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JUDICIAL CENTRE  
OF CALGARY

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

September 26, 2016

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
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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**”). 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 Interim Facility Commitment Letter between the Company 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 Company’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 Lender’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 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.
8. On August 26, 2016, this Honourable Court granted an order (the “**Stay Extension 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.

## **PURPOSE**

10. The purpose of this seventh report of the Monitor (the “**Seventh Report**”) is to provide to this Honourable Court the Monitor’s comments with respect to:
  - (a) the activities of the Monitor since the Sixth Report dated August 31, 2016;

- (b) an update and summary of the activities of the Applicant and the Financial Advisor with respect to the Sale Process;
- (c) the Monitor's comments with respect to the proposed agreement of purchase and sale between the Applicant and Shanghai Energy Corporation (the "**BC Purchaser**") dated September 21, 2016 (the "**BC Agreement**") and between the Applicant and 1994450 (the "**Alta/Sk Purchaser**") and together with the BC Purchaser, the "**Purchaser**") dated September 21, 2016 (the "**Alta/SK Agreement**" and collectively with the BC Agreement, the "**Sale Agreements**"). The BC Purchaser and the Alta/Sk Purchaser are related entities;
- (d) the Applicant's budget to actual cash flow results for the period of August 21, 2016 to September 17, 2016;
- (e) the Applicant's revised cash flow statement for the period of September 18, 2016 to November 30, 2016; and
- (f) the Applicant's request for an extension of the stay period (the "**Stay Period**") to and including November 25, 2016.

## TERMS OF REFERENCE

11. 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.
12. 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.
13. 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 Amended and Restated Initial Order and the Sale Agreements.
14. 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

15. Since the date of the Sixth 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**"), as discussed in greater detail below;
  - (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; and
  - (d) advised the Applicant with respect to the preparation of its cash flow statement and reporting as required by the Interim Lender (defined below).

## THE SALE PROCESS

16. The Sale Process set out the manner in which the bids and proposals were to be solicited for a range of transaction alternatives involving the business and assets of the Applicant's whether *en bloc* or any portion(s) thereof.
17. The Sales Process set out a target date of on or about June 28, 2016 (the "**Non-binding Bid Deadline**") to have parties submit initial non-binding expressions of interest ("**EOIs**"). The deadline for parties to submit binding offers, among other things, together with the proposed form of transaction documents (a "**Binding Bid**") was July 25, 2016 (the "**Binding Bid Deadline**").

18. A summary of the Sales Process implemented by the Applicant in conjunction with the Financial Advisor and the Monitor is provided below:
- (a) the opportunity was posted on the Financial Advisor's proprietary global oil & gas opportunities system which reaches approximately 500 companies in North America and 300 international companies (over 2,500 individuals);
  - (b) the Financial Advisor had direct contact with 64 counterparties with potential interest in the Applicant's assets; and
  - (c) the Financial Advisor contacted interested counterparties who executed non-disclosure agreements and who reviewed the diligence material and requested that non-binding letters of interest be received by Tuesday June 28, 2016.
  - (d) in accordance with the Sale process the deadline to submit Binding Bids was July 25, 2016 at 5:00 p.m. mountain time. In connection with the Sale Process, the Financial Advisor hosted various update calls (generally on a weekly or bi-weekly basis) with the Applicant, the Monitor and the Lenders (and respective counsel and advisors) to provide updates on the Sale Process including:
    - an overview of the steps taken by the Financial Advisor through the Sale Process to solicit interest from prospective purchasers;
    - a listing of counterparties contacted directly by the Financial Advisor along with a detailed summary of VDR activity;
    - the names and background of all counterparties who executed a non-disclosure agreement and that were active in the Sale Process; and

- General updates as to the status of the EOIs received by the Non-binding Bid Deadline, the bids received by the Binding Bid Deadline and overall ongoing status of the discussions and negotiations with the various bidders.

### ***Bids Received***

19. As appropriate, parties that submitted EOIs were selected to enter into a second phase to conduct detailed due diligence and mark-up transaction documents. At the deadline for receipt of Binding Bids, multiple Binding Bids were received.

### ***The Successful Bid***

20. The Binding Bids were reviewed by the Financial Advisor, the Applicant, and the Monitor in order to prioritize the Binding Bids taking into consideration, among other things: the purchase price, assets included/excluded and closing risk.
21. Following the Binding Bid Deadline, and in accordance with the Sale Process, the Applicant and the Financial Advisor continued negotiations with select bidders that submitted Binding Bids in order to determine the financial viability of each of the Binding Bids, enquire with respect to any terms and conditions precedent, and to request the highest and best offers from the bidders in order to select one or more non-overlapping bids (the “**Successful Bid(s)**”).
22. The Applicant and the Financial Advisor, in consultation with the Monitor, ultimately determined that the joint Binding Bid submitted by Shanghai Energy and Kailis Capital Corp. was the most favorable bid and then proceeded to finalize the terms of the Sale Agreements.



