

COURT FILE NUMBER 1601-06765

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF ENDURANCE ENERGY LTD.

DOCUMENT **FIFTH REPORT OF FTI CONSULTING CANADA INC., IN  
ITS CAPACITY AS MONITOR OF ENDURANCE ENERGY  
LTD.**

**August 23, 2016**

ADDRESS FOR SERVICE AND  
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## INTRODUCTION

1. On May 30, 2016, Endurance Energy Ltd. (“**Endurance**” or the “**Applicant**”) sought and obtained protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an order granted by this Honourable Court (the “**Initial Order**”).
2. The Initial Order granted, *inter alia*, a stay of proceedings against the Applicant until and including June 29, 2016 (the “**Initial Stay Period**”), and appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”). The proceedings commenced by the Applicant under the CCAA will be referred herein as the “**CCAA Proceedings**”.
3. Also on May 30, 2016, this Honourable Court granted an order (the “**Sale Process Order**”) which, *inter alia*, approved a sale process (the “**Sale Process**”) as set out in the Sale Process Order.
4. On June 15, 2016, this Honourable Court granted an Amended and Restated Initial Order which, *inter alia*, reduced the amount of the Administration Charge from \$2.5 million to \$1.5 million and included the fees of the Lending Syndicate’s professional advisors in the Administration Charge. The Initial Order and the Amended and Restated Initial Order will be referred to hereinafter collectively as the “**Initial Order**”.
5. On June 22, 2016, after subsequent court hearings on June 8 and June 15, the stakeholders agreed on an amended Sale Process and this Honourable Court granted an order approving the amended Sale Process (the “**Sale Process and Interim Financing Order**”) which, *inter alia*, amended Schedule A of the Sale Process Order and approved the Amended and Restated DIP Facility Loan Agreement.

6. On June 27, 2016, this Honourable Court granted an order (the “**Stay Extension Order**”) which, *inter alia*, extended the Stay Period to and including August 5, 2016.
7. On August 2, 2016, this Honourable Court granted an order (the “**KERP and KEIP and Stay Extension Order**”) which, *inter alia*, authorized and approved the KERP and KEIP and granted the KERP Charge and KEIP Charge and extended the Stay Period to and including August 31, 2016.

#### **PURPOSE**

8. The purpose of this fifth report of the Monitor (the “**Fifth Report**”) is to provide to this Honourable Court the Monitor’s comments with respect to:
  - (a) the activities of the Monitor since the Fourth Report dated July 28, 2016;
  - (b) an update of the activities of the Applicant and its financial advisor, BMO Nesbitt Burns Inc. (“**BMO**” or the “**Financial Advisor**”) with respect to the Sale Process;
  - (c) the Applicant’s budget to actual cash flow results for the period of July 24, 2016 to August 20, 2016;
  - (d) the Applicant’s revised cash flow statement for the period of August 21, 2016 to October 1, 2016; and
  - (e) the Applicant’s request for an extension of the stay period (the “**Stay Period**”) to and including September 30, 2016.

## TERMS OF REFERENCE

9. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicant, the Applicant's books and records, certain financial information prepared by the Applicant and discussions with various parties, including senior management ("**Management**") of the Applicant (collectively the "**Information**"). Except as described in this report, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
10. The Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook. Future oriented financial information reported or relied on in preparing this report is based on Management's assumptions regarding future events and actual results may vary from forecast and such variations may be material.
11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein have the meaning defined in the previous reports of the Monitor or the Amended and Restated Initial Order issued in these CCAA Proceedings.
12. Further background and information regarding the Applicant's and these CCAA proceedings can be found on the Monitor's website at <http://cfcanada.fticonsulting.com/endurance>.

## ACTIVITIES OF THE MONITOR

13. Since the date of the Fourth Report, the Monitor has:
- (a) attended various meetings and conference calls with respect to the Sale Process with the Applicant, BMO and the Lending Syndicate, as discussed in further detail below;
  - (b) engaged in discussions with various stakeholders and creditors;
  - (c) reviewed the Applicant's cash disbursements; and
  - (d) advised the Applicant with respect to the preparation of its cash flow statement and reporting as required by the Interim Lender (as defined below).

