

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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 COMPROMISE OR ARRANGEMENT OF
DUNDEE OIL AND GAS LIMITED

THIRD REPORT OF THE MONITOR
FTI CONSULTING CANADA INC.

May 9, 2018

Table of Contents

1.0	INTRODUCTION	1
2.0	PURPOSE OF THE THIRD REPORT	5
3.0	TERMS OF REFERENCE	7
4.0	BACKGROUND AND UPDATE ON DUNDEE’S OPERATIONS	9
5.0	MONITOR’S ACTIVITIES TO DATE	10
6.0	SELECTION OF THE SUCCESSFUL BIDDER	11
	<i>Summary of SSP</i>	11
	<i>Selection of Successful Bidder</i>	13
7.0	PURCHASE AGREEMENT	14
	<i>Summary of Purchase Agreement</i>	15
	<i>Assignment of Agreements</i>	18
	<i>Section 36 of the CCAA</i>	24
	<i>Sealing of Confidential Appendices “A” and “B”</i>	29
8.0	SECURITY REVIEW, DISTRIBUTION AND RESERVES AND SURRENDERED LEASES	30
	<i>Security Review</i>	30
	<i>Distribution and Reserves</i>	37
	<i>Surrendered Leases</i>	38
9.0	CASH FLOW RESULTS RELATIVE TO FORECAST	39
10.0	CASH FLOW FORECAST UPDATE	41
11.0	EXTENSION OF THE STAY PERIOD	42
12.0	MONITOR’S CONCLUSIONS AND RECOMMENDATIONS	43

Listing of Appendices

Appendix “A”	Order of the Court dated August 16, 2017
Appendix “B”	Order of the Court dated February 13, 2018
Appendix “C”	Cash Flow Forecast to the week ending September 28, 2018
Appendix “D”	Revised Final Bid Letter dated March 23, 2018
Appendix “E”	Redacted Asset Purchase Agreement dated April 4, 2018 among Dundee Oil and Gas Limited and Dundee Energy Limited Partnership, as Seller, and Lagasco Inc., as Buyer
Appendix “F”	Form of Assignment and Distribution Notice
Appendix “G”	Newspaper Notice in <i>The Globe and Mail</i> and <i>Daily Oil Bulletin</i> dated April 25, 2018
Appendix “H”	Supplementary Assignment and Distribution Notice
Appendix “I”	Assigned Trade Contracts
Appendix “J”	Trade Contract Assignment Notice
Confidential Appendix “A”	Summary of revised Final Bid terms
Confidential Appendix “B”	Unredacted Asset Purchase Agreement dated April 4, 2018 among Dundee Oil and Gas Limited and Dundee Energy Limited Partnership, as Seller, and Lagasco Inc., as Buyer (without schedules)

1.0 INTRODUCTION

1.1 On August 15, 2017 (the “**Filing Date**”), each of Dundee Energy Limited Partnership (“**DELP**”) and Dundee Oil and Gas Limited (“**DOGL**”) (together, “**Dundee**” or the “**Debtors**”) filed a Notice of Intention to Make a Proposal (together, the “**NOIs**”) pursuant to s. 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada), R.S.C. 1985, c. B-3, as amended (the “**BIA**”). FTI Consulting Canada Inc. (“**FTI**”) was the proposal trustee under the NOIs (in such capacity, the “**Proposal Trustee**”).

1.2 By order dated August 16, 2017 (the “**Sale Process Order**”), a copy of which is attached as **Appendix “A”**, the Ontario Superior Court of Justice (In Bankruptcy and Insolvency) (Commercial List) (the “**Court**”):

- a) declared that the proposal proceedings for DELP and DOGL (together, the “**Proposal Proceedings**”) were administratively consolidated and continued under a joint title of proceedings;
- b) directed that all materials in the Proposal Proceedings shall be filed with the Commercial List Office only in the DELP estate and court file and dispensed with any further filing thereof in the DOGL estate and court file;
- c) approved a sale solicitation process (the “**SSP**”) for all of the assets, undertakings and properties of Dundee (collectively, the “**Property**”) under the supervision of the Proposal Trustee;

- d) approved the amended and restated forbearance agreement made as of August 15, 2017 (as amended, the “**Forbearance Agreement**”) between Dundee, Dundee Energy Limited (“**DEL**”) and National Bank of Canada, as lender and agent for the lenders to Dundee (in such capacity, the “**Lender**”);
- e) authorized DELP to continue to obtain and borrow, repay and re-borrow additional monies under the credit facility (the “**Credit Facility**”) made available to DELP by the Lender pursuant to the amended and restated credit agreement among DELP, as borrower, DEL and DOGL, as guarantors, and the Lender, dated as of July 31, 2012 (as amended, the “**Credit Agreement**”) subject to the terms of the Forbearance Agreement, in order to finance DELP’s working capital requirements, provided that borrowings by DELP under the Credit Facility shall not exceed the amounts contemplated in the Credit Agreement and the Forbearance Agreement;
- f) extended the time within which a proposal must be filed by Dundee under the BIA, as well as the corresponding stay of proceedings under s. 69 of the BIA, until October 30, 2017 (the “**Stay Period**”);
- g) granted a charge (the “**DIP Charge**”) on the Property in favour of the Lender as security for all obligations of Dundee to the Lender relating to advances made to DELP under the Credit Facility from and after the date of the Sale Process Order;

- h) granted the Administration Charge and the Directors' Charge (each as defined in the Sale Process Order) on the Property in the amounts of \$250,000 and \$50,000 respectively;
- i) declared that each of the Administration Charge and the DIP Charge shall rank in priority to all other Encumbrances (as defined in the Sale Process Order) on the Property in favour of any person, with the exception of certain secured lenders; and
- j) declared that the Directors' Charge shall rank in priority to all other Encumbrances on the Property in favour of any person, with the exception of the Administration Charge, the DIP Charge, the security granted to the Lender pursuant to the Credit Agreement and certain other secured lenders.

1.2 By Order dated February 13, 2018 (the "**Initial Order**"), a copy of which is attached as **Appendix "B"**, the Court:

- a) continued the Proposal Proceedings under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c.C.-36 (as amended, "**CCAA**");
- b) ordered and declared that (i) DOGL is a company to which the CCAA applies; and (ii) DELP shall enjoy the benefits of the protections and authorizations provided to DOGL in the Initial Order, including, without limitation, the stay of proceedings;

- c) ordered that DELP shall not be deemed to have made an assignment in bankruptcy based on its failure to file a proposal by February 15, 2018 with the Official Receiver notwithstanding s. 50.4(8) of the BIA;
- d) appointed FTI as the Monitor of DOGL (in such capacity, the “**Monitor**”);
- e) declared that all orders of the Court granted in the Proposal Proceedings continue to be in full force and effect, except to the extent that such orders are inconsistent with the terms of the Initial Order or the CCAA;
- f) extended the Stay Period to March 13, 2018;
- g) declared that the DIP Charge, Administration Charge and Directors’ Charge each continue to be in full force and effect;
- h) granted a charge (the “**CCAA DIP Charge**”) on the Property in favour of the Lender as security for all obligations of Dundee to the Lender relating to advances made to DELP under the Credit Facility from and after the date of the Initial Order, which shall rank *pari passu* with the DIP Charge;
- i) granted the CCAA Administration Charge (as defined in the Initial Order) on the Property, which shall rank *pari passu* with the Administration Charge in the aggregate amount of \$250,000; and
- j) granted the CCAA Directors’ Charge (as defined in the Initial Order) on the Property, which shall rank *pari passu* with the Directors’ Charge in the aggregate amount of \$50,000.

