

**IN THE MATTER OF THE PROPOSAL OF  
WESTERN CANADA ENERGY LTD.  
OF THE CITY OF CALGARY  
IN THE PROVINCE OF ALBERTA**

**AMENDED PROPOSAL**

Western Canada Energy Ltd. (“WCE” or the “Company”) being insolvent, hereby submits the following Proposal pursuant to the provisions of Part III Division I of the Bankruptcy and Insolvency Act.

**INTERPRETATION**

**Definitions**

1. In this Proposal, the following terms are defined:

- a) “Administrative Fees and Expenses” means:
  - i) all proper fees and expenses of the Trustee; and
  - ii) the legal fees and disbursements of the Trustee on and incidental to the preparation of the Proposal and any proceedings arising out of the filing of the Proposal, including advice in connection therewith.
- b) “Affected Creditors” means holders of Crown Claims, Affected Secured Creditors, Preferred Creditors and Ordinary Unsecured Creditors.
- c) “Affected Secured Creditor” means Olympia Trust Company, the debenture trustee for the debenture holders holding 10 ½% per annum Redeemable Retractable Subordinated Debentures under a Deed of Trust and Mortgage dated August 29, 2007 and as further amended.
- d) “BIA” means the Bankruptcy and Insolvency Act (Canada), as amended from time to time.

- e) "Claim" means any indebtedness, liability, action, cause of action, suit, debt due, account, bond, covenant, contract, counterclaim, demand, claim, right and obligation of any nature whatsoever, including any portion thereof, of the Company or its successors and assigns or its respective directors, to any person, whether liquidated, unliquidated, fixed, contingent, matured, legal, equitable, secured, unsecured, present, future, known or unknown, and whether by guarantee, surety or otherwise, in any way, and whether in whole or in part, incurred or arising or relating to the period prior to or existing on the Claims Date, together with all Claims in respect of the costs of remedying any environmental condition or damage affecting real property whether the condition or the damage occurred or existed before or after the Claims Date, excluding any equity claim as defined in the Section 2 of the BIA.
- f) "Claims Date" means the date of filing the Notice of Intention, being February 25, 2010.
- g) "Company" or "WCE" means Western Canada Energy Ltd.
- h) "Court" means the Court of Queen's Bench of Alberta, Judicial District of Calgary.
- i) "Creditor" means any Person having a Claim.
- j) "Creditors' Meeting" means the meeting of creditors called pursuant to the BIA for the purpose of considering and voting on the Proposal.
- k) "Crown Claims" means Claims of Her Majesty in right of Canada or a Province for Claims under subsection 224(1.2) of the *Income Tax Act*, R.S.C. 1985, c.1. and any Claims for crown royalties on mineral substances, including but not limited to, petroleum, oil, bituminous sands, oil sands and natural gas.
- l) "Effective Date" means the date on which the Order of the Court approving this Proposal becomes final and may no longer be appealed.
- m) "Final Order" means an Order granted by the Court, approving this Proposal, which is final and can no longer be appealed.
- n) "Joint Operator" means a party having a working interest in the lands for which it has entered into a joint venture agreement with WCE as operator and is governed by the 1990 Canadian Association of Petroleum Landmen Operating Procedure.
- o) "Levy" means the Superintendent of Bankruptcy Levy as provided for in Section 147 of the BIA. The rate of Levy payable in a Proposal is:
  - i) five per cent, if the amount of payments is \$1,000,000 or less;
  - ii) five per cent of the first \$1,000,000, plus one and one-quarter per cent of the amount in excess of \$1,000,000, if the amount of payments exceeds \$1,000,000 but is not more than \$2,000,000; or

- iii) five per cent of the of the first \$1,000,000, one and one-quarter per cent of the second \$1,000,000 plus zero per cent of the amount in excess of \$2,000,000, if the amount of payments exceeds \$2,000,000.
- p) “Notice of Intention” means the notice of intention to make a proposal pursuant to the BIA filed on February 25, 2010.
- q) “Ordinary Unsecured Creditor(s)” means those creditors with Claims, except for those Claims that:
  - i) have been finally and conclusively disallowed pursuant to the provisions of the BIA by the Trustee, or the Court;
  - ii) may be contingent or unliquidated and found by the Trustee, or the Court not to be provable;
  - iii) are Crown Claims;
  - iv) are Claims by Preferred Creditor(s);
  - v) are the secured or unsecured portion of Claim by the Affected Secured Creditor;
  - vi) are Claims of the Unaffected Secured Creditor; and
  - vii) are Claims of the Unaffected Joint Operators.
- r) “Preferred Creditor(s)” means any creditor entitled to receive payment of any amount owed to it in priority to other creditors as provided for in Section 136 of the BIA.
- s) “Proposal” means this Proposal made pursuant to the provisions of Part III Division I of the BIA as filed on March 18, 2010 and as amended or supplemented from time to time.
- t) “Released Parties” means each and every present and former director of the Company, and their respective successors and assigns.
- u) “Shoreline” means Shoreline Energy Fund.
- v) “Shoreline Warrant” means one-half of a purchase warrant and one-half of a compensation warrant with the following attributes, respectively:
  - i) each full purchase warrant shall entitle the holder thereof to acquire an additional Shoreline Fund Unit for an exercise price of \$125 for a 12 month period; and
  - ii) each full performance warrant shall entitle the holder thereof to acquire an additional Shoreline Fund Unit for an exercise price of \$125 in the event that

