out above.

WARNING

If you do not come to Court either in person or by your lawyer, the Court may give the applicant(s) what they want in your absence. You will be bound by any order that the Court makes. If you want to take part in this application, you or your lawyer must attend in Court on the date and time shown at the beginning of this form. If you intend to rely on an affidavit or other evidence when the application is heard or considered, you must reply by giving reasonable notice of the material to the applicant.