1.3 By order dated April 26, 2018, the Court extended the Stay Period to June 30, 2018.

2.0 PURPOSE OF THE THIRD REPORT

2.1 The purpose of this third report of the Monitor (the “**Third Report**”) is to provide the Court with the following:

- a) an update on Dundee’s operations since the second report of the Monitor dated April 23, 2018 (the “**Second Report**”);
- b) an update on the Monitor’s activities since the Second Report;
- c) a description of the process leading to the selection of the Successful Bidder (as defined in the SSP);
- d) the basis for the Debtors’ request for an approval and vesting order (the “**AVO**”) in connection with the Asset Purchase Agreement dated April 4, 2018 (as may be amended from time to time, the “**Purchase Agreement**”) between Dundee as Seller and Lagasco Inc., as Buyer (the “**Buyer**”), pursuant to which the Buyer will acquire Dundee’s right, title and interest in substantially all of Dundee’s assets (the “**Transaction**”) and to provide the Monitor’s recommendation thereon;
- e) the basis for the Debtors’ request for an order pursuant to section 11.3 of the CCAA assigning the rights and obligations of the Debtors to the Buyer under the Assigned Contracts (as defined below);

- f) the basis for an order declaring that service of the Third Report and Debtors' Motion Record, either by way of the Assignment and Distribution Notice, the Newspaper Notice, the Trade Contract Assignment Notices (as each term is defined below) or by actual service, is effective and sufficient notice of the relief sought by the Debtors in the Approval Motion (as defined below);
- g) the basis for an order sealing **Confidential Appendix "A"**, which contains a summary of the terms of the revised Final Bids delivered to the Monitor pursuant to the SSP and **Confidential Appendix "B"**, which contains the unredacted version of the Purchase Agreement (without schedules) (the redacted version attached at **Appendix "E"** hereto redacts only the Purchase Price (as defined in the Purchase Agreement));
- h) an update on the Monitor's review of the Lender's security over real property interests;
- i) the basis for an order authorizing and directing the Buyer to distribute to the Lender the net amount of the cash portion of the Purchase Price, net of the Deposit (as each term is defined below);
- j) the basis for an order authorizing and directing the Debtors, subject to the *Miss Libby* Reserve and the Professional Fee Reserve (as each term is defined below), to distribute to the Lender the Deposit and any future receipts or proceeds immediately upon receipt thereof;

- k) the Monitor's review of Dundee's updated cash flow forecast for the period ending September 28, 2018 (the "**Cash Flow Forecast**"), a copy of which is attached as **Appendix "C"**;
- l) the basis for extending the Stay Period until September 28, 2018; and
- m) the Monitor's conclusions and recommendations in connection with the foregoing.

3.0 TERMS OF REFERENCE

3.1 In preparing the Third Report, the Monitor has relied upon unaudited financial information of Dundee's books and records, certain financial information prepared by Dundee and discussions with Dundee's current management ("**Management**").

3.2 Except as described in the Third Report:

- a) The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information provided to it by Management in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
- b) The Monitor has not examined or reviewed financial forecasts and projections referred to in the Third Report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.

3.3 Future oriented financial information reported or relied on in preparing the Third Report

is based on Management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

3.4 The Monitor has assumed the integrity and truthfulness of the information and explanations presented to it by Management. The Monitor has not independently audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. Accordingly, the Monitor expresses no opinion or other form of assurance with respect to the information contained in the Third Report. The Monitor assumes no responsibility or liability for any loss or damage incurred by or caused to any person or entity as a result of the circulation, publication, re-production or use of or reliance upon this Third Report or for any use which any person or entity makes of the Third Report, or any reliance on or a decision made based upon the Third Report, other than for the express purposes as set out in this Third Report.

3.5 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the Sale Process Order (including the SSP attached thereto) or Initial Order, as applicable.

3.6 A copy of the Third Report and all other Court materials, orders and endorsements issued in these proceedings are, and will be, available on the Monitor's website at: <http://cfcanada.fticonsulting.com/Dundee/> (the "**Monitor's Website**").

4.0 BACKGROUND AND UPDATE ON DUNDEE'S OPERATIONS

4.1 DELP is a limited partnership created pursuant to the *Limited Partnerships Act* (Ontario). DELP operates drilling and wellsite services in Ontario. It holds on-shore and off-shore oil and natural gas producing assets, such as wells, drill and service barges, supply boats and a rotary drilling rig.

4.2 DOGL is a company incorporated in Ontario and is the general partner of DELP. Although DOGL holds legal title to certain assets on behalf of DELP, DOGL's only asset is its interest in DELP.

4.3 Dundee holds both on-shore and off-shore wells and other drilling assets in connection with its business operations. In particular, Dundee holds 641 wells (the "**Wells**"), of which 575 are producing. 423 of the producing Wells are located off-shore in Lake Erie, which is real property owned by Her Majesty the Queen in Right of Ontario as represented by the MNRF. 152 of the producing wells are located on-shore primarily throughout southern Ontario on real property owned by various individuals. The remaining 66 non-producing and disposal Wells are located both on-shore and off-shore. The Wells are located on leased lands and each lease is tied to one or more Property Index Numbers. Dundee has the ability to access and operate the Wells pursuant to various leasing agreements (ranging from exploration rights, royalty arrangements, easements, etc.) (collectively, the "**Leases**"). There are in excess of 1,800 Leases in total. Dundee maintains an internal registry which monitors and records the Leases and Wells and any amounts owing thereunder.

4.4 DELP's primary lender and secured creditor is the Lender. Pursuant to the Initial Order, the Lender is unaffected by the stay proceedings in the CCAA proceedings except for requiring leave to enforce its security.

4.5 Since the date of the Second Report, the Monitor has continued to work closely with Management and monitored Dundee's business operations. The Debtors and Management have assisted the Monitor with the SSP and the Transaction, where necessary, and preparation of the Cash Flow Forecast. Additionally, the Debtors have continued to report to the Lender as required pursuant to the Credit Agreement and the Forbearance Agreement.

4.6 Management has advised the Monitor that Dundee has continued with its environmental programs in the ordinary course since the Filing Date.

5.0 MONITOR'S ACTIVITIES TO DATE

5.1 In addition to the other activities and conduct described in the Third Report, since the date of the Monitor's Second Report, the Monitor has:

- a) continued to maintain the Monitor's Website;
- b) continued to correspond and meet with Management and Dundee's legal counsel;
- c) continued to correspond and meet with the Buyer and its legal counsel;
- d) communicated with royalty and lease holders in respect of the Assignment and Distribution Notices and Newspaper Notices;

- e) continued to respond to inquiries from stakeholders, including addressing questions or concerns of parties who contacted the Monitor on the toll-free number or general email account established by the Monitor;
- f) continued to assist Dundee in implementing an appropriate accounting cut-off to ensure proper determination of pre and post-filing obligations and liabilities;
- g) continued to monitor Dundee's business and financial affairs in order to assess same;
- h) continued to monitor weekly proposed disbursements with respect to payment terms with suppliers and creditors of Dundee;
- i) in consultation with the Lender, selected the Successful Bidder;
- j) engaged in discussions with the Ministry of Natural Resources and Forestry (the "MNRF") with respect to the Successful Bidder;
- k) provided assistance to Dundee in the preparation of the Cash Flow Forecast and reported to the Lender as required under the Forbearance Agreement; and
- l) prepared the Third Report in consultation with the Monitor's legal counsel.

