

COURT FILE NUMBER 1601-12571

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

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

AND IN THE MATTER OF A PLAN OF ARRANGEMENT OF  
LIGHTSTREAM RESOURCES LTD., 1863359 ALBERTA LTD., LTS  
RESOURCES PARTNERSHIP, 1863360 ALBERTA LTD. AND  
BAKKEN RESOURCES PARTNERSHIP

APPLICANTS LIGHTSTREAM RESOURCES LTD., 1863359 ALBERTA LTD. AND  
1863360 ALBERTA LTD.

PARTIES IN INTEREST LTS RESOURCES PARTNERSHIP LTD AND BAKKEN  
RESOURCES PARTNERSHIP

DOCUMENT SECOND REPORT OF FTI CONSULTING CANADA INC., IN ITS  
CAPACITY AS MONITOR

**November 2, 2016**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
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DOCUMENT

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## INTRODUCTION

1. On September 26, 2016 Lightstream Resources Inc. (“**LTS**”), 1863359 Alberta Ltd. (“**1863359**”), and 1863360 Alberta Ltd. (“**1863360**”), Lightstream Resources Partnership (“**LTS Partnership**”) and Bakken Resources Partnership (“**Bakken Partnership**”) (collectively, the “**Applicants**”, or the “**Lightstream Group**”) 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 Lightstream Group until and including October 26, 2016, (the “**Initial Stay Period**”) and appointed FTI Consulting Canada Inc. as Monitor (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
3. In addition to the stay of proceedings, the Initial Order granted various relief including, among other things:
  - (a) the Administration Charge;
  - (b) the Credit Card Charge
  - (c) the Directors’ Charge;
  - (d) the KERP and the KEIP Charge;
  - (e) the Financial Advisor Charge; and
  - (f) approval of the Sale Procedures to solicit interest in the Lightstream Property (as such term is defined in the Sale Procedures);

(collectively, the “**Other Relief**”).

4. Mudrick Capital Management, LP (“**Mudrick**”), FrontFour Capital Corp. and FrontFour Group LLC. (collectively, the “**Front Four Group**”), in their capacity as unsecured noteholders and plaintiffs in an oppression action commenced in the Court of Queen’s Bench of Alberta raised certain objections to the Other Relief by and through counsel Bennett Jones LLP and Cassels Brock & Blackwell LLP (collectively, the “**Plaintiffs’ Counsel**”). As a result of the objections a comeback hearing (the “**Comeback Hearing**”) was held on October 11, 2016. After hearing from various stakeholders the Court re-affirmed the relief granted in the Initial Order, and no amendments were made to the Initial Order. Also at the Comeback Hearing the Applicants were granted an extension to the stay of proceedings up to and including December 16, 2016.

## **PURPOSE**

5. The purpose of this second report of the Monitor (the “**Second Report**”) is to advise this Honourable Court and provide the Monitor’s summary and/or comments with respect to:
  - (a) the activities of the Applicants since the Comeback Hearing;
  - (b) the Lightstream Group’s budget to actual results for the period of October 1, 2016 to October 28, 2016 as compared to the previous cash flow statement that was presented to this Honourable Court as attached to Appendix B to the Monitor’s First Report;
  - (c) the ongoing execution of the Sales Process by the Company and TD Securities (“**Sale Advisor**”); and
  - (d) the proposed claims process (“**Claims Process**”) set out in the proposed claims process order (“**Claims Process Order**”).

6. Further background and information regarding the Applicants and these CCAA Proceedings can be found on the Monitor's website at <http://cfcanada.fticonsulting.com/lightstream/>.

## TERMS OF REFERENCE

7. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with various parties, including senior management ("**Management**") of the Applicants (collectively the "**Information**") and the Sale Advisor.
8. 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.
9. 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.
10. The Monitor has prepared this report in connection with the application for approval of the proposed Claims Process Order to be filed by the Applicants (the "**Claims Process Application**") and should be read in conjunction with the materials filed by the Applicants with respect to their Claims Process Application, including the affidavit of Peter Scott sworn October 31, 2016 ("**Scott Third Affidavit**"). This report should not be relied on for other purposes.

11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein have the meaning given to them in the Scott Initial Order Affidavit, the Scott Second Affidavit, the Proposed Monitor's report dated September 23, 2016, the Monitor's First Report dated October 7, 2016, the Initial Order or the proposed Claims Process Order.

## **ACTIVITIES OF THE APPLICANTS SINCE THE COMEBACK HEARING**

### CONSULTATION AND MONITORING

12. Since the Comeback Hearing the Lightstream Group and the Monitor have communicated and consulted on a continuous basis with respect to ongoing operations. The Lightstream Group has consulted the Monitor with respect to ongoing operational disbursements and provided the Monitor with regular cash flow reporting.
13. The Monitor notes that there have been no material changes to the Lightstream Group's operations. To date, the Lightstream Group has been successful in maintaining relatively normal course operations with no significant operational issues.
14. In the Monitor's view, the Applicants are continuing to act in good faith and with due diligence.

