

COURT FILE NUMBER 1601-

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANTS 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 **PRE-FILING REPORT OF FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS PROPOSED MONITOR OF
ENDURANCE ENERGY LTD.**

May 30, 2016

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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INTRODUCTION

1. FTI Consulting Canada Inc. ("FTI Consulting" or the "Proposed Monitor") has been advised that Endurance Energy Ltd. ("Endurance" or the "Applicant") intends to make an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") for an initial order (the "Initial Order") granting, *inter alia*, a stay of proceedings against Endurance until June 29 2016, (the "Initial Stay Period") and appointing FTI Consulting as Monitor. The proceeding to be commenced by the Applicant under the CCAA will be referred herein as the CCAA proceeding (the "CCAA Proceeding").
2. FTI Consulting is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI has provided its consent to act as Monitor in this CCAA Proceeding, a copy of which is attached to the VanSickle Initial Order Affidavit (defined herein).
3. The purpose of this report is to provide this Honourable Court with an overview of the state of the business and affairs of the Applicants, the causes of its financial difficulty and the Proposed Monitor's comments on:
 - (a) the Applicant's weekly cash flow forecast for the period of May 30, 2016 to week ending August 26, 2016 (the "Forecast Period") and the reasonableness thereof, in accordance with s. 23(1)(b) of the CCAA;
 - (b) the following proposed court-ordered charges:
 - the administrative charge (the "Administrative Charge");

- the charge securing the Interim Loan (the "Interim Lender's Charge"); and
- the directors & officers' charge (the "Directors Charge").

TERMS OF REFERENCE

4. In preparing this report, the Proposed Monitor has relied upon unaudited financial information of the Applicant, the Applicant's books and records, certain financial information prepared by the Applicants and discussions with various parties, including senior management ("Management") of the Applicant (collectively the "Information"). Except as described in this report, the Proposed 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.
5. The Proposed 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.
6. The Proposed Monitor has prepared this report in connection with the application for the proposed Initial Order to be filed by the Applicants (the "Initial Application"). This report should not be relied on for other purposes.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

8. This report should be read in conjunction with the affidavit of Mr. Steven VanSickle sworn on May 30, 2016 (the “Vansickle Initial Order Affidavit”) to be filed in support of the Applicant’s application for relief under the CCAA.

OVERVIEW OF BUSINESS

9. Endurance is a private oil and gas exploration and production company with its operations focused on natural gas assets in the Western Canadian Sedimentary Basin. Endurance has its head office in Calgary, Alberta.
10. Endurance’s operations are focused in northeastern British Columbia (the “Sierra Field Assets”) which produces approximately 85 mmcf of natural gas per day. Endurance also owns various facilities including compressor stations, pipelines and gas processing facilities.
11. Further details with respect to Endurance’s operations are included in the VanSickle Initial Order Affidavit.
12. The decline in global natural gas prices has resulted in a significant reduction in the Applicant’s operating income such that it can no longer meet its liabilities as they become due. Furthermore the Applicant is facing a liquidity crisis and is projecting an immediate need for additional financing, all of which is described in additional detail in the VanSickle Initial Order Affidavit. The liquidity needs and proposed interim financing are described in further detail below.

13. Furthermore, the lenders to Endurance, comprising CIBC, BMO, HSBC Bank Canada, TD, ATB and Union Bank, Canada Branch (collectively, the “Lenders”), have recently issued a notice to the Applicant that the borrowing base had been updated effective as of March 31, 2016 in the amount of \$160 million, which resulted in a shortfall of \$71 million. Given the borrowing base shortfall, the Lenders were not required to make any further borrowings available to the Applicant, and accordingly, Endurance has no liquidity currently available.

CASH FLOW STATEMENT

14. The Applicant has prepared a weekly cash flow projection for the Forecast Period (the “Cash Flow Statement”). A copy of the signed Cash Flow Statement, notes and a report containing the prescribed representations of Endurance regarding the preparation of the Cash Flow Statement are attached to this report as Appendix “A”.