realized natural gas prices exceed \$6.00 per mcf (AECO) for 45 non-consecutive days in the 12 month period following the warrant issue date.

- w) "Shoreline Fund Unit" means one unit in Shoreline.
  - x) "Trustee" means Alger & Associates Inc., the Trustee acting under the Proposal.
  - y) "Unaffected Secured Creditor" means Canadian Western Bank pursuant to the paramount and first secured charge on the property, assets, and undertaking of the Company.
  - z) "Unaffected Joint Operators" means a Joint Operator who has a trust claim arising as a result of s. 507 of the 1990 Canadian Association of Petroleum Landmen Operating Procedure.
2. The Proposal applies to the holders of all Crown Claims, Affected Secured Claim, Preferred Creditors and Ordinary Unsecured Creditors, whether or not such person proves a claim against the Company under the Proposal.

## **BACKGROUND**

3. The reduction in gas prices caused Company revenues and asset values to decline. The current asset values did not support the required level by the secured creditors and the Company was unable to pay its liabilities in the ordinary course of business.
4. WCE filed a Notice of Intention to File a Proposal on February 25<sup>th</sup>, 2010 and a Proposal on March 18, 2010. Alger & Associates Inc. consented to act as Trustee under the Proposal.

## **PURPOSE & EFFECT**

### **Purpose**

5. The purpose of the Proposal is to restructure the financial affairs of the Company in order to continue business. The Proposal, if successful, will allow for the following to occur:
- a) Payment of all Crown and Preferred Claims, if any, in cash;
  - b) Payment of the Affected Secured Creditor's Claim in Shoreline Fund Units and Shoreline Warrants.
  - c) Payment of all Ordinary Unsecured Claims in cash and Shoreline Warrants; and
  - d) To transfer the assets of WCE to Shoreline as a going concern and allow the Affected Secured Creditors the opportunity to benefit from any future success of Shoreline.

## **Effect**

6. The Proposal will be considered complete when:
  - a) Funds have been paid to all Crown, Preferred, and Ordinary Unsecured Creditors pursuant to the terms of this Proposal;
  - b) Shoreline Fund Units and Warrants have been issued to the Affected Secured Creditor for payment of its Claim pursuant to the terms of this Proposal; and
  - c) Shoreline Warrants have been issued to the Ordinary Unsecured Creditors.

## **UNAFFECTED CREDITORS**

7. Payments to the Unaffected Secured Creditor will continue to be made in accordance with the present arrangements or any other arrangements, which may be agreed upon by the Unaffected Secured Creditor and the Company.
8. Payments to the Unaffected Joint Operators will continue to be made in accordance with the present arrangements or any other arrangements, which may be agreed upon by the Unaffected Joint Operators and the Company.

## **AFFECTED SECURED CLAIM**

9. The Affected Secured Creditor is owed approximately \$3,598,099, including accrued interest and fees. The Affected Secured Creditor will receive 21,750 Shoreline Fund Units and 10,875 Shoreline Warrants as final settlement of its Claim and will not be entitled to submit a Claim as an Ordinary Unsecured Creditor.
10. Payments to the Affected Secured Creditor shall be without interest or penalty and subject to deduction of the Levy payable to the Superintendent of Bankruptcy, based on payments pursuant to the Proposal.

## **CROWN CLAIMS**

11. All Crown Claims, if any, shall be paid in full in cash, without interest or penalty, and subject to the Levy, in priority to all claims of the Ordinary Unsecured Creditors.
12. During the term of the Proposal, the Company will remit all required income tax, employee source deductions, and GST installments directly to Canada Revenue Agency and file the required GST returns on time, with payment of any balance due made on filing.
13. No later than six months following the Court's approval of the Proposal, the Company shall

pay Her Majesty in right of Canada or a province, all Claims of a kind that could be subject to a demand under subsection 224(1.2) of the Income Tax Act (Canada) or under any substantially similar provision of provincial legislation that are outstanding on the filing date of the Proposal.

### **PREFERRED CLAIMS**

14. The Claims of all Preferred Creditors, if any, shall be paid in full in cash, without interest or penalty, and subject to the Levy, in priority to all claims of the Ordinary Unsecured Creditors, to the extent provided for in section 136 of the BIA.