6.0 SELECTION OF THE SUCCESSFUL BIDDER

Summary of SSP

- 6.1 FTI, in its capacity as both Proposal Trustee and Monitor, implemented the SSP in accordance with the Sale Process Order and Initial Order.

- 6.2 The Proposal Trustee prepared a list of prospective parties, with the assistance of Management, and invited those parties to participate in the SSP. Additional parties became aware of the SSP and expressed an interest in participating. In total, the Proposal Trustee contacted 469 parties in Phase 1 of the SSP, consisting primarily of strategic and financial parties within Canada and the United States. All of these parties received a non-confidential teaser letter providing an overview of the opportunity to acquire all or a part of the Property, in addition to a form of non-disclosure agreement (the “**NDA**”).
- 6.3 29 parties executed the NDA and were provided with a confidential information memorandum describing the opportunity to acquire all or a part of the Property and access to an electronic data room.
- 6.4 14 parties submitted a non-binding letter of intent in accordance with the SSP on or before the Phase 1 Bid Deadline of 12:00 p.m. EDT on October 19, 2017. Pursuant to the SSP, final binding proposals to purchase some or all of the Property (each, a “**Final Bid**”) were required to be delivered to the Proposal Trustee by the Phase 2 Bid Deadline of November 24, 2017, which was extended to December 1, 2017 with the consent of the Lender. The Proposal Trustee received four Final Bids by the Phase 2 Bid Deadline and elected to advance with two of those Final Bids.
- 6.5 Over the next three months, the Monitor conducted extensive negotiations with each of the remaining Qualified Bidders regarding the terms of its Final Bid with a view to settling the Form of Purchase Agreement with each remaining Qualified Bidder. During this time, the Monitor and Management continued to respond to due diligence requests from the remaining Qualified Bidders and the Monitor exchanged multiple drafts of the

Form of Purchase Agreement with each remaining Qualified Bidder. Although those negotiations were complex and time consuming given, among other things, the number of Wells and Leases comprising Dundee's Property and the licencing regime in place with the MNRF, the process resulted in a meaningful increases in value to the terms of the Final Bids initially received by the Monitor by the Phase 2 Bid Deadline.

- 6.6 In order to bring the SSP to a conclusion, by letter dated March 23, 2018 (the "**Revised Final Bid Letter**"), the Monitor provided each remaining Qualified Bidder a final opportunity to present its highest and best revised Final Bid in the form of an executed Asset Purchase Agreement. The Revised Final Bid Letter stated that the revised Final Bid must be submitted to the Monitor on or before 12:00 p.m. on March 28, 2018 (the "**Revised Final Bid Deadline**") and remain irrevocably open for acceptance until April 4, 2018 at 5:00 p.m. The Revised Final Bid Letter further stated that the Monitor would not consider any revised Final Bids received after the Revised Final Bid Deadline. A copy of the Revised Final Bid Letter sent to the Buyer (the same letter, with only a change of addressee, was sent to the other remaining Qualified Bidder that remained in the SSP), is attached hereto as **Appendix "D"**.

Selection of Successful Bidder

- 6.7 Each of the remaining Qualified Bidders submitted an executed Asset Purchase Agreement to the Monitor by the Revised Final Bid Deadline in accordance with the Revised Final Bid Letter. The principal terms of each revised Final Bid are summarized in **Confidential Appendix "A"**. The Monitor identified the revised Final Bid from the Buyer as the most favourable revised Final Bid. In accordance with the SSP, the Monitor

consulted with the Lender regarding the terms of each revised Final Bid. The Lender agreed with the Monitor's selection of the Buyer as the Successful Bidder. The Buyer was informed by the Monitor that it was the Successful Bidder under the SSP on April 4, 2018. On the same date, the Monitor advised the other remaining Qualified Bidder that it was not the Successful Bidder.

6.8 As noted above, the SSP has been a highly competitive process and the market for the Property has been thoroughly canvassed. Although the process to identify the Successful Bidder as between the remaining Qualified Bidders required more time than originally anticipated, the Monitor is of the view that the SSP was conducted in a fair and transparent manner and that each remaining Qualified Bidder was provided an equal opportunity to present its highest and best offer to purchase the Property. In the Monitor's view, the Transaction is the highest and best transaction in respect of the Purchased Assets received in accordance with the SSP and the consideration is fair and reasonable in the circumstances.

7.0 PURCHASE AGREEMENT

7.1 Capitalized terms used in this section of the Third Report and not otherwise defined are as defined in the Purchase Agreement, a redacted copy of which is attached hereto as **Appendix "E"** (redacted only in respect of the Purchase Price). An unredacted version of the Purchase Agreement (without schedules) is attached hereto as **Confidential Appendix "B"**.

7.2 Dundee and the Buyer are currently finalizing the terms of an agreement to amend the Purchase Agreement (the "**Amending Agreement**") to, among other things, extend certain dates

contained in the Purchase Agreement and address consent to assignment of the Leases under which the MNRF is the lessor (the “**MNRF Leases**”). A copy of the Amending Agreement will be posted to the Monitor’s Website once executed.

Summary of Purchase Agreement

7.3 As mentioned above, the Monitor, in consultation with the Lender, has selected the Buyer as the Successful Bidder and Dundee and the Buyer have entered into the Purchase Agreement.

7.4 Pursuant to the Purchase Agreement, the Buyer will purchase substantially all of the Property of the Debtors, consisting mainly of the Wells, the Leases and certain real property owned by Dundee in fee simple (as set out in the Purchase Agreement, collectively the “**Purchased Assets**”), for the Purchase Price as set out in the Purchase Agreement, plus the assumption of the Assumed Liabilities.

7.5 The Parties agreed to determine the allocation of the Purchase Price on or before the granting of the Approval and Vesting Order.

7.6 Among other things, the Assumed Liabilities in the Purchase Agreement include Cure Costs, Environmental Liabilities regardless of when they arise or accrue, Abandonment and Reclamation Obligations and Municipal Taxes.

7.7 The Excluded Assets in the Purchase Agreement include, among other things, all cash, bank balances, income tax refunds due and owing to Dundee as at the Effective Date and all accounts receivable owing to Dundee prior to the Effective Date.

7.8 In accordance with the SSP, a deposit equal to 10% of the cash portion of the Purchase

Price has been paid by the Buyer and is being held by the Monitor in trust (the “**Deposit**”).

7.9 Dundee is only permitted to extract Petroleum Substances through the Wells pursuant to licences issued by the MNRF. Pursuant to the Purchase Agreement, the Buyer is responsible for preparing the applications for the License Transfers at the Buyer’s sole expense. This process was discussed with the MNRF at a meeting among the Buyer, MNRF, the Monitor and their respective legal counsel on May 2, 2018. The MNRF indicated that it will not consider the applications for the License Transfers until after the Approval and Vesting Order has been granted. The Parties have agreed to submit the License Transfer applications promptly after the Approval and Vesting Order is granted. In the event that the Purchase Agreement is terminated after such applications have been submitted to MNRF, the applications will be withdrawn.

