

Action No. 1001-01141

**IN THE MATTER OF THE RECEIVERSHIP OF  
JAVELIN ENERGY INC.  
RECEIVER'S FIRST REPORT  
MAY 17, 2010**

## Table of Contents

|   |    |
|---|----|
| List of Exhibits.....                       | 3  |
| Introduction .....                          | 4  |
| Limitations of Report .....                 | 4  |
| Oil & Gas Assets.....                       | 5  |
| Other Assets .....                          | 5  |
| Receiver's Initial Activities .....         | 6  |
| Statement of Receipts & Disbursements ..... | 6  |
| Creditor Claims .....                       | 7  |
| Priority Creditors .....                    | 8  |
| Unsecured Creditors .....                   | 8  |
| Marketing of Oil and Gas Assets .....       | 9  |
| Distribution to NBC .....                   | 11 |
| Recommendations.....                        | 11 |
| Intended Course of Action.....              | 11 |

**List of Exhibits**

1. Receivership Order dated December 9, 2009
2. CB Securities Offering Circular dated January 2010
3. Statement of Receipts and Disbursements for the period December 9, 2009 to May 4, 2010
4. Notice and Statement of Receiver dated December 16, 2009
5. CB Securities Inc. – Marketing Teaser
6. CB Securities Inc. – Daily Oil Bulletin Advertisement
7. CB Securities Inc. – Listing of documents in data room

## **Introduction**

1. On December 9, 2009, National Bank of Canada ("NBC") made an application to the Court of Queen's Bench of Alberta (the "Court") pursuant to the *Judicature Act* for the appointment of a Receiver and Manager of Javelin Energy Inc. ("Javelin" or the "Company"). The Court granted the Receivership Order, which is attached as Exhibit 1 to this report.
2. Alger & Associates Inc. was appointed to act as Receiver and Manager (the "Receiver") of Javelin.
3. Javelin is a publicly traded junior oil and gas producer and explorer, although the shares had ceased trading prior to the Receivership. The Company was incorporated under the laws of Alberta on July 21, 2005.
4. The purpose of the Receiver's First Report is to provide this Honourable Court with:
  - The Receiver's initial activities;
  - An overview of operations of Javelin;
  - A Statement of Receipts and Disbursements for the period December 9, 2009 to May 4, 2010;
  - A summary of the sales' process undertaken by the Receiver; and
  - The Receiver's recommendations regarding the sale of Javelin's oil and gas assets for this Honourable Court's approval.

## **Limitations of Report**

5. The information contained in this report has been obtained from the records of Javelin. The Receiver has relied on this information and has not performed an audit, review or other verification of such information.
6. The Receiver assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this report. Any use which any party makes of this report, or any reliance on or decisions to be made based on it is the responsibility of such party.

### **Oil & Gas Assets**

7. Javelin's principal asset is the Clear Prairie property (the "Property"), located in a relatively remote area of northwestern Alberta. The Property consists of 100% working interests in ten sections of land, operated by Javelin. The Property has eight wells, of which four are currently producing. The current production, mostly gas, is approximately 225 boe/day. The Company also has a 25% working interest in three additional sections, operated by Canadian Natural Resources Ltd. ("CNRL") (collectively "Javelin's Oil & Gas Assets").
8. These assets are more fully described in the Offering Circular, prepared by CB Securities Inc. ("CB"), and are attached as Exhibit 2 to this report.

### **Other Assets**

9. Javelin has a gas royalty deposit of approximately \$227,000 held by the department of Alberta Energy. This will not be released until the assets are sold and the accounts are reviewed by the department to ensure no amounts are owed. Based on the information available, this amount should be fully recoverable.
10. During the Receivership, the Receiver was contacted by a collection firm in Quebec about a sum of money owed to a predecessor company of Javelin. The books and records did not reflect any outstanding amounts and accordingly the Receiver entered into a success fee arrangement which should generate approximately \$70,000, if these funds are recovered. The Receiver cannot provide a firm estimate at this time whether any funds will be recovered.
11. The Company has several ongoing lawsuits as both Plaintiff and Defendant. In two of the Plaintiff actions, legal counsel for the Defendants has contacted the Receiver to assess the likelihood of the actions proceeding. The Receiver has informed these parties that it is unable to comment at the current time about these actions proceeding in the future.

### **Receiver's Initial Activities**

12. Due to the financial difficulties faced by the Company, and prior to the granting of Receivership Order, the Company had moved its records to the home office of its Controller. This home office was the base of Javelin's operations at the date of the Receivership.
13. The Company's current records required for the Receiver's administration, both electronic and hard copy, were taken to the offices of Cord Management Ltd. ("Cord") which had been retained by the Receiver to oversee the operations of Javelin.
14. The Receiver confirmed that insurance was in place to provide coverage over the operations and assets of Javelin.
15. Cord undertook a site visit to review the current state of Javelin's oil field operations. This report indicated that there were no material environmental issues and that overall the Property was in good condition.
16. All of the Company's production is processed at a facility operated by AltaGas Limited Partnership. In late December a fire occurred at the processing plant, resulting in production being halted for approximately one month. Upon resumption of production, a compressor broke down which again affected production. This breakdown was quickly fixed and the Property was producing again in early February 2010. The sales process was not started until production re-commenced after the compressor was repaired.