## UPDATE ON THE SALE PROCESS

14. The deadline for the receipt of binding expressions of interest in accordance with the Sale Process was July 25, 2016. Since that date, BMO has been in discussions with those parties that submitted binding expressions of interest.
15. In connection with the Sale Process, BMO has hosted various update calls (generally on a weekly or bi-weekly basis) with the Applicant, the Monitor and the Lending Syndicate (and respective counsel and advisors) to provide updates on the Sale Process. The purpose of these updates on the Sale Process was to provide the Lending Syndicate with an overview of the steps taken by BMO through the Sale Process.

## **EXTENDING THE STAY OF PROCEEDINGS TO THE APPLICANT'S EMPLOYEES**

16. The Monitor is aware that since the date of the Initial Order, various vendors have raised claims against the Applicant's current and former employees claiming that those individuals have provided personal guarantees of the Applicant's obligations owing to various vendors.
17. The Company has been made aware that one vendor has filed a Notice of Civil Claim in British Columbia against one of the Applicant's employees.
18. The Monitor has reviewed the Affidavit of Steven Vansickle sworn on August 19, 2016 and is in agreement that the Company's restructuring efforts are in a critical phase and it is crucial for employees to remain focused on the operations of the Company, while keeping costs at a minimum. The focused efforts of the Company's employees will be necessary to effect a transaction of the Company's business. The Company's request to stay proceedings against employees would not affect the substantive rights or merits of any claim or any defence; rather, it would merely preserve the *status quo* to allow the restructuring proceedings to continue, and allowing potential claims against employees to be dealt with in the future.

## BUDGET TO ACTUAL CASH FLOW RESULTS

19. The table below presents a summary of the Applicant's receipts and disbursements for the period of July 23, 2016 to August 20, 2016 (the "Reporting Period") against the cash flow statement provided to this Honourable Court in the Monitor's Fourth Report.

<b>\$ CAD</b>			
<b>July 23, 2016 to August 20, 2016</b>	<b>Forecast</b>	<b>Actual</b>	<b>Variance</b>
<b>Opening Cash</b>	5,393,624	5,393,624	-
<b>Cash Receipts</b>			
Revenue	4,910,955	4,922,820	11,864
<b>Total - Cash Receipts</b>	<b>4,910,955</b>	<b>4,922,820</b>	<b>11,864</b>
<b>Cash Disbursements</b>			
Royalty Expense	32,653	36,190	3,536
Operating Expense	2,890,862	1,746,651	(1,144,211)
Monthly AER LLR Deposit Payments	363,034	-	(363,034)
Property Taxes	-	-	-
Capital Expenditure	30,000	-	(30,000)
Transportation	1,109,522	1,130,299	20,777
Payroll	1,010,815	946,141	(64,674)
G&A	380,766	288,974	(91,792)
Professional Fees	1,300,000	876,234	(423,766)
Interest/Fees	185,170	186,846	1,677
Tax/Other	53,000	-	(53,000)
<b>Total - Cash Disbursements</b>	<b>7,355,822</b>	<b>5,211,335</b>	<b>(2,144,487)</b>
<b>Net Change in Cash from Operations</b>	<b>(2,444,867)</b>	<b>(288,515)</b>	<b>2,156,351</b>
DIP Loan	-	-	-
<b>Ending cash</b>	<b>2,948,757</b>	<b>5,105,108</b>	<b>2,156,351</b>
Opening DIP Loan	14,131,307	14,131,307	-
DIP Loan Drawn	-	-	-
<b>Ending DIP Loan</b>	<b>14,131,307</b>	<b>14,131,307</b>	<b>-</b>

20. The Applicant's forecast cash receipts for the Reporting Period were \$4.91 million, and actual cash receipts were \$4.92 million. The Applicant's cash receipts have generally been in line with the forecast during the Forecast Period, and the majority of the variance relates to items that were not included in the Applicant's forecast cash flow statement such as joint venture billings and rentals.
21. The Applicant's forecast cash disbursements for the Reporting Period were \$7.36 million, and actual cash disbursements were \$5.21 million. The majority of the \$2.14 million variance is the result of variances in the payment of operating expenses and professional fees and a portion of these variances are expected to reverse in future periods. Actual operating expenses have been trending lower than forecast for the Reporting Period which will result in a permanent variance. The Cash Flow Statement (as defined below) has taken the trend in actual operating costs into consideration.
22. The \$2.16 million variance in the Applicant's forecast ending cash position is primarily due to the timing variances outlined above. No variances that occurred during the Reporting Period are expected to have a material impact on the Applicant's liquidity needs during the CCAA Proceedings.

