

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

November 15, 2016

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
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MONITOR

FTI Consulting Canada Inc.
Suite 720, 440 – 2nd Ave S.W.
Calgary, AB T2P 5E9
Deryck Helkaa / Brett Wilson
Telephone: (403) 454-6031 / (403) 454-6033
Fax: (403) 232-6116
E-mail: deryck.helkaa@fticonsulting.com
brett.wilson@fticonsulting.com

COUNSEL

Bennett Jones LLP
Suite 4500, 855 – 2nd Street SW
Calgary, AB T2P 4K7
Chris Simard
Telephone: (403) 298-4485
Fax: (403) 265-7219
Email: simardc@bennettjones.com

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**”). The proceedings commenced by the Applicant under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. The Initial Order granted, *inter alia*, (i) a stay of proceedings against the Applicant until and including June 29, 2016 (the “**Stay Period**”), (ii) appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”), (iii) approving the DIP Facility Loan Agreement (the “**DIP Agreement**”) between Endurance and WP Private Equity XI Inc. (the “**Interim Lender**”) for interim funding during the CCAA Proceedings (the “**Interim Funding**”) and (iv) approving the engagement of BMO Nesbitt Burns Inc. as the Applicant’s financial advisor (the “**Financial Advisor**”).
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 Schedule “A” to 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 Lenders’ (as defined below) 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 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 Order**”) which, *inter alia*, authorized and approved the KERP and KEIP (each as defined in the KERP and KEIP Order) and granted the KERP Charge and KEIP Charge (each as defined in the KERP and KEIP Order) and extended the Stay Period to and including August 31, 2016.
8. On August 26, 2016, this Honourable Court granted an order which, *inter alia*, extended the Stay Period to and including September 30, 2016.
9. On September 2, 2016, this Honourable Court granted an order (the “**DIP Extension Order**”) which, *inter alia*, approved the Amending Agreement to the Amended and Restated DIP Facility Loan Agreement which extended the maturity date to September 30, 2016 (the “**Maturity Date**”).
10. On September 27, 2016, this Honourable Court granted an order (the “**Sale Approval and Vesting Order**”) which, *inter alia*, approved the Transactions (as defined below) and extended the Stay Period to and including November 25, 2016.

11. On October 6, 2016, this Honourable Court granted an order (the “**Second DIP Extension Order**”) which, *inter alia*, approved the Second Amending Agreement to the Amended and Restated DIP Facility Loan Agreement which extended the Maturity Date to the earlier of (i) the closing of the sale of all or substantially all of the Applicant's assets or (ii) October 30, 2016.

PURPOSE

12. The purpose of this ninth report of the Monitor (the “**Ninth Report**”) is to provide to this Honourable Court the Monitor’s comments with respect to:
 - (a) the activities of the Monitor since its Eighth Report dated October 5, 2016;
 - (b) the Applicant’s budget to actual cash flow results for the period of September 18 to November 12, 2016;
 - (c) the Applicant’s request for an interim distribution to its Lenders (the “**Interim Distribution**”);
 - (d) the proposed claims process (the “**Claims Process**”) set out in the claims procedure order (the “**Claims Procedure Order**”); and
 - (e) the Applicant’s request for an extension of the stay period (the “**Stay Period**”) to and including January 31, 2017.

TERMS OF REFERENCE

13. 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.
14. 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.
15. Further background and information regarding the Applicant's and these CCAA Proceedings can be found on the Monitor's website (the "**Monitor's Website**") at <http://cfcanada.fticonsulting.com/endurance>.
16. 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 Initial Order.

ACTIVITIES OF THE MONITOR

17. Since the date of the Eighth Report, the Monitor has:
- (a) attended various meetings and conference calls with respect to the Sale Process with the Applicant, the Financial Advisor and the Applicant's syndicate of lenders (the "**Lenders**");
 - (b) engaged in discussions with various stakeholders and creditors including discussions surrounding the Sale Agreements;
 - (c) reviewed the Applicant's cash disbursements on a weekly basis;
 - (d) advised the Applicant with respect to the reporting as required by the Interim Lender;
 - (e) provided assistance to the Applicant with the closing of the Sale Agreements; and
 - (f) provided guidance to the Applicant in connection with preparing an estimate of the costs to complete the administration of the CCAA Proceedings (the "**Wind-down Budget**").