15. The Cash Flow Statement for the Initial Stay Period and the Forecast Period is summarized in the table below.

\$ CAD	Initial Stay Period (May 30 to June 29)	Forecast Period (May 30 to Aug 26)
Opening Cash	-	-
Cash Receipts		
Revenue	3,942,771	13,587,945
Total - Operating Receipts	3,942,771	13,587,945
Cash Disbursements		
Royalty Expense	22,709	57,509
Operating Expense	3,557,391	8,649,338
Monthly AER LLR Deposit Payments	663,034	1,263,034
Property Taxes	3,537,324	3,537,324
Capital Expenditure	50,000	150,000
Transportation	1,623,073	3,869,181
Payroll	1,398,662	3,071,148
G&A	464,660	938,005
Professional Fees	1,725,000	2,325,000
Interest/Fees	612,514	1,601,760
Tax/Other	(13,230)	152,770
Total - Operating Disbursements	13,641,136	25,615,068
Total Net Cash Flow	(9,698,366)	(12,027,124)
DIP Financing	10,400,000	14,300,000
Ending cash	701,634	2,272,876

16. The Cash Flow Statement indicates the following for the Forecast Period:
- (a) total cash receipts excluding advances under the proposed Interim Loan of \$13.6 million;
 - (b) total cash disbursements of \$25.7 million;

- (c) total disbursements relating to the professional fees and restructuring costs of \$2.3 million; and
 - (d) total estimated draws under the Interim Loan of approximately \$14.4 million, as discussed in further detail below.
17. The Cash Flow Statement indicates the following for the period May 30, 2016 to June 28, 2016 (the “Initial Stay Period”):
- (a) total cash receipts excluding advances under the proposed Interim Loan of \$3.9 million;
 - (b) total cash disbursements of \$13.6 million;
 - (c) total disbursements relating to the professional fees and restructuring costs of \$1.7 million; and
 - (d) total estimated draws under the Interim Loan of approximately \$10.4 million.
18. The Proposed Monitor’s review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied by certain members of Management and other employees of Endurance. Since hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor has also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the Cash Flow Statement.
19. Based on the Proposed Monitor's review, nothing has come to its attention that causes the Proposed Monitor to believe that, in all respects:

- (a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
 - (b) As at the date of this report, the Probable Assumptions developed by Management are not Suitably Supported and consistent with the plans of Endurance or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
 - (c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.
20. Since the Cash Flow Statement is based upon assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material.
21. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by it in preparing this report.
22. The Cash Flow Statement has been prepared solely for the purposes of determining the liquidity requirements of the Applicant during the CCAA Proceeding, using Probable and Hypothetical Assumptions, and readers are cautioned that it may not be appropriate for other purposes.
23. All terms used but not defined in this section of the report have the meanings ascribed to them in the Canadian Association of Insolvency and Restructuring Professionals (“CAIRP”) Standard of Practice No. 09-1, Cash-Flow Statement, approved, ratified and confirmed by CAIRP members on August 21, 2009.

PROPOSED INTERIM LOAN

24. As set out in the VanSickle Initial Order Affidavit, Endurance is currently suffering a liquidity crisis and will require funding to maintain its operations. Accordingly, Endurance is seeking Court approval for interim financing during the proposed CCAA Proceeding (the “Interim Loan”) in the amount of US\$15 million. The Cash Flow Statement indicates that an Interim Loan of US\$15 million provides sufficient liquidity during the Initial Stay Period and will provide sufficient funding for the Forecast Period. The Interim Loan is being provided by Warburg Pincus LLC (the “Interim Lender”). The Monitor understands that the Interim Lender holds the majority of the Applicant’s equity (approximately 85%).
25. A copy of the proposed Interim Loan agreement (the “Interim Loan Agreement”) is attached to the VanSickle Initial Order Affidavit.

AMOUNT AND PRIORITY OF COURT ORDERED CHARGES

26. Certain Court-Ordered charges are contemplated in the Initial Order with the following proposed priority ranking:
- (a) Administration Charge;
 - (b) Interim Lender’s Charge (discussed above); and
 - (c) Directors’ Charge.

Administration Charge

27. The proposed Initial Order provides for an Administration Charge in an amount not to exceed \$2,500,000, charging the assets of the Applicant's to secure the fees and disbursements incurred in connection with services rendered to the Applicant both before and after the commencement of the CCAA Proceedings by counsel to the Applicant, the Proposed Monitor, and the Proposed Monitor's counsel, as well as the financial advisor to the Applicant.

28. The Proposed Monitor believes it is appropriate that the proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceeding. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicant has based the quantum of the proposed Administration Charge, the complexities of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge and is of the view that the proposed quantum of the Administration Charge is reasonable and appropriate in the circumstances.

Interim Lender's Charge

29. The proposed Initial Order provides for the Interim Lender's Charge in favour of the Interim Lender in the amount not to exceed US\$15.0 million charging all of the assets of the Applicant. The Interim Lender's Charge is proposed to rank immediately subsequent the Administration Charge.