#### **REVISED CASH FLOW FORECAST**

23. In connection with the Sales Process, the Applicant secured interim financing (the "**Interim Financing**") in the amount of US \$15.0 million from WP Private Equity XI Inc. (the "**Interim Lender**") in order to provide the Company with sufficient liquidity during the CCAA Proceedings.
24. The amounts under the Interim Financing become due and payable on or about September 2, 2016 (the "**Maturity Date**"). The Monitor understands that the Company is in discussions with the Interim Lender to extend the Maturity Date.



25. The Applicant, in consultation with the Monitor, has prepared a revised weekly cash flow statement (the “**Cash Flow Statement**”) for the period of August 21, 2016 to October 1, 2016 (the “**Stay Extension Period**”). A Summary of the Cash Flow Statement is presented in the table below and a copy of the Cash Flow Statement is attached hereto as Appendix A.

<b>\$ CAD</b>	<b>Stay</b>
<b>August 21, 2016 to October 1, 2016</b>	<b>Extension</b>
	<b>Period</b>
<b>Opening Cash</b>	<b>5,762,556</b>
<b>Cash Receipts</b>	
Revenue	<b>12,942,307</b>
<b>Total - Operating Receipts</b>	<b>12,942,307</b>
<b>Cash Disbursements</b>	
Royalty Expense	<b>15,300</b>
Operating Expense	<b>5,231,983</b>
Monthly AER LLR Deposit Payments	<b>800,000</b>
Property Taxes	<b>-</b>
Capital Expenditure	<b>500,000</b>
Transportation	<b>2,142,265</b>
Payroll	<b>1,755,715</b>
G&A	<b>761,929</b>
Professional Fees	<b>979,009</b>
Interest/Fees	<b>380,322</b>
Tax/Other	<b>366,000</b>
<b>Total - Operating Disbursements</b>	<b>12,932,523</b>
<b>Net Change in Cash from Operations</b>	<b>9,783</b>
DIP Loan	<b>-</b>
<b>Ending cash</b>	<b>5,772,339</b>
Opening DIP Loan	<b>14,131,307</b>
DIP Loan Drawn	<b>-</b>
<b>DIP Loan Ending</b>	<b>14,131,307</b>

26. The Cash Flow Statement indicates the following for the Stay Extension Period:
- (a) total cash receipts of \$12.94 million relating to revenue collections for the Applicant's operations for the production months of July and August;
  - (b) total cash disbursements of \$12.93 million. The Monitor notes that a payment of \$1.2 million due three days per annum to the Government of British Columbia relating to a road use agreement is including in operating costs for the Stay Extension Period;
  - (c) total cumulative draw on the Interim Financing of \$14.13 million; and
  - (d) ending cash of \$5.77 million for the Stay Extension Period.
27. In connection with the foregoing the Applicant does not anticipate any further draws under the Interim Financing for the Stay Extension Period.

#### **EXTENSION OF THE STAY PERIOD**

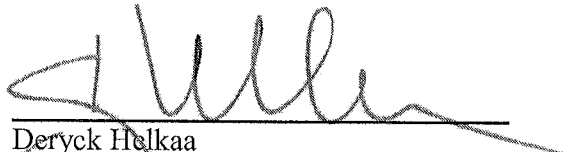
28. The Stay Period set out in the Stay Extension Order is until and including August 31, 2016. The Applicant is seeking an extension to the Stay Period until and including September 30, 2016 in order to provide sufficient time to substantially complete the Sale Process and move towards finalizing one or more transactions resulting therefrom.
29. The Cash Flow Statement demonstrates that the Applicant will have sufficient liquidity under the Interim Financing, without any further draws thereunder, to continue to meet its post-filing obligations until and including September 30, 2016.

30. In the Monitor's view, the Applicant has continued to act in good faith and with due diligence during the CCAA Proceedings and the Monitor supports the Applicant's request for an extension to the Stay Period until and including September 30, 2016.
31. The Monitor is of the view that the Applicant's request for an extension to the Stay Period will not materially prejudice any creditors.

### **RECOMMENDATIONS**

32. The Monitor respectfully recommends that this Honourable Court to approve the Applicant's request to extend the stay of proceedings until September 30, 2016 and to expand the stay of proceedings to include the Applicant's employees.

All of which is respectfully submitted this 23<sup>rd</sup> day of August, 2016.



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