### **Statement of Receipts & Disbursements**

17. Attached as Exhibit 3 to this report is a Statement of Receipts & Disbursements for the period December 9, 2009 to May 4, 2010.
18. Javelin's Oil & Gas Assets produced revenues during the Receivership, with the exception of the period when the processing plant was undergoing repairs. Given the reduced production and the the costs of the Receivership, the Receiver issued three Receiver Certificates totaling \$170,000, as allowed under the Receivership Order.

19. The Receiver has received net revenues for the months of February and March 2010 in the amount of approximately \$100,000. The effective date of the proposed sale is February 1, 2010; therefore this amount will form part of the statement of adjustments.

### **Creditor Claims**

20. A Notice and Statement of Receiver was sent to all known creditors and the Office of the Superintendent of Bankruptcy on December 16, 2009. A copy of the Notice and Statement of Receiver is attached as Exhibit 4.

### Secured Creditors

21. The claims of the secured creditors are summarized in the table below.

| <b>Javelin Energy Inc.</b>       |  |                    |
|----------------------------------|--|--------------------|
| <b>Summary of Secured Claims</b> |  |                    |
| Name                             | Type of Claim                              | Amount             |
| National Bank of Canada          | General Security Agreement and Land Charge | \$4,280,000        |
| AltaGas Operating Partnership    | Security Agreement                         | 1,145,310          |
| Clear Hills Enterprise Ltd.      | Lien – 0801517 & 0803453                   | 434,327            |
| Total                            |  | <u>\$5,859,637</u> |

### National Bank of Canada (“NBC”)

22. The Company granted a security interest over all of its assets to NBC, which was registered on March 29, 2006. NBC also registered on the Crown leases for the Clear Prairie property. The Receiver has received an opinion from its legal counsel on March 23, 2010 that NBC has valid first security over Javelin's Oil & Gas Assets. There are some leases where registration was not affected by NBC, against which there are no other registrations.

### AltaGas Limited Partnership (“AltaGas”)

23. AltaGas operates the gathering system and processing facility through which all of the Company's production from the Property is collected and processed under an agreement between those parties.. To secure payment for any amounts owed under this agreement,

AltaGas has registered a security interest which is subsequent to the security in favour of NBC.

#### Liens

24. As at March 26, 2010, there were two liens registered against the Clear Prairie property lands as follows:

A. Clear Hills Enterprises Ltd. ("Clear Hills") – Clear Hills' two builder's liens were registered in 2008 on the following Properties:

- i) 14-091-12 W6;
- ii) 11 & 12 – 091-12 W6
- iii) 2, 3, 10 & 11 – 091-12-W6

25. In each case, these liens were filed subsequent to the NBC registration on the Properties. It is the Receiver's intention to have all charges against the Properties discharged as part of the sale of the Properties.

#### Priority Creditors

26. Based on the Company's records, there were no employees, only contractors utilized by the Company. Based on our discussion with the CRA, there are no source deductions outstanding.

27. The Receiver was informed by the Company and confirmed by CRA that approximately \$124,000 is owed for Goods and Services Tax ("GST") arrears.

28. The Receiver has paid the balance due for Alberta Crown Royalties and property taxes as outlined in the Statement of Receipts & Disbursements, attached as Exhibit 3.

#### Unsecured Creditors

29. The books and records of Javelin identified unsecured claims of approximately \$4,500,470 as outlined in Exhibit 4. The Company had commenced an informal compromise process of the claims of the unsecured creditors as noted in Exhibit 4. The Receiver has not taken any position at the present time in regard to the enforceability of the compromise agreement.

30. Due to Javelin's financial circumstances, the Company had not completely updated its accounting records to reflect current activity. An audit has not been performed on the Company's financial statements since June 30, 2008. Since the Receiver's appointment, numerous creditors have notified the Receiver that the amount of the Company's indebtedness contained in the Notice and Statement of Receiver was understated.
31. The Receiver has been updating the accounting records as necessary to properly administer the affairs of the Company.

### **Marketing of Oil and Gas Assets**

32. CB was initially retained to market Javelin's Oil & Gas Assets in 2007 and again in early 2009. While these efforts resulted in bids, they did not result in a sale of Javelin's Oil & Gas Assets. Additional marketing of Javelin's Oil & Gas Assets took place in the fall of 2009 which generated some additional offers, again without the successful completion of a transaction.
33. The Company's land files were incomplete or missing. In order to sell the Javelin Oil & Gas Assets, the Receiver had to re-create various files in order to complete a successful sales process.
34. As previously mentioned, production was halted early in the Receivership due to a fire at a third party processing plant. This was followed by a compressor breakdown which also affected production. In order to ensure that the marketing process would not be compromised, the Receiver delayed the sale process until production re-commenced.
35. Due to the familiarity with Javelin's Oil & Gas Assets, CB was retained by the Receiver in January 2010. CB prepared various marketing materials together with an electronic and physical data room.
36. A summary marketing document, attached as Exhibit 5 to this report, briefly describing Javelin's Oil & Gas Assets was sent to approximately 1,200 potential purchasers through mail and e-mail. In addition, the assets were advertised on CB's website and in the Daily Oil Bulletin, a copy of the advertisement is attached as Exhibit 6 to this report.

