

COURT FILE NUMBER 1601-06765

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

June 24, 2016

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

**MONITOR**

FTI Consulting Canada Inc.  
720, 440 – 2<sup>nd</sup> Ave S.W.  
Calgary, AB T2P 5E9  
Deryck Helkaa / Dustin Olver  
Telephone: (403) 454-6031 / (403) 454-6032  
Fax: (403) 232-6116  
E-mail: deryck.helkaa@fticonsulting.com  
dustin.olver@fticonsulting.com

**COUNSEL**

Bennett Jones LLP  
Suite 4500, 855 – 2<sup>nd</sup> 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").
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. The Monitor understands that, after subsequent court hearings on June 8 and June 15, the Parties agreed on an amended Sales Process and that an order approving that amended Sales Process has been submitted to the Court for approval (the “Sales Process and Interim Financing Order”) which, *inter alia*, amended Schedule A of the Sales Process Order and approved the Amended and Restated DIP Facility Loan Agreement.
5. 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”.

## PURPOSE

6. The purpose of this third report of the Monitor (the “Third Report”) is to provide to this Honourable Court the Monitor’s comments with respect to:
  - (a) the activities of the Monitor since its Second Report dated June 14, 2016;
  - (b) the Applicant’s budget to actual cash flow statement for the period from May 30, 2016 to June 17, 2016 (the “Reporting Period”);
  - (c) the Applicant’s revised cash flow statement for the period of June 18, 2016 to August 5, 2016 (the “Revised Forecast” and the “Forecast Period”);
  - (d) the revisions to the Sale Process and an update of the activities of the Applicant and its financial advisor, BMO Nesbitt Burns Inc. (“BMO”) with respect to the Sale Process; and
  - (e) the Applicant’s request for an extension of the stay period (the “Stay Period”) up to and including August 5, 2016.

## TERMS OF REFERENCE

7. 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.

8. 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.
9. 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, the Initial Order or other Orders issued in these CCAA Proceedings.
10. 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 SINCE THE SECOND REPORT**

11. Since the date of the Monitor's Second Report, the Monitor has:
  - (a) attended various meetings and/or conference calls with respect to the Sale Process involving the Applicant's management, BMO and the syndicate of secured lenders (the "Lending Syndicate") and respective legal counsel, 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 the its cash flow statement and reporting required by the Interim Lender.

12. The Applicant and the Monitor have had preliminary discussions surrounding a key employee retention plan (“KERP”). The Monitor notes that discussions with certain stakeholders are in the preliminary stages or are anticipated to take place in the near term. The Monitor will comment on the details and reasonableness of any KERP in future reports to this Honourable Court.
  
13. The Monitor understands that the Lending Syndicate has applied for leave to appeal certain aspects of the Amended and Restated Initial Order granted on June 8, 2016 with respect to the approval of the appointment of BMO and granting priority for BMO’s fees. The Monitor understands that the application seeking leave to appeal is currently scheduled for July 5, 2016.

## BUDGET TO ACTUAL CASH FLOW

14. The table below presents a summary of the Applicant's receipts and disbursements for the period of May 30, 2016 to June 17, 2016 (the "Reporting Period") as compared to the cash flow statement provided to this Honourable Court in the Proposed Monitor's Report.

<b>\$ CAD</b>	<b>Forecast</b>	<b>Actual</b>	<b>Variance</b>
<b>May 30, 2016 to June 17, 2016</b>			
Opening Cash	-	-	-
Cash Receipts	-	-	-
Revenue	-	91,296	91,296
<b>Total - Cash Receipts</b>	<b>-</b>	<b>91,296</b>	<b>91,296</b>
Cash Disbursements			
Royalty Expense	19,909	-	(19,909)
Operating Expense	2,163,545	688,523	(1,475,023)
Monthly AER LLR Deposit Payments	363,034	-	(363,034)
Property Taxes	-	-	-
Capital Expenditure	-	-	-
Transportation	250,000	150,000	(100,000)
Payroll	856,662	510,012	(346,650)
G&A	277,988	197,107	(80,881)
Professional Fees	1,125,000	-	(1,125,000)
Interest/Fees	487,500	-	(487,500)
Tax/Other	(199,230)	-	199,230
<b>Total - Cash Disbursements</b>	<b>5,344,408</b>	<b>1,545,641</b>	<b>(3,798,767)</b>
<b>Net Change in Cash from Operations</b>	<b>(5,344,408)</b>	<b>(1,454,345)</b>	<b>3,890,063</b>
<b>Total Net Cash Flow</b>	<b>(5,344,408)</b>	<b>(1,454,345)</b>	<b>3,890,063</b>
DIP Financing	10,400,000	10,268,246	(131,754)
<b>Ending cash</b>	<b>5,055,592</b>	<b>8,813,901</b>	<b>3,758,309</b>

15. The Applicant did not forecast any receipts during the Reporting Period, resulting in a positive variance of \$91,296 relating to minor payments received for joint interest billing, road use and lease rental receipts.

16. The Applicant's forecast cash disbursements for the Reporting Period were \$5.3 million, actual cash disbursements were \$1.5 million resulting in a variance of \$3.9 million. The majority of the variance relates to timing based on the receipt and payment of invoices for operating expenses and the deferral of payment of professional fees to future periods. These variances are expected to reverse in future periods. The Monitor expects that significant disbursements will occur in the next couple of weeks which will substantially reverse the timing differences.
  