### COMMUNICATION WITH STAKEHOLDERS

15. Since the Comeback Hearing the Monitor and the Applicants have maintained communication with various stakeholders including, the First Lien Lenders, the *Ad Hoc* Committee of Secured Noteholders, the Plaintiffs' Counsel and various trade creditors.

## BUDGET TO ACTUAL RESULTS

16. The table below provides a summary of the Lightstream Group's budget to actual results for October 1, 2016 to October 28, 2016 (“**Reporting Period**”) as compared to the cash flow statement (“**October 7 Forecast**”) filed as Appendix B to the Monitor's First Report dated October 7, 2016.

(CAD \$000's)	Reporting Period		
	Forecast	Actual	Variance
<b>Cash Receipts</b>			
Product Revenue	24,965	25,473	508
Hedging and other	83	558	475
<b>Total - Operating Receipts</b>	<b>25,048</b>	<b>26,031</b>	<b>983</b>
<b>Cash Disbursements</b>			
Trade Payables	22,719	7,872	(14,847)
Royalties	2,804	1,911	(893)
Property Taxes	5	14	9
Capital/cash calls	550	-	(550)
Taxes/other	900	(1,017)	(1,917)
G&A (payroll and rent)	3,940	3,765	(175)
Professional fees	2,339	2,365	26
Interest and bank charges	2,056	2,201	145
Other	-	-	-
<b>Total - Operating Disbursements</b>	<b>35,313</b>	<b>17,111</b>	<b>(18,202)</b>
<b>Net increase/(decrease) in cash from operating activities</b>	<b>(10,265)</b>	<b>8,920</b>	<b>19,185</b>
<b>Opening Cash before Collateralized L/C's</b>	<b>47,528</b>	<b>47,528</b>	<b>-</b>
<b>Ending Cash before Collateralized L/C's</b>	<b>37,263</b>	<b>56,448</b>	<b>19,185</b>
<b>Cummulative Cash Collateralized L/C's</b>	<b>8,225</b>	<b>8,225</b>	<b>-</b>
<b>Ending Cash after Collateralized L/C's</b>	<b>29,038</b>	<b>48,223</b>	<b>19,185</b>

17. The following provides a summary of the major budget to actual variances:
- (a) Production Revenue – oil and gas production revenue for the Reporting Period is slightly higher than budget due to the realized selling price being higher than expected.

- (b) Hedging and Other receipts – was \$475,000 greater than budget mainly due to unexpected timing and application of joint venture receivables.
  - (c) Trade Payables – \$14.8 million favourable variance can be attributable in part to timing, which may reverse in future periods. The Lightstream Group has been more successful than expected in maintaining normal payment terms with their vendors however this may not continue in the future and may require the use of additional cash resources.
  - (d) Capital/cash calls – favourable variance of \$550,000 as the Lightstream Group has not been cash called from joint venture partners for any capital projects since commencing CCAA Proceedings.
  - (e) Royalty Expense – favourable \$893,000 timing variance is expected to reverse in future periods.
  - (f) Taxes / other expenses – favourable variance of \$1.9 million relates to timing between collection and remittance of GST and an unexpected cheque for approximately \$700,000 that was received from the Canada Revenue Agency by the Lightstream Group which is in the process of being reconciled. The majority of the favourable variance is expected to reverse in future periods.
18. No variances that occurred during the Reporting Period are expected to have a materially negative impact on the Applicants' liquidity; accordingly the Lightstream Group has not prepared a revised cash flow forecast. The October 7 Forecast remains Management's best cash flow estimate. The Monitor will continue to report actual cash flow results against the Lightstream Group's October 7 Forecast.

## **SALES PROCESS**

19. The Applicants and the Sale Advisor have continued their execution of the Sales Process as approved by this Court. The Monitor has been in contact with the Company and the Sale Advisor regularly throughout the Sales Process to date and has been provided with regular ongoing status updates.
20. In accordance with the Sales Process the Company and the Sale Advisor sought non-binding letters of intent by October 21<sup>st</sup>, 2016, the Phase 1 Bid Deadline. On October 24<sup>th</sup>, 2016 the Monitor met with the Company, the Company's counsel and the Sale Advisor to review the non-binding bids received. A total of 29 bids in addition to the Secured Noteholder Credit Bid (which continues to be negotiated) were received either by way of en bloc offer for all of the Lightstream Groups assets or for certain asset packages. After reviewing the results, the Applicants in consultation with the Monitor and the Sale Advisor have moved to Phase II of the Sales Process.
21. In the Monitor's view the Applicants and the Sale Advisor are executing their sales and marketing efforts in accordance with the Court approved Sales Process.

## **CLAIMS PROCESS**

22. The Claims Process provides for a mechanism to establish claims procedures that will be effective in identifying and determining the nature, quantum, validity and enforceability of all claims against the Applicants, as discussed in further detail below. Capitalized terms not defined have the meaning ascribed to them in the proposed Claims Process Order.
23. The details below describing the Claims Process are meant to provide a high level summary of the major timelines, structure and procedures identified in the Claims Process Order. Creditors and interested stakeholders are encouraged to read the Claims Package and Claims Process Order in detail for specific details/deadlines regarding the Claims Process and the requirements for filing a Proof of Claim.