7.10 The Debtors will terminate the employment of all of their employees effective upon Closing. The Buyer will make written offers of employment to certain employees of the Debtors, in the Buyer’s discretion. The Buyer is responsible for all liabilities and obligations with respect to the Debtors’ employees between the Effective Date and Closing Date other than any severance or termination pay. The Buyer is responsible for all liabilities and obligations to the Assumed Employees post-Closing. Dundee is a party to one collective agreement, being the Lake Erie Collective Agreement dated December 20, 2016 between Seller and the Carpenter’s District Council of Ontario and the United Brotherhood of Carpenters and Joiners of America (the “**Collective Agreement**”). The Purchase Agreement does not affect the Collective Agreement and no relief is being sought by Dundee with respect to the Collective Agreement on the Approval Motion.

7.11 The outstanding conditions precedent to the Buyer’s obligation to close are as follows:

- a) the Seller's representations and warranties set forth in the Purchase Agreement are accurate in all material respects as of the Closing Date;
- b) the Seller shall have duly performed and complied with its covenants and agreements under the Purchase Agreement, including the deliverables required under section 4.4 thereof;
- c) no Governmental Authority shall have enacted, issued, promulgated or entered any Order to enjoin, restrict or prohibit the purchase and sale of the Purchased Assets or the consummation of the Transaction;
- d) the Approval and Vesting Order shall be granted by the Court;
- e) the Buyer shall have received all Governmental Authorizations necessary to convey the Purchased Assets from the Seller to the Buyer, including the License Transfers; and
- f) Seller shall have delivered to the Buyer a direction to Marcus Terminal Inc., American Refining Group Inc., and Union Gas Limited directing each of them to pay to the Buyer Future Revenues effective from the Closing Date.

7.12 The conditions precedent to the Seller's obligation to close are as follows:

- a) the Buyer's representations and warranties set forth in the Purchase Agreement are accurate in all material respects as of the Closing Date;
- b) the Approval and Vesting Order shall be granted by the Court;

- c) the Buyer shall have duly performed and complied with its covenants and agreements under the Purchase Agreement, including the deliverables required under section 4.2 thereof; and
- d) no Governmental Authority shall have enacted, issued, promulgated or entered any Order to enjoin, restrict or prohibit the purchase and sale of the Purchased Assets or the consummation of the Transaction.

7.13 The Purchase Agreement may be terminated at any time prior to Closing either (a) by mutual written agreement of the Parties; (b) by either Seller or Buyer pursuant to the provisions of Article 11 or Article 12, as applicable, or (c) by either Party if Closing has not occurred on or before July 31, 2018.

Assignment of Agreements

7.14 All of the Wells and Leases are to be transferred to the Buyer upon Closing in accordance with the Purchase Agreement. As noted above, given the number of Leases and the costs involved in doing so, the Debtors have not reviewed each Lease to determine whether consent of the lessor is required to assign each such Lease to the Buyer. Rather, the Debtors seek an assignment of the Leases (other than the MNRF Leases) to the Buyer pursuant to an order of the Court in accordance with section 11.3 of the CCAA.

7.15 The MNRF Leases are all in respect of real property owned by Her Majesty the Queen in Right of Ontario as represented by the MNRF located off-shore in Lake Ontario. Consent to the assignment of the MNRF Leases is simpler to obtain given that MNRF is the lessor under all MNRF Leases. Accordingly, Dundee is not seeking an order compelling the assignment of the MNRF Leases to the Buyer and the Buyer will instead obtain MNRF's consent to the assignment of all MNRF Leases.

7.16 Section 11.3 of the CCAA provides the following:

11.3 (1) On application by a debtor company and on notice to every party to an agreement and the monitor, the court may make an order assigning the rights and obligations of the company under the agreement to any person who is specified by the court and agrees to the assignment.

a) Exceptions

(2) Subsection (1) does not apply in respect of rights and obligations that are not assignable by reason of their nature or that arise under

(a) an agreement entered into on or after the day on which proceedings commence under this Act;

(b) an eligible financial contract; or

(c) a collective agreement.

b) Factors to be considered

(3) In deciding whether to make the order, the court is to consider, among other things,

(a) whether the monitor approved the proposed assignment;

(b) whether the person to whom the rights and obligations are to be assigned would be able to perform the obligations; and

(c) whether it would be appropriate to assign the rights and obligations to that person.

c) Restriction

(4) The court may not make the order unless it is satisfied that all monetary defaults in relation to the agreement — other than those arising by reason only of the company's insolvency, the commencement of proceedings under this Act or

the company's failure to perform a non-monetary obligation — will be remedied on or before the day fixed by the court.

d) Copy of order

(5) The applicant is to send a copy of the order to every party to the agreement.

7.17 In order to provide notice of the Approval Motion (as defined below) and relief to be sought therein, including the motion to compel the assignment of the Leases (other than the MNRF Leases) and the intended distribution of net sale proceeds to the Lender, the Monitor delivered a notice (the “**Assignment and Distribution Notice**”) on April 20, 2018 to all known counterparties to the Leases via regular mail to the last known address provided to Dundee. A copy of the form of Assignment and Distribution Notice is attached as **Appendix “F”**. The Monitor also provided notice of the Approval Motion and the relief to be sought therein in newspaper notices which were published the week of April 23, 2018, in *The Globe and Mail* and *Daily Oil Bulletin* (the “**Newspaper Notices**”), a copy of which is attached as **Appendix “G”**. On or about May 11, 2018, the Monitor will send a further notice to each known counterparty to a Lease (other than MNRF) (a “**Supplementary Assignment and Distribution Notice**”) to advise that the Monitor's Third Report has been posted to the Monitor's Website. A copy of the Supplementary Assignment and Distribution Notice is attached as **Appendix “H”**.

7.18 Each Assignment and Distribution Notice sets out, among other things, (i) the name of the Buyer; (ii) the date of the motion to seek the AVO (the “**Approval Motion**”); (iii) the relief that the Debtors will seek at the Approval Motion, including the assignment of the Leases (other than the MNRF Leases) and the intended distribution of net sale proceeds to the Lender; (iv) the Cure Cost owing to the applicable counterparty as at March 31, 2018 per Dundee's records; (v) the factors that the Court will consider in assigning an agreement under section 11.3 of the

CCAA; (vi) the Monitor's Website where all motion materials filed in connection with the Approval Motion will be posted on May 9, 2018; (vii) procedures to object to both the listed Cure Cost and the relief to be sought at the Approval Motion; (viii) the Monitor's contact information; and (ix) the Buyer's contact information.

7.19 Similar to the Assignment and Distribution Notice, the Newspaper Notices set out (i) the name of the Buyer; (ii) the date of the Approval Motion; (iii) the relief that the Debtors will seek at the Approval Motion; (iv) the Monitor's Website where all motion materials filed in connection with the Approval Motion will be posted on May 9, 2018; and (v) the Monitor's contact information.

7.20 In the Monitor's view, the Assignment and Distribution Notices, the Supplementary Assignment and Distribution Notices and the Newspaper Notice provide the counterparties to the Leases other than MNRF effective and sufficient notice of the Approval Motion and the relief the Debtors will seek at that motion, including the assignment of the Leases (other than the MNRF Leases) to the Buyer pursuant to CCAA section 11.3 and the intended distribution of net sale proceeds to the Lender.

7.21 As of the date of this Third Report, the Monitor has received one written objection to the Cure Costs listed in an Assignment and Distribution Notice and two objections to the assignment of a Lease to the Buyer. The Monitor is currently in discussions with each of these counterparties with a view to resolving these matters before the return of the Approval Motion.