CLOSING OF THE SALE AGREEMENTS

18. The Applicant entered into an agreement of purchase and sale with each of Shanghai Energy Corporation (the "**BC Sale Agreement**") and 1994450 Alberta Inc. (the "**Alta/Sk Sale Agreement**") and together with the BC Sale Agreement, the "**Sale Agreements**") (collectively, the "**Purchasers**") on September 21, 2016 with respect to substantially all of the Applicant's assets.

19. On September 27, 2016, the Court granted the Approval and Vesting Order which approved the contemplated sale transactions as set out in the Sale Agreements (collectively, the “**Transactions**”), and authorized and approved the execution of the Sale Agreements.
20. On October 26, 2016 (the “**Closing Date**”), both of the Transactions closed and the Monitor collected the net proceeds on behalf of the Applicant. On October 31, 2016 the Monitor filed the Monitor’s Certificate with this Honourable Court in accordance with the Sale Agreements, certifying the closing of the Transactions.
21. The Sale Agreements outline various administrative matters that were to be completed post-closing and the Applicant and the Purchasers, in consultation with the Monitor, are working to complete these post-closing matters (the “**Post-Closing Matters**”), including:
 - (a) as soon after the Closing Date as reasonably practicable, and in any event within 90 days following the Closing Date, the Applicant and the Purchasers are required to cooperate to prepare the final statement of adjustments;
 - (b) transferring operational and financial records related to the purchased assets to the Purchasers; and
 - (c) assisting with transferring ownership and operatorship of the purchased assets to the Purchasers. The Applicant, in consultation with the Monitor, continues to work with the Purchasers and various government agencies to complete the transfer of ownership and operatorship to the Purchasers. Certain administrative matters remain outstanding; however, the Applicant and the Purchasers continue to work to complete these matters.

SECURITY REVIEW

22. The Monitor's legal counsel, Bennett Jones LLP (the "**Monitor's Counsel**") obtained copies of the following documents entered into between Endurance and the Agent on behalf of the Lenders:
- (a) Demand Debenture in the amount of \$500 million dated June 27, 2013 (the "**Debenture**");
 - (b) Credit Agreement dated as of June 27, 2013, as amended by:
 - i. the First Amending Agreement dated March 31, 2014;
 - ii. the Second Amending Agreement dated October 31, 2014;
 - iii. the Third Amending Agreement dated April 30, 2015; and
 - iv. the Fourth Amending Agreement dated December 29, 2015(collectively, the "**Credit Agreement**").
23. On November 11, 2016, the Monitor's Counsel delivered to the Monitor its independent security opinion, concluding that under the laws of British Columbia and Alberta, and subject to customary qualifications and assumptions, the Debenture creates a valid security interest in the property of Endurance, to secure performance of Endurance's obligations under the Credit Agreement.

24. The Monitor's Counsel is not licensed to practice law in the Province of Saskatchewan. The Monitor has, in consultation with the Monitor's Counsel, determined that it is not practical or necessary to obtain a security opinion regarding the law of Saskatchewan, given the value of Endurance's Saskatchewan assets that were sold under the Alta/SK Agreement (which value has been disclosed to the Court in Confidential Exhibit "B" to the September 23, 2016 Affidavit of Steven VanSickle, which has been sealed on the Court file).
25. In addition to the independent security opinion provided by the Monitor's Counsel, the Monitor published a notice of the November 21, 2016 application to in the Calgary Herald on November 11, 2016 and in the Globe and Mail (National Edition) on November 14, 2016 (collectively, the "**Notice**"). The purpose of the Notice was to make all potential creditors who have not participated in these proceedings nor asked for notice in these proceedings (including any party that may seek to assert a priority over the Lenders' security) aware of the interim distribution application.
26. Neither Management nor the Monitor is aware of any parties that may have or have asserted a claim in priority to the security of the Lenders; however, the Notice was published out of an abundance of caution and because fixed charge security was not registered by the Lenders. A copy of the Notice is attached as Appendix "A" to this Ninth Report.