17. The \$3.8 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

18. The Applicant, in consultation with the Monitor, has prepared a revised weekly cash flow statement (the "Cash Flow Statement") for the period of June 18, 2016 to August 5, 2016 (the "Stay Extension Period"). A Summary of the Cash Flow Forecast is presented below and a copy of the Cash Flow Forecast is attached to this Third Report at Appendix A.

<b>\$ CAD</b>	<b>Total</b>
<b>June 18, 2016 to August 5, 2016</b>	<b>Forecast Period</b>
Opening Cash	8,813,901
<b>Cash Receipts</b>	
Revenue	8,207,543
<b>Total - Operating Receipts</b>	<b>8,207,543</b>
<b>Cash Disbursements</b>	
Royalty Expense	40,309
Operating Expense	5,755,705
Monthly AER LLR Deposit Payments	1,301,109
Property Taxes	3,537,324
Capital Expenditure	100,000
Transportation	2,582,595
Payroll	1,958,824
G&A	489,921
Professional Fees	2,325,000
Interest/Fees	779,733
Tax/Other	166,000
<b>Total - Operating Disbursements</b>	<b>19,036,520</b>
<b>Net Change in Cash from Operations</b>	<b>(10,828,977)</b>
DIP Financing	3,900,000
<b>Ending cash</b>	<b>1,884,924</b>
DIP Financing	3,900,000
<b>DIP Financing Cummulative</b>	<b>14,168,246</b>



19. The Cash Flow Statement indicates the following for the Stay Extension Period:
- (a) total cash receipts of \$8.2 million relating to revenue collections for the Applicant's PNG rights for the production months of June and July;
  - (b) total cash disbursements of \$19.0 million; and
  - (c) draws on the Interim Financing of \$3.9 million and total cumulative draw of \$14.2 million.

#### **UPDATE ON THE SALE PROCESS**

20. The Sale Process outlined in the Sale Process Order (the "Original Sale Process") contemplated a 7-week process with a Binding Bid Deadline of July 18, 2016. The Binding Bid Deadline was subsequently extended to July 25, 2016.
21. Since the granting of the Initial Order, BMO has continued to work with Management to implement the Sale Process. The opportunity was posted on BMO's proprietary global oil & gas opportunities system which reaches approximately 500 companies in North America and 300 international companies (over 2,500 individuals). BMO has had direct contact with 69 parties with potential interest in Endurance's assets.
22. Interested parties who have expressed interest in the Applicant's assets (executed non-disclosure agreements and who have reviewed the diligence material) have been contacted by BMO who requested that the bidders submit non-binding expression of interest ("EOI's") on Tuesday June 28<sup>th</sup>.

23. The Monitor understands that BMO considers the response to date of the Sale Process to be positive and that multiple parties are currently evaluating the opportunity. To date, interested parties have not expressed any concerns to BMO nor to the Monitor over the material available or the overall timeline of the Sale Process.
24. BMO has hosted two update calls with the Monitor, the Applicant and the Lending Syndicate to provide an update on the Sale Process. The first update was provided on June 21, 2016 with a further update on the morning of June 24, 2016. The purpose of these updates on the Sale Process and a summary of the discussions is as follows:
- (a) to provide the Lending Syndicate with an overview of the steps taken by BMO through the Sale Process to solicit interest from potential bidders;
  - (b) to provide a listing of parties contacted directly by BMO was provided to the Lending Syndicate along with a detailed summary of VDR activity by bidder;
  - (c) to provide the names and background of all parties who have signed non-disclosure agreements and who were active in the Sale Process;
  - (d) to discuss the planned process of contacting interested parties and requesting parties to submit non-binding bids by June 28, 2016. The Monitor understands that BMO contacted these parties on June 23, 2016;

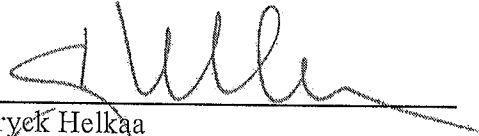
- (e) At a video-conference meeting held on June 2, 2016 involving the Monitor, the Lending Syndicate, Management and respective counsel, BMO requested that the Lending Syndicate (or its advisors) advise if there were any potential bidders that the Lending Syndicate believed should be contacted that had not already been contacted. The Monitor understands that the Lending Syndicate provided a list of several parties to BMO on June 21, 2016 and BMO re-contacted those parties; and
  - (f) BMO responded to various questions regarding the Sale Process from the Lending Syndicate.
25. The Monitor notes that certain members of the Lending Syndicate continue to express concerns over, in their respective view, the timeline of the Sale Process. However, BMO has advised that in BMO's view there is sufficient time to run an effective process and to date no interested parties have expressed concern over the timeline nor have not participated in the Sale Process due to time constraints.

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

26. The Stay Period set out in the Initial Order expires June 29, 2016. The Applicant is seeking an extension to the Stay Period to and including August 5, 2016 in order to provide sufficient time to substantially complete the Sale Process (binding bids are due July 25, 2016).
27. The Applicant has continued to act in good faith during the Stay Period and the Revised Forecast indicates sufficient liquidity is available to the Applicant. Accordingly, the Monitor supports the Applicant's request for an extension to the Stay Period.

All of which is respectfully submitted this 24<sup>th</sup> day of June, 2016.

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



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Deryek Helkaa  
Senior Managing Director,  
FTI Consulting Canada Inc.