## Claim Type

24. The Claims Process has been designed to identify claims that fall into four categories:

- (a) Prefiling Claims – includes any claims against the Applicants, the CCAA Parties or the Directors and/or Officers in existence on September 26, 2016 (“**Filing Date**”) and still outstanding as of the Claims Bar Date. The Claims Process Order requires Proof of Claims to be the first lien Credit Facility lenders and the Second Lien Noteholders.
- (b) Restructuring Period Claims – includes any claim against the Applicants or the CCAA Parties arising out of:
  - i. The restructuring, disclaimer, resiliation, termination or breach of any contract, lease or agreement on or after the Filing Date; and
  - ii. Any other action taken by one or more of the Applicants or the CCAA Parties on or after the Filing Date.
- (c) Directors’ Charge Claims – any claims against one or more Directors and/or Officers arising after the Filing Date in connection with the CCAA Proceedings that is indemnified by the Applicants, as set out in paragraph 22 of the Initial Order, with the exception of certain exclusions as described in paragraph 3(d)(iii) of the proposed Claims Process Order; and
- (d) Priority Claims – includes any claims that rank *pari passu with* or are senior in priority to the Credit Facility or the Second Lien Indebtedness with the exception of certain exclusions as described in paragraph 3(d)(iv) of the proposed Claims Process Order.

## Notice

25. By November 9, 2016 the Monitor will send a Claims Package to:
  - (a) each party that appears on the service list or has requested a Claims Package; and
  - (b) all known Creditors, other than Employees, as evidenced by the books and records of the Applicants and the CCAA Parties at their respective last known addresses as recorded in the Applicants' and CCAA Parties' books and records.
26. The Monitor shall not be required to send a Claims Package to any person having or asserting an Excluded Claim as defined in the proposed Claims Process Order.
27. The Monitor will cause the Notice to Creditors to be published on two separate dates prior to November 9, 2016, or as soon as practical, in each of the Calgary Herald and the Globe and Mail (National Edition).
28. The Monitor will also post an electronic copy of the Claims Package to its website by no later than 5:00 pm on November 8, 2016.

## Filing Proofs of Claims

29. Any Creditor that intends to assert a Prefiling Claim, a Directors' Charge Claim or a Priority Claim shall file a Proof of Claim to the Monitor prior to 5:00 p.m. (Calgary time) on December 7, 2016 (the "Claims Bar Date").
30. Restructuring Period Claims have a different bar date. Any Creditor that intends to file a Restructuring Period Claim shall file a Proof of Claim by the later of:
  - (a) 15 days after the date on which the Monitor sends a Claims Package with respect to such Restructuring Period Claim; and

(b) the Claims Bar Date.

**(“Restructuring Period Claims Bar Date”)**

### Adjudication of Claims

#### **Notice of Revision or Disallowance**

31. The Monitor will review each Proof of Claim submitted on or before the Claims Bar Date or the Restructuring Period Claims Bar Date, in consultation with the Applicants and the CCAA Parties. After consultation the Monitor will accept, revise or disallow the amount of each Claim set out therein for voting and/or distribution purposes.
32. The Monitor shall by no later than December 20, 2016, notify each Creditor who has delivered a Proof of Claim as to whether such Creditor's Claim as set out therein has been revised or disallowed and the reasons therefor, by sending a Notice of Revision or Disallowance.

#### **Notice of Dispute**

33. Any Claimant who disputes the classification or amount of its Claim as set forth in a Notice of Revision or Disallowance shall deliver a Notice of Dispute, outlining the reasons for the dispute, to the Monitor no later than 15 calendar days after receipt of the Notice of Revision or Disallowance, or such other date as agreed to by the Monitor in writing.
34. The Monitor, the Applicants and the CCAA Parties shall consult with the Ad Hoc Committee of Secured Noteholders prior to valuing, revising, accepting, resolving or settling a Claim that exceeds \$1.0 million.

35. Upon receipt of a Notice of Dispute, the Applicants, 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 Applicants and the CCAA Parties may request the dispute to be heard by the Court or a claims officer.
36. If a Creditor does not deliver a Notice of Dispute within 15 days of receipt of the Notice of Revision or Disallowance it shall be deemed to have accepted the Notice of Revision or Disallowance and the Claim, unless otherwise ordered by this Honourable Court, shall be deemed to be as set out in the Notice of Revision or Disallowance.
37. The Monitor believes that the proposed Claims Process and proposed Claims Process Order are reasonable and appropriate in the circumstances and provides for a timely review of all potential Claims against the Applicants, the CCAA Parties and/or the Directors and Officers. The Monitor believes the various timelines set out in the Claims Process Order provide sufficient notice for all potential Creditors to file Claims.

## CONCLUSIONS AND RECOMMENDATIONS

38. The Monitor respectfully recommends that this Honourable Court approve the Applicants' request for the Claims Process Order.

All of which is respectfully submitted this 2<sup>nd</sup> day of November, 2016.

FTI Consulting Canada Inc.  
in its capacity as the Monitor of the Lightstream  
Group



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Deryck Helkaa  
Senior Managing Director,



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Dustin Olver  
Managing Director