7.22 The Debtors also seek an order pursuant to section 11.3 of the CCAA compelling the assignment to the Buyer of those Consent Required Contracts, other than the Leases, in respect of which consent to assignment has not been obtained and which are listed on **Appendix “I”** hereto (the “**Assigned Trade Contracts**” and together with the Leases (other than the MNRFL Leases), the “**Assigned Contracts**”).

7.23 The Buyer, in consultation with the Monitor, has contacted certain of the counterparties to the Assigned Trade Contracts, to seek consent to the assignment of its Assigned Trade Contract to the Buyer. Such discussions remain ongoing. At the Approval Motion, the Debtors will only seek the assignment of those Assigned Trade Contracts in respect of which the counterparty has not consented to the assignment of its Assigned Trade Contract to the Buyer. All counterparties to the Assigned Trade Contracts will be served with the Debtors’ Motion Record in connection with the Approval Motion and this Third Report, and such service will include a notice (the “**Trade Contract Assignment Notice**”) notifying such counterparty of the relief that the Debtors intend to seek at the Approval Motion. A copy of the Trade Contract Assignment Notice is attached hereto at **Appendix “J”**.

7.24 In the Monitor’s view, the factors set out in section 11.3(3) have been met for the following reasons:

- a) to the best of the Monitor's knowledge: (i) none of the Assigned Contracts is a collective agreement as contemplated by section 11.3(2) of the CCAA; (ii) none of the Assigned Contracts is an agreement entered into after the Filing Date, although certain of the Leases have been renewed in accordance with their terms after the Filing Date; and (iii) other than three Assigned Trade Contracts that, by their terms, purport to be eligible financial contracts, none of the Assigned Contracts is an eligible financial contract as contemplated by section 11.3(2) of the CCAA. The Monitor is currently reviewing those Assigned Trade Contracts that purport to be eligible financial contracts and the list of Assigned Trade Contracts will be revised as required;
- b) the Buyer has agreed to pay the Cure Costs, as set out in the Debtors' books and records, arising under the Assigned Contracts. Such amounts will be paid to the Monitor who will then disburse the Cure Costs promptly after Closing;
- c) the Monitor understands that a representative of the Buyer will be swearing an affidavit demonstrating the Buyer's ability to perform the obligations arising under the Assigned Contracts;
- d) the Monitor approves the proposed assignment of the Assigned Contracts to the Buyer. Approval of the Transaction is in the best interest of Dundee's stakeholders and Court approval of the assignment of the Assigned Contracts to the Buyer is a condition of the Purchase Agreement; and
- e) it is a requirement of the Transaction that all Assigned Contracts be assigned to

the Buyer. However, given the number of Assigned Contracts, it is not practical to seek the consent to the proposed assignment from the counterparty to each Assigned Contract. Notice of the proposed order pursuant to CCAA Section 11.3(3) has been provided to all counterparties to the Assigned Contracts pursuant to the Assignment and Distribution Notice, Newspaper Notice, Trade Contract Assignment Notice, and/or by actual service. Given that the Monitor has concluded that the Transaction is in the best interests of the Debtors' stakeholders and that there is no prejudice to any of the counterparties to the Assigned Contracts as a result of the proposed assignment of the Assigned Contracts, it is appropriate to assign the rights and obligations arising under the Assigned Contracts to the Buyer.

7.25 The Buyer requires the Debtors to obtain, before Closing, a further Order of the Court directing the applicable Land Registry Office and/or Land Titles Office to enter the Buyer as the lessee under each of the applicable Leases (other than the MNRF Leases) and to delete and expunge from the title to the freehold properties against which notices of the Leases and related instruments are registered all of the instruments registered in favour of the Lender in connection with the Leases, once the applicable schedules have been prepared by the Debtors.

Section 36 of the CCAA

7.26 Section 36(1) of the CCAA states:

Restriction on disposition of business assets

(1) A debtor company in respect of which an order has been made under this Act may not sell or otherwise dispose of assets outside the ordinary course of business unless authorized to do so by a court. Despite any requirement for shareholder approval, including one under federal or provincial law, the court may authorize the sale or disposition even if shareholder approval was not obtained.

7.27 Section 36(3) of the CCAA states:

Factors to be considered

(3) In deciding whether to grant the authorization, the court is to consider, among other things,

(a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances;

(b) whether the monitor approved the process leading to the proposed sale or disposition;

(c) whether the monitor filed with the court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy;

(d) the extent to which the creditors were consulted;

(e) the effects of the proposed sale or disposition on the creditors and other interested parties; and

(f) whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.

7.28 Section 36(6) of the CCAA authorizes the court to authorize a sale free and clear of any security, charge or other restriction.

7.29 The Monitor has reviewed the non-exhaustive list of factors to be considered by the Court pursuant to section 36 of the CCAA when deciding whether to approve the Purchase Agreement. For the reasons described below, in the Monitor's view, the application of each of these factors to the SSP and the Purchase Agreement supports approval of the Purchase Agreement by the Court.

The process leading to the proposed sale was reasonable

7.30 In the Monitor's view, the process leading to the Purchase Agreement was fair, reasonable and transparent in the circumstances for the following reasons:

- a) the SSP was approved by the Court pursuant to the Sale Process Order and is similar to sale and marketing processes that have been approved by the Court in other CCAA proceedings;
- b) the Monitor is satisfied that the sale process was carried out substantially in accordance with the terms of the SSP and the opportunity to acquire the Property was widely known;
- c) the timelines provided for under the SSP were reasonable and, where necessary, extended with the consent of the Lender. The SSP spanned a period of approximately seven months, commencing on August 16, 2017, the date of the Sale Process Order, and concluding on April 4, 2018, the Revised Final Bid Deadline;
- d) the SSP allowed interested parties adequate opportunity to conduct due diligence and Management responded to requests for information and documentation; and
- e) all interested parties were given an opportunity to submit a Final Bid by the Phase 2 Bid Deadline and the remaining Qualified Bidders were provided the same notice and opportunity to submit a revised Final Bid by the Revised Final Bid Deadline.

The Monitor approved the SSP

7.31 The Proposal Trustee reviewed and approved the SSP, which was approved by the Court pursuant to the Sale Process Order. Further, the Proposal Trustee, and subsequently the Monitor, carried out the SSP in accordance with the Sale Process Order.

The Transaction is more beneficial to stakeholders than a liquidation under a bankruptcy

7.32 The Monitor has considered whether the Transaction would be more beneficial to the Debtors' stakeholders than a sale or disposition of the Purchased Assets under a bankruptcy. The Monitor is satisfied that the Purchase Price under the Purchase Agreement exceeds the potential liquidation value of the Purchased Assets. The Transaction also eliminates the risk that a bankruptcy might result in the abandonment of the Property, or that the environmental programs in place with respect to the Wells will not be continued.

The extent to which creditors were consulted

7.33 Other than the Court-ordered charges in this proceeding (other than the Proposal Directors' Charge and the CCAA Directors' Charge), the claim of Nadro Marine Services Limited ("**Nadro**") described below and certain municipal tax arrears, the Monitor is not aware of any claims against the Property which rank or which may rank in priority to the Lender's security. Sufficient funds to satisfy the Nadro claim will be held by the Monitor following closing and the obligation to pay municipal tax arrears will be assumed by the Buyer on Closing.

7.34 The Lender was regularly consulted on the implementation of the SSP and has confirmed that it supports the Transaction and Purchase Agreement. The SSP did not require the Monitor to consult with any party other than the Lender regarding the SSP. Although no other creditor was consulted regarding the SSP, the Monitor is of the view that additional creditor consultation would not have resulted in a transaction superior to the Transaction.