### **ORDINARY UNSECURED CLAIMS**

15. The Ordinary Unsecured Creditors will receive a cash payment for part of their Claim. The Company has allocated \$90,000 to be distributed (“Lump Sum Distribution”) based on the number of Ordinary Unsecured Claims filed and accepted by the Trustee. The estimated amount to be paid to each Ordinary Unsecured Creditor is approximately \$1,000, based on the number of known Ordinary Unsecured Creditors.
16. The balance of the Claims of the Ordinary Unsecured Creditors, after deducting the Lump Sum Distribution, will receive payment distributed on a pro-rata basis (“Pro-rata Distribution”). The quantum of the Pro-rata Distribution is a minimum of \$139,000 and a maximum of \$260,000 to be determined by the net sources and uses of cash available to the Company after closing the transaction with Shoreline and payment of all Claims that rank in priority to the Claims of Ordinary Unsecured Claims and payment on a pro-rata basis 10,875 Shoreline Warrants.
17. Payments to the Ordinary Unsecured Creditors shall be without interest or penalty and subject to deduction of the Levy payable to the Superintendent of Bankruptcy, based on payments pursuant to the Proposal.

### **TIMING & PAYMENT OF CLAIMS**

18. WCE shall complete the terms set out in the Proposal within six months of the Effective Date, upon which, the Company, its successors and assigns, and its Directors shall be deemed to have satisfied in full the terms of the Proposal.

### **TRUSTEE, MONITORING AND ADMINISTRATIVE COSTS**

19. The Trustee is acting in its capacity as Trustee and not in its personal capacity and no Officer,

Director, employee or agent of the Trustee shall incur any obligations or liabilities in connection with the Proposal or in connection with the business or liabilities of the Company.

20. The Trustee's services will be based on time spent by the Trustee and the various members of its staff at their respective billing rates plus any direct out of pocket expenses incurred. The Court will tax the Trustee's Administrative Fees and Expenses. Upon approval of the Proposal, the Trustee will be entitled to take regular interim fees upon Inspector, or Court approval.

## **OPERATIONS AND POST-PROPOSAL GOODS AND SERVICES**

### **No Right of Set-Off**

21. Affected Creditors under the Proposal who have dealings with the Company after the Claims Date shall not have the right to set-off (either legally or equitably) any amounts owing to them in respect of post-Proposal goods and services, as against Claims.

## **INSPECTORS**

22. At the Creditors' Meeting, the Affected Creditors will be entitled to appoint one or more, but not exceeding five Inspectors, whose powers shall be as follows:
  - a) advising the Trustee in respect of such matters as may be referred to the Inspectors by the Trustee;
  - b) advising the Trustee concerning any dispute that may arise as to the validity of the Claims of Affected Creditors under this Proposal;
  - c) exercising all powers given to the Inspectors of a bankrupt estate appointed pursuant to the provisions of the BIA; and
  - d) altering or extending the time for payments to be made pursuant to this Proposal, but not the total amount paid.

## **RELEASE OF COMPANY AND DIRECTORS**

23. Upon the Effective Date, the Released Parties shall be released and discharged by all Affected Creditors from all Claims, which any Affected Creditor may have or have been entitled to assert against any of the Released Parties for which they would be, by law, liable in their capacity as Directors for the payment of such Claims, provided that nothing herein shall release or discharge any of the Released Parties from Claims that:

- a) relate to contractual rights of one or more of the Affected Creditors arising from contracts with one or more of the Released Parties; or
- b) are based on allegations of misrepresentation made by the Released Parties to the Affected Creditors or of wrongful or oppressive conduct by the Released Parties.

### CONSENTS, WAIVERS AND AGREEMENTS

24. On the Effective Date, all Affected Creditors shall be deemed to have consented and agreed to all of the provisions of the Proposal in its entirety. Each Affected Creditor will be deemed to have waived any default by the Company in any provision, expressed or implied, or in any agreement existing between the Affected Creditor and WCE that occurred on or prior to the Effective Date. Each Affected Creditor will be deemed to have agreed that, to the extent that there is any conflict between the provisions of any such agreement and the provisions of the Proposal, the provisions of the Proposal take precedence and priority and the provisions of any such agreement are amended accordingly.

#### **Binding Effect**

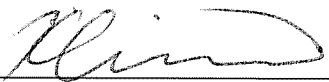
25. The provisions of the Proposal will be binding on the Affected Creditors, the Company, and their respective heirs, executors, administrators, personal and legal representatives, successors, and assigns, on the Effective Date.

### ANNULMENT OF PROPOSAL

26. If the Proposal is annulled by an Order of the Court, all payments on account of Claims made pursuant to the terms of the Proposal will reduce the Claims of the Affected Creditors.

Dated at Calgary this 31<sup>th</sup> day of March, 2010.

Western Canadian Energy Ltd.

  
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Witness

Per:   
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Dan O'Neill