BUDGET TO ACTUAL CASH FLOW RESULTS

27. The table below presents a summary of the Applicant's receipts and disbursements for the period of September 18, 2016 to November 12, 2016 (the "Reporting Period") against the cash flow statement provided to this Honourable Court in the Monitor's Seventh Report.

CAD			
September 18, 2016 to November 12, 2016	Forecast	Actual	Variance
Opening Cash	6,225,873	6,225,873	-
Cash Receipts			
Revenue	13,609,845	14,097,012	487,167
Total - Cash Receipts	13,609,845	14,097,012	487,167
Cash Disbursements			
Royalty Expense	15,400	58,983	43,583
Operating Expense	4,129,622	3,758,835	(370,788)
Monthly AER LLR Deposit Payments	-	-	-
Property Taxes	767,000	-	(767,000)
Capital Expenditure	500,000	-	(500,000)
Transportation	2,161,908	2,170,192	8,284
Payroll	1,685,030	2,714,512	1,029,482
G&A	681,144	699,541	18,397
Professional Fees	1,360,000	628,208	(731,792)
Interest/Fees	380,322	393,291	12,969
Tax/Other	372,000	197,095	(174,905)
Total - Cash Disbursements	12,052,427	10,620,656	(1,431,770)
Net Change in Cash from Operations	1,557,418	3,476,356	1,918,937
Ending cash	7,783,291	9,702,228	1,918,937

28. The above table excludes the net proceeds received by the Monitor, on behalf of the Applicant, from the closing of the Transactions and certain payments made in connection with closing the Transactions including a success fee payable to the Financial Advisor and full and permanent repayment of the amounts owing under the Interim Funding.

29. The Applicant's forecast cash receipts for the Reporting Period were \$13.6 million, and actual cash receipts were \$14.1 million. The Applicant's cash receipts have generally been in line with the forecast during the Reporting 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 and variances in the realized price received for the Applicant's natural gas sales.
30. The Applicant's forecast cash disbursements for the Reporting Period were \$12.1 million, and actual cash disbursements were \$10.6 million. The majority of the \$1.4 million variance is the result of property taxes, capital expenditures and professional fees (a portion of this variance is expected to reverse in future periods) offset by higher than forecast payroll expense as detailed below:
- (a) property taxes for the Reporting Period were lower than forecast as the taxes will be paid directly by the Purchasers and adjusted for on the interim statement of adjustments resulting in a permanent variance;
 - (b) no capital expenditures were made during the Reporting Period and will result in a permanent variance; and
 - (c) payroll expense was higher than forecast for the Reporting Period primarily due to the payment of the KERP and KEIP (approximately \$1.1 million) which will result in a permanent variance.
31. The \$1.9 million variance in the Applicant's forecast ending cash position is primarily due to the 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 remainder of the CCAA Proceedings.
32. As at November 6, 2016 the Applicant has \$9.7 million in cash on hand.

33. As part of the closing of the Transactions, the Monitor collected the net proceeds from the Purchasers (along with the original deposit) and arranged for certain payments following the closing, which are set out in further detail below.

MONITOR'S TRUST ACCOUNT

34. The Monitor currently holds approximately \$118.9 million in its trust for the Applicant relating to the net proceeds from the Transactions (net of the interim statement of adjustments) other miscellaneous receipts, less a success fee payable to the Financial Advisor pursuant to its engagement letter with the Applicant, full and permanent repayment of the amounts owing under the Interim Funding and other miscellaneous disbursements.
35. Collectively, the Applicant's cash on hand is approximately \$128.6 million including the funds held by the Monitor.

DOWN-SIZING OF OPERATIONS

36. Since the Closing Date, the Applicant has continued its efforts to transition the operations and purchased assets to the Purchaser and substantially wind-down the Applicant's operations.
37. Subsequent to the closing of the Transactions, the employees of the Applicant were terminated and the directors, with exception of the former President and Chief Executive Officer, resigned. Certain employees of the Applicant were rehired on a short-term basis to assist with the remaining administrative matters of the estate and Post-Closing Matters. The Applicant has made arrangements with the Purchasers for the use of the services of certain of the former Endurance employees (now employed by the Purchasers) to assist with the Post-Closing Matters as may be required in the short-term.

38. The Monitor believes that the wind-down of these proceedings, including the completion of the Post-Closing Matters, will be substantially completed by the end of January 2017.