Effects of the Transaction on creditors and other interested parties

7.35 The Monitor estimates that on Closing Dundee will be indebted to the Lender in the amount of approximately \$55.4 million. Based on the Purchase Price payable under the Transaction, the Lender will experience a shortfall on its secured claim against the Debtors and no funds will be available for distribution to the other creditors of the Debtors.

7.36 In addition to the amounts payable to the Lender, Cure Costs will be paid to contract counterparties, as required under section 11.3 of the CCAA and under the Purchase Agreement. The Purchase Agreement also provides that the Buyer will be responsible for the Assumed Liabilities related to the Purchased Assets, as described above, including all Environmental Liabilities.

7.37 The Transaction will additionally allow the business to continue as a going concern, which will provide benefits for the Assumed Employees, as well as Dundee's former customers, suppliers and service providers.

7.38 In the Monitor's view, there is no prospect of an alternative transaction which would provide any recovery to Dundee's other creditors. In the Monitor's view, the Transaction represents the best outcome available for all stakeholders and does not prejudice creditors subordinate to the Lender.

The consideration to be received under the Transaction is fair and reasonable in the circumstances

7.39 The Monitor carried out a rigorous and thorough sale process in accordance with the SSP. The Purchase Agreement represents the highest and best offer received in respect of the Purchased Assets on or before the Revised Final Bid Deadline as set out in the Revised Final Bid Letter. The Revised Final Bid Letter expressly provides that the Monitor will not consider any revised Final Bid received after the Revised Final Bid Deadline. Further, as stated above, the Monitor is of the view that the Purchase Price exceeds the potential liquidation value of the Purchased Assets.

7.40 The Monitor is of the view that the consideration provided for in the Purchase Agreement is fair and reasonable in the circumstances.

7.41 For these reasons and those stated above, the Monitor is of the view that the approval of the Transaction is in the best interest of Dundee's stakeholders and the Monitor supports the Debtors' request for approval of the Transaction and the granting of the AVO.

Sealing of Confidential Appendices "A" and "B"

7.42 The Debtors have requested that the Court grant an Order sealing **Confidential Appendices "A" and "B"** until the Closing of the Transaction.

7.43 The Monitor is of the view that such an Order is necessary in the circumstances as Confidential Appendices “A” and “B” set out the terms of the other revised Final Bid received by the Monitor, as well as the Purchase Price for the Transaction. Disclosure of this information could prejudice the Monitor’s ability to obtain the highest and best offer to purchase the Purchased Assets in the event that the Transaction does not close and the Purchased Assets must be remarketed by the Monitor. Other than the Purchase Price, no other terms in the Purchase Agreement have been redacted.

8.0 SECURITY REVIEW, DISTRIBUTION AND RESERVES AND SURRENDERED LEASES

Security Review

8.1 As noted above, it is estimated that Dundee will be indebted to the Lender in the amount of approximately \$55.4 million at Closing. As set out in the security opinion provided to the Monitor by its counsel, Thornton Grout Finnigan LLP, subject to the usual qualifications and assumptions set out therein, the Lender’s personal property security is valid and legally enforceable against the Debtors and the Monitor.

8.2 The Monitor has engaged Torkin Manes LLP (“**Torkin Manes**”) as its real estate counsel to conduct a review of the Lender’s security interest in the real property interests held by Dundee. Torkin Manes has conducted and completed a review of the Lender’s security interest in the fee simple properties owned by Dundee. As set out in the security opinion provided or to be provided to the Monitor by Torkin Manes relating to the freehold interests of Dundee in various real property, subject to the qualifications and assumptions set out therein, including, without

limitation, the general title qualifications and the specific encumbrances referenced therein, the Lender has a first fixed and specific charge of each of the real properties owned by Dundee.

8.3 Given the significant cost which would be incurred for Torkin Manes to review all of the Leases, the Monitor, in consultation with Dundee and Torkin Manes, has determined that it is appropriate to review a sample of the Wells and Leases, which for greater certainty did not include a review of any easements forming part of the Leases as security is not typically registered against the title to any real property in connection with easements (the Leases excluding the easements are hereinafter collectively referred to as the “**Reviewed Leases**”). Accordingly, Torkin Manes has conducted a sample review of the Reviewed Leases and Wells, as more particularly described herein and specifically in Section 8.5 below, in order to determine whether the Lender is entitled to proceeds of sale of these assets as first priority secured creditor. The Monitor, in consultation with Dundee and Torkin Manes, developed an appropriate method to select the sample of the Reviewed Leases and Wells as described below.

8.4 In order to determine which Wells and Leases would be reviewed, the Monitor considered the independent reserve estimation and economic evaluation report, effective December 31, 2016 prepared by a large national accounting firm (the “**Reserve Report**”), which attributes a specified value to each Well. The Monitor, in consultation with Dundee, determined that a review of 40 off-shore Leases would capture 162 off-shore Wells (as some Reviewed Leases are tied to multiple Wells) and 30% of the total value of all Wells as determined under the Reserve Report. The on-shore Wells as a whole are lower in value than the off-shore Wells as a whole and are more costly and time consuming to review as the on-shore Wells are located on parcels of real property owned by various individuals with significantly more

documentation than the documentation relating to the off-shore Wells, including multiple leases, assignments of leases, pooling and/or unitization agreements and multiples charges of the applicable Reviewed Leases relating to the on-shore Wells. Accordingly, Torkin Manes reviewed the Reviewed Leases for 20 on-shore Wells, which comprised approximately 121 Reviewed Leases, more than 200 individual parcels of land and approximately 36% of the value attributed to all on-shore Wells under the Reserve Report. Overall, the Monitor’s total sample of the on-shore and off-shore Reviewed Leases and Wells that were reviewed represents 44% of the total value of all Wells as determined under the Reserve Report.

8.5 Below is a chart which sets out the scope of the security review with respect to both the off-shore and the on-shore Wells and related Reviewed Leases:

	Offshore	Onshore	Total
Number of Wells included in the sample size	162	20	182
Total producing Wells	423	152	575
Total Wells	466	175	641
Sample size coverage of total value of Wells	49%	36%	44%
Number of leases included in the sample size	40	121	161

8.6 With respect to the Reviewed Leases, as set out in the security opinion provided or to be provided to the Monitor by Torkin Manes, subject to the qualifications and assumptions set out therein, including, without limitation, the general title qualifications and the exceptions referenced therein, and notwithstanding the items identified below, the Lender has a first fixed and specific charge of the Debtors' leasehold interest(s) in each of the applicable properties against title to which the Reviewed Leases were registered (collectively, the “**Offshore and Onshore Properties**”) and are referenced in each applicable charge of lease, notice of charge of lease and/or instrument of a similar nature registered in favour of the Lender against the title to the applicable Offshore and Onshore Properties.