30. The Proposed Monitor has considered the Applicant's cash flow requirements and the consequent need for the proposed Interim Loan and understands that the Interim Lender is not prepared to make the Interim Loan without the benefit of the Interim Lender's Charge. Accordingly, the Proposed Monitor is of the view that the Applicant's request for the Interim Lender's Charge is reasonable and appropriate in the circumstances.

Directors' Charge

31. The Initial Order provides for a Directors' Charge over the property of Endurance in favour of the directors and officers of the Applicant as security for the indemnity contained in the Initial Order in respect of specified obligations and liabilities that they may incur after the commencement of the CCAA Proceeding. The Directors' Charge will not exceed an aggregate amount of \$1.0 million and will rank immediately subsequent to the Interim Lender's Charge.
32. The amount and priority ranking of the Directors' Charge have been negotiated and agreed upon with the Interim Lender.
33. As described in the VanSickle Initial Order Affidavit, the Applicant maintains certain insurance coverage for the directors and officers, but the deductibles and exclusions from the policies mean that the insurance may not fully cover the potential statutory liabilities of the beneficiaries of the Directors Charge. The Proposed Monitor notes that the directors and officers will only be entitled to the benefit of the Directors Charge to the extent that they do not have coverage under any existing insurance policy, or to the extent that such coverage is insufficient to pay amounts for which the directors and officers are entitled to be indemnified pursuant to the provisions of the Proposed Initial Order.

34. It is the Proposed Monitor’s view that the continued support and service of the directors and officers during the CCAA Proceedings will be beneficial to the Applicant’s efforts to preserve value and maximize recoveries for stakeholders through completion of CCAA Proceedings. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicant has based the estimate of the potential liability in respect of directors’ statutory obligations and is of the view that the Directors Charge is reasonable in relation to the quantum of the estimated potential liability and appropriate in the circumstances.

SALE PROCESS

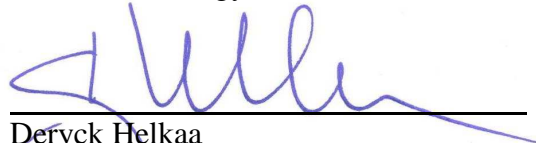
35. The Proposed Monitor understands that the Applicant is seeking the approval of a sale process (the “Sale Process”) that will commence immediately upon the granting of the Initial Order and is targeting to have binding offers received 7 weeks after Court approval of the Sale Process.
36. The Proposed Monitor further understands that, the Applicant’s financial advisor, BMO Nesbitt Burns Inc. (“BMO”), who was engaged by the Applicant in March 2016, has proposed the procedures included in the proposed Sale Process, and that BMO believes the Sale Process to be reasonable in the circumstance.
37. The Proposed Monitor’s comments with respect to the Sale Process are as follows:
- (a) BMO has significant experience and expertise in designing and implementing sale processes in the oil and gas sector, and specifically in the distressed market place; and
 - (b) it is important to commence the Sale Process as quickly as possible given the Applicant’s negative cash flow and the borrowing base shortfall.

CONCLUSIONS AND RECOMMENDATIONS

38. The Proposed Monitor is of the view that the assumptions and projections underlying the Applicant's Cash Flow Statement are reasonable and that the Interim Loan should be sufficient to fund the Applicants' operations to the end of the Initial Stay Period and throughout the Forecast Period.
39. The Proposed Monitor respectfully recommends that this Honourable Court grant the proposed Initial Order, which will, among other things, approve:
- (a) the Interim Loan, including the Interim Lender's Charge;
 - (b) the quantum and ranking of the Administration Charge; and
 - (c) the quantum and ranking of the Directors Charge.

All of which is respectfully submitted this 30th day of May, 2016.

FTI Consulting Canada Inc.
in its capacity as the Proposed Monitor of
Endurance Energy Ltd.



Deryck Helkaa
Senior Managing Director,
FTI Consulting Canada Inc.

Appendix A

**Cash Flow Statement, Notes and report containing prescribed
representations of Endurance Energy Ltd.**



May 30, 2016
FTI Consulting Canada Inc.
Suite 720
440 – 2nd Ave S.W.
Calgary, AB
T2P 5E9
Attention: Deryck Helkaa, CA•CIRP

Dear Sir:

Re: Proceedings under the Companies' Creditors Arrangement Act ("CCAA")
Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by Endurance Energy Ltd. ("Endurance") for the commencement of proceedings under the CCAA in respect of Endurance, the management of Endurance ("Management") has prepared the attached Cash Flow Statement and the assumptions on which the Cash Flow Statement is based.