23. At all material times during the Sale Process, the Applicant and the Financial Advisor kept the Lenders apprised of the status of the negotiations, when possible, as discussed in further detail above.

***Closing of the Transaction***

24. The Sale Process required, among other things, after selecting the Successful Bid(s) the Applicant, the Financial Advisor, in consultation with Monitor, settle all necessary definitive agreements with respect to the Successful Bid(s).
25. On September 21, 2016, the Applicant executed the Sale Agreements. Given the confidential and commercially sensitive nature of Sale Agreements the Monitor has not included a summary of the key commercial terms of the Sale Agreements, including the purchase price. The commercial terms of the Sale Agreements are contained in the confidential Exhibits "A" and "B" to the Affidavit of Steven VanSickle sworn September 23, 2016.
26. Certain of the material terms of the Sale Agreements include:
- (a) the Purchaser is acquiring all the oil and gas assets of Endurance;
  - (b) the closing date of the BC Agreement and Alta/SK Agreement is within five (5) and three (3) business days, respectively, following the date on which the Approval and Vesting Order is granted, provided certain conditions set out in the Sale Agreements have been satisfied or waived, including regulatory approval;
  - (c) the Assets are being acquired on an 'as-is, where-is' basis;
  - (d) a non-refundable deposit of 10% of the purchase price has been received and is being held by the Monitor; and

- (e) The Alta/SK Agreement is dependent upon the completion of the BC Agreement (note the majority of the assets and operations are covered by the BC Agreement and the majority of the purchase price relates to the BC Agreement).

***The Monitor's Comments and Recommendations with respect to the Sale Process***

27. On June 22, 2016, this Honourable Court approved the Sale Process as set out in the Sale Process and Interim Financing Order and the Monitor understands that the Applicant and the Financial Advisor conducted the Sale Process in accordance with the procedures approved by this Honourable Court.
28. The Monitor is of the view that the Sale Process led by the Applicant and the Financial Advisor was a broad and open process and was completed in accordance with the terms of the Sale Process as set out in the Sales Process and Interim Financing Order. The Sale Process was robust, reasonably canvassed the market for the Applicant's assets and generated competitive bids for the Applicant's assets.
29. The Lenders were kept fully apprised of the details of the Sale Process and the Monitor advises that the Lenders, which are the fulcrum creditor in these CCAA Proceedings, is in agreement with the proposed form of Sale Agreements before this Honourable Court.
30. In the opinion of the Monitor, the Sale Agreements are in the best interest of the Applicant's stakeholders as it provides for the highest and best realizable value in the circumstance.

## BUDGET TO ACTUAL CASH FLOW RESULTS

31. The table below presents a summary of the Applicant's receipts and disbursements for the period of August 21, 2016 to September 17, 2016 (the "Reporting Period") against the cash flow statement provided to this Honourable Court in the Monitor's Fifth Report.

\$ CAD August 21, 2016 to September 17	Forecast	Actual	Variance
<b>Opening Cash</b>	5,762,556	5,762,556	-
<b>Cash Receipts</b>			
Revenue	6,976,412	7,156,059	<b>179,646</b>
<b>Total - Cash Receipts</b>	<b>6,976,412</b>	<b>7,156,059</b>	<b>179,646</b>
<b>Cash Disbursements</b>			
Royalty Expense	15,000	28,375	<b>13,375</b>
Operating Expense	4,078,667	3,626,247	<b>(452,420)</b>
Monthly AER LLR Deposit Payments	-	-	-
Property Taxes	-	-	-
Capital Expenditure	250,000	-	<b>(250,000)</b>
Transportation	1,061,230	1,052,880	<b>(8,350)</b>
Payroll	964,315	905,506	<b>(58,809)</b>
G&A	433,160	237,157	<b>(196,003)</b>
Professional Fees	979,009	526,104	<b>(452,905)</b>
Interest/Fees	193,278	198,675	<b>5,397</b>
Tax/Other	183,000	117,798	<b>(65,202)</b>
<b>Total - Cash Disbursements</b>	<b>8,157,660</b>	<b>6,692,742</b>	<b>(1,464,918)</b>
<b>Net Change in Cash from Operations</b>	<b>(1,181,248)</b>	<b>463,317</b>	<b>1,644,564</b>
DIP Loan	-	-	-
<b>Ending cash</b>	<b>4,581,308</b>	<b>6,225,873</b>	<b>1,644,564</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>	-