8.7 With respect to the Reviewed Leases relating to the on-shore Wells that formed part of the security review, Torkin Manes identified the following items to note:

- a) 17 of the Reviewed Leases were misclassified as relating to on-shore Wells but actually related to off-shore Wells and were, therefore, not reviewed as part of Torkin Manes' review of the on-shore Wells and do not form part of the Torkin Manes security opinion relating to the Reviewed Leases;
- b) one of the parcels of land forming part of the security review is owned by Dundee in fee simple and is, therefore, excluded from the Torkin Manes security opinion relating to the Reviewed Leases but is included in the Torkin Manes security opinion relating to the freehold interests of Dundee referenced in Section 8.2 above;

- c) four of the parcels of land forming part of the security review and relating to on-shore Wells have leasehold interests in favour of Dundee registered against the title to them but the security in favour of the Lender has either been discharged or remains on title but relates to Reviewed Leases that have been discharged, such that there is no longer any underlying security;
- d) six of the parcels of land forming part of the security review and relating to on-shore Wells do not have any registrations relating to the Reviewed Leases in favour of the Debtors registered against the title to such parcels and, therefore, do not have any security registered against their title in favour of the Lender and should not form part of the Purchased Assets;
- e) approximately 50 of the parcels of land forming part of the security review have both:
 - (i) Reviewed Leases and corresponding security in such Reviewed Leases and the leasehold interests set out therein in favour of the Lender registered against the title to such parcels, and
 - (ii) various instruments granting to Dundee leasehold interests in such parcels that were registered subsequent to the instruments referenced in subsection (i) above and for which there is no corresponding registration evidencing the charging of such leasehold interest in favour of the Lender, all as more particularly set out in the security opinion of Torkin Manes relating to the off-shore and on-shore Reviewed Leases; and

- f) there are six parcels of land forming part of the security review which have Reviewed Leases registered against the title to such parcels and corresponding security in such Reviewed Leases and the leasehold interests set out therein in favour of the Lender, but the title to such parcels also reflects gaps in the chain of assignment of certain other Reviewed Leases such that it is unclear if such Reviewed Leases affected by such gaps in the chain of assignment were properly assigned to Dundee and/or charged in favour of the Lender, with the latter set of Reviewed Leases being excluded from the Torkin Manes security opinion relating to the Reviewed Leases.

8.8 With respect to the Reviewed Leases referenced in subsection (e) above, the Monitor's counsel is of the view that, given that there are no other secured parties of any one or more of the Debtors with a registration against such Reviewed Leases, the proceeds of the sale of the Debtors' leasehold interest in such Reviewed Leases are secured by the personal property security that is the subject of the security opinion provided to the Monitor by Thornton Grout Finnigan LLP referenced in Section 8.1 above.

8.9 With respect to the gaps in the chain of assignment of certain Reviewed Leases as noted in subsection (f) above, the title to the relevant parcels of land indicate that the current lessee under each of the affected Reviewed Leases is Talisman Energy Inc. or a predecessor corporation thereto, being the entity from which the Debtors purchased various assets of the Debtors including the Reviewed Leases in 2010. The Monitor has assumed that such Reviewed Leases were to have been assigned to Dundee as part of the aforementioned transaction between the Debtors and Talisman Energy Inc. but that the parties inadvertently failed to register notices

of assignments of such Reviewed Leases against the title to the relevant parcels of land. Notwithstanding such failure, the Monitor's counsel is of the view that, given that there are no other secured parties of any one or more of the Debtors with a registration against such Reviewed Leases, the proceeds of the sale of the Debtors' leasehold interest in such Reviewed Leases are secured by the personal property security that is the subject of the security opinion provided to the Monitor by Thornton Grout Finnigan LLP referenced in Section 8.1 above.

8.10 There are registrations against the title to eight of the properties against which the Reviewed Leases and related security in favour of the Lender are registered pursuant to which predecessor lessees to Dundee under such Reviewed Leases, such as Ram Petroleums Limited and Pembina Exploration Limited, granted security in the Reviewed Leases in favour of parties other than the Lender as follows:

- (a) General Assignment under Section 177 of the *Bank Act* from Pembina Exploration Co. Ltd. in favour of The Royal Bank of Canada registered on February 6, 1986 as Instrument No. LT11511;
- (b) General Assignment under Section 177 of the *Bank Act* from Ram Petroleums Limited in favour of the Bank of Nova Scotia registered on December 9, 1988 as Instrument No. R1070638;
- (c) Notice of Security Interest pursuant to section 54 of the *Personal Property Security Act* from Pembina Exploration Limited in favour of Reserve Royalty Corporation registered on November 13, 1996 as Instrument No. R1364243; and
- (d) Charge of Leases from Pembina Exploration Limited in favour of Reserve Royalty Corporation registered on November 13, 1996 as Instrument No. R1364244.

8.11 Notwithstanding the foregoing, there were no registrations against the title to any of the parcel registers reviewed by Torkin Manes in connection with its security review relating to the Reviewed Leases that evidenced any charge or other security granted by Dundee in its leasehold

interest in the Reviewed Leases or the relevant properties in favour of any party other than the Lender.

8.12 As noted above, other than the court-ordered charges in this proceeding (other than the Proposal Directors' Charge and the CCAA Directors' Charge), the possessory lien claimed by Nadro described below, municipal tax arrears which will be assumed by the Buyer on Closing and the security in the Reviewed Leases listed in paragraph 8.10 above, the Monitor is not aware of any claims against the Property ranking in priority to the Lender's security, other than certain Cure Costs that will be paid on Closing.

Distribution and Reserves

8.13 The Debtors seek an order directing that the net sale proceeds from the Transaction be distributed to the Lender, as first secured creditor, subject to retention by the Monitor of the Professional Fee Reserve and *Miss Libby* Reserve.

8.14 Nadro has claimed a priority maritime possessory lien over the vessel *Miss Libby*, which forms part of the Purchased Assets, for unpaid towage services. Nadro's claim is in the amount of \$199,727.51, which claim Nadro asserts ranks in priority to the Lender's mortgage security over *Miss Libby*. The Buyer has allocated a value to *Miss Libby* in excess of Nadro's claim. Accordingly, Dundee will direct to the Monitor on Closing a portion of the net sale proceeds in an amount to be determined among the Lender and Nadro, in consultation with the Monitor (the "***Miss Libby Reserve***"). The *Miss Libby* Reserve shall be payable in part or in whole to either the Lender or Nadro in accordance with a written direction from the Lender and Nadro, or by further Order of the Court.

8.15 Also on Closing, the aggregate amount of the Proposal Administration Charge and the CCAA Administration Charge will be reduced from \$250,000 to \$200,000. Dundee will direct to the Monitor a further portion of the net sale proceeds in the amount of \$200,000 (the “**Professional Fee Reserve**”) which shall be subject to the Administration Charge and shall be utilized to fund the professional fees and expenses of the Debtors and their legal counsel, the Monitor and its legal counsel and the Lender and its legal counsel until the conclusion of these CCAA proceedings. Any excess funds remaining after the conclusion of these CCAA proceedings will be distributed by Dundee to the Lender.

8.16 All amounts owing by Dundee to the Lender and secured by the Proposal DIP Charge and the CCAA DIP Charge will be permanently repaid from the proposed distribution to the Lender upon Closing of the Transaction. Accordingly, the Proposal DIP Charge and the CCAA DIP Charge will be discharged upon Closing.

8.17 The Proposal Directors’ Charge and the CCAA Directors’ Charge rank subordinate in priority to the Lender’s security and will be discharged upon closing.

8.18 Other than as listed above, the Monitor and the Debtors are not aware of any other priority creditors. Interested parties have received notice of the intended distribution to the Lender through the Assignment and Distribution Notice, the Supplementary Assignment and Distribution Notice, the Newspaper Notices, the Trade Contract Assignment Notices or service of Dundee’s motion materials.