PROPOSED INTERIM DISTRIBUTION

39. As detailed above the Applicant's current cash on hand is approximately \$128.6 million and the Proposed Interim Distribution is \$100 million. The remaining \$28.6 million is to be retained by the Monitor to account for the following:

- (a) the remaining costs to complete the administration of these proceedings including the completion of the Post-Closing Matters and payment of outstanding trade payables (including the final statement of adjustment). The Applicant, with the assistance of the Monitor, has completed a draft Wind-down Budget including the remaining costs to wind-down the estate, professional fees, the completion of the Post-Closing Matters and the final statement of adjustments. The Wind-down Budget is currently being finalized;
- (b) a holdback for the Administration Charge (to the maximum amount of \$1,500,000) and the Directors' Charge (to the maximum amount of \$1,000,000) as set out in the Initial Order; and
- (c) to account for any claims, whether disclosed in the Claims Process or otherwise, which may have priority over the security of the Lenders (the Monitor is currently aware of no such claims).

40. As at November 14, 2016, the total amount owing under the Credit Facility was \$196,036,747. The Applicant is seeking relief from this Honourable Court to make the Proposed Interim Distribution to the Lenders in the amount of \$100 million.
41. The Monitor understands that further distributions to the Lenders will likely result and would be made upon the completion of the following:
- (a) the completion of the Wind-down Budget after further information becomes available with respect to the statement of adjustments over the next 30 days that will provide additional clarity surrounding the amounts required to complete the CCAA Proceedings;
 - (b) recovery of certain amounts relating to deposits held by governmental parties (additional potential recovery of approximately \$2.3 million);
 - (c) the potential release of the holdback amounts for the Administrative Charge and the Directors' Charge (each as defined in the Initial Order) in the aggregate amount of \$2.5 million; and
 - (d) the results of the Claims Process and a reasonable passage of time for any parties to claim a priority claim over the Lenders security that resulted from the Notice, as discussed above.
42. The Monitor anticipates that a further distribution to the Lenders can likely be made within 45 days as many of the matters set out in paragraph 43 above will have been finalized and/or resolved.

43. The Monitor is in agreement with the Proposed Interim Distribution based on the following:
- (a) the Lenders' security over the Applicant's property is valid;
 - (b) sufficient funds have been retained to provide liquidity to the Applicant, including the completion of the Post-Closing Matters; and
 - (c) sufficient funds have been retained to address any unknown claims that may result from the Notice.

The Charges

44. The Initial Order and KERP and KEIP Order established various Court ordered charges over the Applicant's property, including the Administration Charge, the Interim Lender's Charge and the Directors' Charge (each as defined in the Initial Order), and the KERP and KEIP Charge (the "**Charges**").
45. The Applicant is seeking an order which discharges and extinguishes the Lender's Charge and the KERP and KEIP Charge.
46. The Monitor advises as follows with respect to those Charges:
- (a) the Interim Lender's Charge – the Interim Funding has been repaid in full; and
 - (b) the KERP and KEIP Charge – the KERP and KEIP have been paid in full.
47. As a result of the foregoing the Monitor supports the Applicant's request to have the Interim Lender's Charge and KERP and KEIP Charge discharged and distinguished.

48. The Monitor anticipates that the Administrative Charge can be substantially reduced or eliminated in the near future and will make such recommendation in connection with a future distribution application.

CLAIMS PROCESS

49. The Claims Process establishes a procedure that will be effective in identifying and determining the nature, quantum, validity and enforceability of all claims against the former and current directors and officers of the Applicant (collectively, the Directors and/or Officers), as discussed in further detail below.
50. Any terms not otherwise defined herein have the meaning attributed to them in the Claims Procedures Order.
51. The details below outlining the Claims Process are meant to provide a summary of the major timelines, structure and procedures identified in the Claims Procedures Order. Claimants and interested stakeholders are encouraged to read the Claims Package and Claims Procedure Order for specific details/deadlines in connection with the Claims Process and the requirements for filing a Proof of Claim.
52. All references as to time in the Claims Process shall mean local time in Calgary, Alberta, Canada, and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. on such Business Day unless otherwise indicated.