32. The Applicant's forecast cash receipts for the Reporting Period were \$6.98 million, and actual cash receipts were \$7.16 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 and changes in the realized price received for the Company's natural gas sales.
33. The Applicant's forecast cash disbursements for the Reporting Period were \$8.16 million, and actual cash disbursements were \$6.70 million. The majority of the \$1.46 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.
34. The \$1.64 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 STATEMENT**

35. In connection with the Sales Process, the Applicant secured the Interim Funding in the amount of US \$15.0 million from the Interim Lender in order to provide the Company with sufficient liquidity during the CCAA Proceedings.
36. On September 2, 2016, this Honourable Court granted the DIP Extension Order which, among other things, extended the terms of the Interim Funding maturity date to September 30, 2016.

37. The Applicant, in consultation with the Monitor, has prepared a revised cash flow statement (the “**Cash Flow Statement**”) for the period of September 18, 2016 to November 30, 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>September 18, 2016 to November 26, 2016</b>	<b>Extension</b>
	<b>Period</b>
<b>Opening Cash</b>	<b>6,225,873</b>
<b>Cash Receipts</b>	
Revenue	<b>21,454,026</b>
<b>Total - Operating Receipts</b>	<b>21,454,026</b>
<b>Cash Disbursements</b>	
Royalty Expense	<b>30,500</b>
Operating Expense	<b>5,556,197</b>
Monthly AER LLR Deposit Payments	-
Property Taxes	<b>961,000</b>
Capital Expenditure	<b>500,000</b>
Transportation	<b>3,236,190</b>
Payroll	<b>2,500,310</b>
G&A	<b>846,421</b>
Professional Fees	<b>1,840,000</b>
Interest/Fees	<b>536,191</b>
Tax/Other	<b>542,000</b>
<b>Total - Disbursements</b>	<b>16,548,810</b>
<b>Net Change in Cash</b>	<b>4,905,216</b>
DIP Loan	-
<b>Ending cash</b>	<b>11,131,089</b>
Opening DIP Loan	<b>14,131,307</b>
DIP Loan Drawn	-
<b>DIP Loan Ending</b>	<b>14,131,307</b>

38. The Cash Flow Statement indicates the following for the Stay Extension Period:
- (a) total cash receipts of \$21.45 million relating to revenue collections for the Applicant's operations for the production months of August, September and October;
  - (b) total cash disbursements of \$16.55 million;
  - (c) total cumulative draw on the Interim Financing of \$14.13 million; and
  - (d) ending cash of \$11.13 million for the Stay Extension Period.
39. In connection with the foregoing the Applicant does not anticipate any further draws under the Interim Financing for the Stay Extension Period.

#### **SEALING OF CONFIDENTIAL EVIDENCE**

40. The Monitor is supportive of the Applicant's request to seal confidential Exhibits "A" and "B" to the Affidavit of Steven VanSickle sworn September 23, 2016, which contain unredacted information from the Sale Agreements, including the purchase prices thereunder.
41. In the Monitor's view, the public disclosure of that evidence could prejudice the integrity of the Sale Process, in the event that the transactions contemplated in the Sale Agreements do not close.

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

42. The Stay Period set out in the Stay Extension Order is until and including September 30, 2016. The Applicant is seeking an extension to the Stay Period until and including November 25, 2016 in order to provide sufficient time to close the Purchase Agreements.

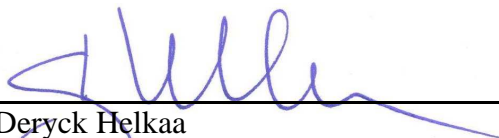
43. The Cash Flow Statement demonstrates that the Applicant will have sufficient liquidity under the Interim Financing, without any further draws thereunder, to continue to meet its post-filing obligations until and including November 25, 2016.
44. In the Monitor's view, the Applicant has acted, and 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 November 25, 2016.
45. The Interim Funding becomes due and payable on September 30, 2016 in accordance with the Interim Facility Commitment Letter. However, the Cash Flow Statement demonstrates that the Company will not require further funding from the Interim Lender during the proposed Stay Extension Period. Furthermore, the closing of the Transactions is expected to occur prior to November 25, 2016.
46. 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**

47. The Monitor respectfully recommends that this Honourable Court to approve:
  - (a) the Purchase Agreements;
  - (b) sealing confidential Exhibits "A" and "B" to the Affidavit of Steven VanSickle sworn September 23, 2016; and

- (c) the Applicant's request to extend the stay of proceedings until and including November 25, 2016.

All of which is respectfully submitted this 26<sup>th</sup> day of September, 2016.



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Deryck Helkaa  
Senior Managing Director,  
FTI Consulting Canada Inc.