Surrendered Leases

8.19 The Monitor has been made aware that there are approximately 350 leases that do not

form part of the Purchased Assets which Dundee has previously surrendered or is in the process of surrendering (collectively, the “**Surrendered Leases**”). The Surrendered Leases and related instruments thereto evidencing and relating to Dundee’s leasehold interest in the Surrendered Leases, along with the related registered instruments in favour of the Lender, remain on title to the properties subject to the Surrendered Leases. Accordingly, the Monitor understands that a plan is being formulated to delete such registered instruments, including the registered instruments in favour of the Lender relating to the Surrendered Leases, from the title to the subject properties. The Monitor, in consultation with Dundee and the Lender, is reviewing the most efficient way to delete and expunge the Surrendered Leases and the registered instruments in favour of the Lender relating to the Surrendered Leases and will update the Court once a path forward has been determined.

9.0 CASH FLOW RESULTS RELATIVE TO FORECAST

Cash Flow Results and Variances

9.1 Cash receipts and disbursements since the Second Report for the two-week period ended April 27, 2018 (the “**Reporting Period**”) as compared to the cash flow forecast filed in the Second Report (the “**April Cash Flow Forecast**”) are presented in the table below:

Dundee Energy Limited Partnership and Dundee Oil & Gas Limited			
Schedule of Actual Receipts and Disbursements Compared to the April Cash Flow Forecast⁽¹⁾			
For the Two-Week Period Ended April 27, 2018			
(\$000's CAD)			
	<u>Actual</u>	<u>Forecast</u>	<u>Variance</u>
Oil	854	1,013	(159)
Gas	1,192	1,119	73
Other	-	-	-
Total Collections	2,046	2,132	(86)
<i>Operating Expenses</i>			
Production Expenditures	(447)	(302)	(145)
Landowner Disbursements	-	(7)	7
Abandonment Costs	(115)	(212)	97
Total Operating Expenses Disbursements	(562)	(521)	(41)
<i>Payroll/Other Expenses</i>			
Payroll	(198)	(191)	(7)
G&A	(16)	(39)	23
Interest & Financing Fees	-	-	-
Realized Risk Mgmt. Gain / (Loss)	-	-	-
Restructuring Expenses	(181)	(650)	469
Total Payroll/Other Expenses Disbursements	(395)	(880)	485
Net Cash Flow	1,089	731	358
Opening Credit Facility Balance⁽²⁾	(54,269)	(54,573)	
Bridge ⁽³⁾		304	
Change in Credit Facility Balance	1,089	731	
Closing Credit Facility Balance	(53,180)	(53,538)	
Bank Line Limit	(58,000)	(58,000)	
Bank Line Availability	4,820	4,462	358
Note 1			
Readers are cautioned to read the Terms of Reference as set out in paragraph 3 in the Third Report.			
Note 2			
Opening actual Credit Facility Balance includes \$57.3M credit facility balance net of cash on deposit of \$3.2M and outstanding cheques in the amount of \$0.1M.			
Note 3			
Adjustment for timing differences for forecast results between the intervening period of the March and April Cash Flow Forecasts.			

9.2 During the Reporting Period, Dundee's total cash receipts in the amount of \$2.0 million were approximately \$0.1 million lower than forecast due to lower realized pricing on oil sales relative to forecast.

9.3 Dundee's total disbursements in the amount of \$1.0 million during the Reporting Period were approximately \$0.5 million lower than projected in the April Cash Flow Forecast.

Management attributes the variance primarily to timing differences of (i) production expenditures; (ii) abandonment costs; and (iii) restructuring expenses.

Credit Facility

9.4 As at April 27, 2018 the amount outstanding under the Credit Facility net of cash on deposit (the “**Credit Facility Balance**”) was \$53.2 million, which is approximately \$0.4 million lower than forecast due to the comments noted above. Since the date of the Sale Process Order, the Lender has advanced approximately \$1.6 million to DELP, which such amounts are secured by the DIP Charge and/or CCAA DIP Charge, as applicable. Further, since the date of the Sale Process Order, DELP has repaid \$1.8 million owing under the Credit Facility from post-filing receipts.

10.0 CASH FLOW FORECAST UPDATE

10.1 As noted above, the Debtors have prepared the Cash Flow Forecast for the period ending September 28, 2018 (the “**Cash Flow Period**”). The Cash Flow Forecast is attached as **Appendix “C”**.

10.2 The Cash Flow Forecast is presented on a weekly basis during the Cash Flow Period and represents Management’s estimate of the projected cash flow during the Cash Flow Period. The Cash Flow Forecast has been prepared using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast (the “**Cash Flow Assumptions**”).

10.3 The Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by s. 23(1)(b) of the CCAA, which requires the Monitor to review the

debtor's cash flow statement as to its reasonableness and report on the reasonableness of the cash flow statement to the Court. Pursuant to this standard, the Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of Management and employees of Dundee. The Monitor reviewed information provided by Management for the Cash Flow Assumptions.

10.4 The Cash Flow Forecast indicates that Dundee will have sufficient liquidity to operate the business as a going concern during the Stay Period and the Cash Flow Period.

10.5 The Cash Flow Forecast projects that the Credit Facility Balance as at September 28, 2018 will be \$56.0 million, which is an increase of \$2.8 million from the opening Credit Facility Balance as at April 28, 2018 of \$53.2 million. The increase in the Credit Facility Balance during the Cash Flow Period is mainly due to the Debtors' seasonal operations, as cash disbursements increase when weather conditions are favorable as the Debtors conduct well maintenance and abandonment activities on Lake Erie. The Cash Flow Forecast projects collections during the Cash Flow Period of \$11.4 million primarily related to oil and natural gas sales with the largest disbursements during the Cash Flow Period related to operating expenses \$3.4 million and payroll expenses of \$3.1 million.

10.6 The Cash Flow Forecast has been prepared solely for the purpose described above and readers are cautioned that it may not be appropriate for other purposes.

11.0 EXTENSION OF THE STAY PERIOD

11.1 Pursuant to the Initial Order, the Stay Period will expire on June 30, 2018. The Debtors are seeking an extension of the Stay Period to September 28, 2018.

11.2 The Monitor supports extending the Stay Period to September 28, 2018 for the following reasons:


- a) extending the Stay Period is required to enable Dundee to continue to operate in the ordinary course pending closing of the transaction under the Purchase Agreement;
- b) it is forecasted that Dundee has sufficient liquidity to continue operating in the ordinary course of business during the requested Stay Period;
- c) no creditor would be materially prejudiced by the extension of the Stay Period;
and
- d) the Debtors have acted in good faith and with due diligence in these CCAA proceedings since the Initial Order.

12.0 MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

12.1 For the reasons set out in the Third Report, the Monitor is of the view that the relief requested by Dundee, particularly, (a) approval of the Transaction and granting the AVO; (b) sealing Confidential Appendices "A" and "B" until the Closing of the Transaction; (c) granting the assignment of the Assigned Contracts to the Buyer pursuant to section 11.3 of the CCAA; (d) authorizing the distribution to the Lender of the net sale proceeds of the Transaction, subject to the *Miss Libby* Reserve and the Professional Fee Reserve; and (e) extending the Stay Period to September 28, 2018, is reasonable in the circumstances and respectfully recommends that the Court grant the relief sought by Dundee.

All of which is respectfully submitted this 9th day of May, 2018.

**FTI Consulting Canada Inc., solely in its capacity as
Monitor of Dundee Oil and Gas Limited and not in its personal
or corporate capacity**



Per: Jeffrey Rosenberg
Senior Managing Director