Endurance confirms that:

- 1, The Cash-Flow Statement and the underlying assumptions are the responsibility of the Endurance;
2. All material information relevant to the Cash Flow Statement and to the underlying assumptions has been made available to FTI Consulting Canada Inc. in its capacity as proposed Monitor; and
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the Cash Flow Statement are appropriate in the circumstances; and
 - b. That the individual assumptions underlying the Cash Flow Statement, taken as a whole, are appropriate in the circumstances.

Steven VanSickle
President and CEO
Endurance Energy Ltd.

Endurance Energy Ltd.
13 Week Cash Flow Forecast

	Week 1 3 Jun		Week 2 10 Jun		Week 3 17 Jun		Week 4 24 Jun		Week 5 1 Jul		Week 6 8 Jul		Week 7 15 Jul		Week 8 22 Jul		Week 9 29 Jul		Week 10 5 Aug		Week 11 12 Aug		Week 12 19 Aug		Week 13 26 Aug		Total Forecast Period	Note			
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast			Forecast		
Opening Cash	432,906	6,501,077	5,055,592	4,418,798	701,634	4,149,972	3,003,273	2,470,273	3,238,780	2,175,002	1,122,302	434,302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Cash Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Total - Operating Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Cash Disbursements	2,709	17,200	2,800	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200	17,200		
Royalty Expense	1,035,093	562,967	565,485	568,845	425,000	579,499	425,000	1,392,332	437,116	425,000	580,000	828,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	
Operating Expense	363,034	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Monthly AER LLR Deposit Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Capital Expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Transportation	250,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Payroll	-	1,662	855,000	542,000	1,662	525,000	25,000	557,000	1,662	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000		
CG&A	227,988	25,000	25,000	115,954	60,679	25,000	25,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	
Professional Fees	-	1,125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Interest/Fees	487,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Tax/Other	(199,230)	-	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total - Operating Disbursements	2,167,094	1,731,829	1,445,485	636,794	7,659,935	1,146,699	533,000	3,796,266	1,063,778	1,052,700	688,000	3,261,827	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	
Net Change in Cash from Operations	(2,167,094)	(1,731,829)	(1,445,485)	(636,794)	(3,717,164)	(451,662)	(533,000)	(788,507)	(1,063,778)	(1,052,700)	(688,000)	1,838,574	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	
Total Net Cash Flow	(2,167,094)	(1,731,829)	(1,445,485)	(636,794)	(3,717,164)	(451,662)	(533,000)	(788,507)	(1,063,778)	(1,052,700)	(688,000)	1,838,574	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	(12,027,124)	
DIP Financing	2,600,000	7,800,000	-	-	3,900,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Ending cash	432,906	6,501,077	5,055,592	4,418,798	701,634	4,149,972	3,003,273	2,470,273	3,238,780	2,175,002	1,122,302	434,302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Steven Van Sickle
Steven Van Sickle, President and CEO
Endurance Energy Ltd.

Notes:

Management of Endurance Energy Ltd. ("Endurance") has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Endurance during the CCAA Proceedings. The Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed in Notes 1 - 12. Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - Revenue relates to proceeds from the sale of Endurance's natural gas and condensate production. Production forecast based on current production adjusted for natural production decline and planned downtime. The forecast sales price is based on third party forecasts at AECO.
- 2 - Royalties relate to royalties paid to freehold land owners and the crown. Rates are based off of historical averages.
- 3 - Operating expenses are based off of the Company's annual operating cost budget and relates to the costs to operate the Company's wells and facilities.
- 4 - The monthly AER LER deposit payments are estimates based on maintaining an LMR ratio of 1.0 on the Company's Alberta assets
- 5 - Property taxes relate to the 2016 property tax owing by Endurance for properties in the Sierra area of British Columbia.
- 6 - Capital expenditures are based on planned capital maintenance projects.
- 7 - Transportation costs relate to transporting Endurance's natural gas and condensate production from well head to market and is based on projected production volume multiplied by current transportation rates.
- 8 - Payroll relates to salaries and benefits for Endurance's field and head office employees.
- 9 - G&A includes costs associated with running the Company's head office and includes IT costs, office lease costs, etc and are based on historical averages.
- 10 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel, the Company's counsel, the Company's financial advisors and the interim lender's counsel.
- 11 - Interest and fees relates to interest, standby fees and other fees related to the Company's DIP financing.
- 12 - Taxes/Other relates to payments for GST and Joint Venture billings