Claims

53. A Claim means:
- (a) any right or claim of any Person against one or more of the Directors or Officers of the Applicant, howsoever arising and whether:

- i. based on facts that existed prior to the Filing Date; or
- ii. based on facts that arose in connection with any indebtedness, liability or obligation of any kind whatsoever owed by the Applicant to such Person arising out of the restructuring, disclaimer, resiliation, termination or breach by the Applicant on or after the Filing Date of any contract, lease, other agreement or obligation, whether written or oral,

for which the Directors or Officers are by statute or otherwise by law liable to pay in their capacity as Directors or Officers or in any other capacity.

Notice

54. As soon as practicable, but no later than 5:00 p.m. on November 23, 2016 the Monitor shall cause the Notice to Claimants to be published in the Globe and Mail (National Edition).
55. The Monitor will post the Notice to Claimants, the Claims Package and the Claims Procedures Order on the Monitor's Website.

Filing Proofs of Claims

56. Any Person that wishes to assert a Claim must deliver a Proof of Claim to the Monitor prior to 5:00 p.m. on the Claims Bar Date (December 30, 2016).

Adjudication of Claims

Notice of Revision or Disallowance

57. The Monitor, in consultation with the Applicant, will review each Proof of Claim received on or before the Claims Bar Date and will accept, revise or disallow the amount of each Claim set out therein.

58. If the Monitor, in consultation with the Applicant, determines to revise or disallow a Claim, the Monitor shall send a Notice of Revision or Disallowance and a Notice of Dispute form to the Claimant.

Notice of Dispute

59. Any Person asserting a Claim who intends to dispute a Notice of Revision or Disallowance, shall deliver a Notice of Dispute to the Monitor, with a copy to the Applicant, by the later of (i) 5:00 p.m. on January 27, 2017 or 5:00 p.m. on the date that is fourteen (14) days following the date of issuance of the Notice of Revision or Disallowance.
60. If any Person who received a Notice of Revision or Disallowance does not return a Notice of Dispute to the Applicant by (i) 5:00 p.m. on January 27, 2017 or 5:00 p.m. that is fourteen (14) days following the date of issuance of the Notice of Revision or Disallowance, the value of such Claim shall be deemed to be set out in the Notice of Revision or Disallowance for voting and distribution purposes, and the Claimant will be barred from disputing or appealing same.
61. Upon receipt of a Notice of Dispute, the Applicant, with the assistance of the Monitor, may attempt to consensually resolve the classification and amount of the Claim with the Creditor. If a Claim cannot be resolved the Monitor, in consultation with the Applicant, may request the dispute to be heard by the Court or a claims officer.
62. The Monitor is of the view that the proposed Claims Process and proposed Claims Procedures Order and timeliness therein are reasonable and appropriate in the circumstances and provides for a timely review of all potential Claims against the Directors and Officers.

EXTENSION OF THE STAY PERIOD

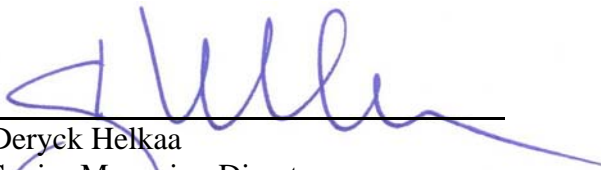
63. The Stay Period set out in the Approval and Vesting Order is currently in place until and including November 25, 2016. The Applicant is seeking an extension to the Stay Period until and including January 31, 2017 in order to provide sufficient time complete the remaining administrative matters including the completion of the Claims Process, payment of the proposed Interim Distribution and the substantial completion of wind-down of the Applicant's estate and affairs.
64. The Wind-down Budget demonstrates that the Applicant will have sufficient liquidity to meet its post-filing obligations until and including January 31, 2017 after making the proposed Interim Distribution to the Lenders.
65. In the Monitor's view, the Applicant has acted, and continues 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 January 31, 2017.
66. 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

67. The Monitor respectfully recommends that this Honourable Court to approve:

- (a) the Proposed Interim Distribution in the amount of \$100 million;
- (b) the proposed Claims Process; and
- (c) the extension of the Stay Period to and including January 31, 2017.

All of which is respectfully submitted this 15th day of November, 2016.



Deryck Helkaa
Senior Managing Director,
FTI Consulting Canada Inc.