37. As a result of the initial mailing, advertisements and on-going contacts made by CB, 36 offering circulars, attached as Exhibit 2 to this report, were sent out to prospective purchasers.
38. Fourteen prospective purchasers signed confidentiality agreements allowing them access to the electronic and physical data rooms. A listing of the documents in the data room is attached as Exhibit 7.
39. By March 18, 2010, CB received five Letters of Intent on the Properties. Copies of these Letters of Intent are included in the sealed Receiver's First Report – Confidential Supplement.
40. Based on a review of the Letters of Intent, the Receiver selected 1475136 Alberta Ltd. to proceed to complete a transaction. 1475136 Alberta Ltd. completed their due diligence on an expedited basis and a binding Purchase and Sale Agreement (the "PSA") was signed.
41. The major terms of sale to 1475136 Alberta Ltd. are as follows:
  - a) Deposit of 10% of purchase price held by the Receiver's counsel;
  - b) Cash for balance of purchase price on closing;
  - c) Effective Date of February 1, 2010;
  - d) Closing within 2 business days of Court Approval; and
  - e) The Javelin Oil & Gas Assets are to be transferred and vest free and clear of all encumbrances other than Permitted Encumbrances as defined in the PSA.
42. The Receiver has provided some analysis in regard to the offers received in the sealed Confidential Supplement and recommends 1475136 Alberta Ltd.'s offer as:
  - a) it was the highest offer received;
  - b) it is unconditional and had the quickest closing timeframe;
  - c) the closing risk is minimal; and
  - d) it is supported by NBC.

**Distribution to NBC**

43. Upon receipt of the net proceeds from the sale of Javelin's Oil & Gas Assets, the Receiver is seeking this Honourable Court's approval for an interim distribution to NBC in the amount of \$3.4 million.
44. As outlined in the sealed Confidential Supplement, the Receiver will retain sufficient funds to deal with any priority claims and finalizing the administration of the Receivership.

**Recommendations**

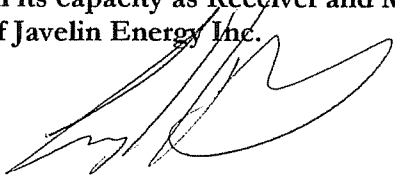
45. The Receiver is seeking this Honourable Court's approval for the following actions:
- a) The Receiver's activities and conduct as outlined in the Receiver's First Report;
  - b) Sale of Javelin's Oil & Gas Assets to 1475136 Alberta Ltd.;
  - c) Initial distribution of funds to NBC; and
  - d) Any further directions the Court wishes to provide to the Receiver.

**Intended Course of Action**

46. If the Receiver's recommendations are approved, the Receiver's intended course of action is as follows:
- Complete the sale of Javelin's Oil & Gas Assets to 1475136 Alberta Ltd.;
  - Initial distribution of funds to NBC; and
  - Complete the administration of the Receivership, leading to an application for discharge.

**DATED** at Calgary, Alberta this 17<sup>th</sup> day of May, 2010.

**Alger & Associates Inc.,  
In its capacity as Receiver and Manager  
of Javelin Energy Inc.**



Per: Guy W. L. Odhams  
Direct Line: (403) 296-3143  
Email: [godhams@alger.ca](mailto:godhams@alger.ca)

---

**IN THE COURT OF QUEEN'S BENCH  
OF ALBERTA  
JUDICIAL DISTRICT OF CALGARY**

BETWEEN:

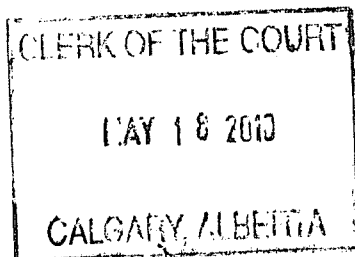
**NATIONAL BANK OF CANADA**

Plaintiff

- and -

**JAVELIN ENERGY INC., CASCADE  
CAPITAL PARTNERS INC. and BRIAN  
D. FRASER**

Defendants



---

**RECEIVER'S FIRST REPORT  
ALGER & ASSOCIATES INC.  
May 17, 2010**

---

**DAVIS LLP**  
Barristers & Solicitors  
1000 - 250 2<sup>nd</sup> St. SW  
Calgary, Alberta  
T2P 0C1

**Larry B. Robinson, Q.C.**  
Phone: 403.698.8715  
Fax: 403.697.6609  
File No. 77918-1