

COURT FILE NUMBER 1601-06765
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF ENDURANCE ENERGY LTD.
DOCUMENT **TENTH REPORT OF FTI CONSULTING CANADA INC., IN
ITS CAPACITY AS MONITOR OF ENDURANCE ENERGY
LTD.**

November 30, 2016

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
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INTRODUCTION

1. On May 30, 2016, Endurance Energy Ltd. (“**Endurance**” or the “**Applicant**”) sought and obtained protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an order granted by this Honourable Court (the “**Initial Order**”). The proceedings commenced by the Applicant under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. The Initial Order granted, *inter alia*, (i) a stay of proceedings against the Applicant until and including June 29, 2016 (the “**Stay Period**”), (ii) appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”), (iii) approving the DIP Facility Loan Agreement between the Applicant and WP Private Equity XI Inc. for interim funding during the CCAA Proceedings and (iv) approving the engagement of BMO Nesbitt Burns Inc. as the Applicant’s financial advisor.
3. Also on May 30, 2016, this Honourable Court granted an order (the “**Sale Process Order**”) which, *inter alia*, approved a sale process (the “**Sale Process**”) as set out in Schedule “A” to the Sale Process Order.
4. On June 15, 2016, this Honourable Court granted an Amended and Restated Initial Order which, *inter alia*, reduced the amount of the Administration Charge from \$2.5 million to \$1.5 million and included the fees of the Lenders professional advisors in the Administration Charge. The Initial Order and the Amended and Restated Initial Order are referred to herein collectively as the “**Initial Order**”.
5. On June 22, 2016, after subsequent court hearings on June 8 and June 15, the stakeholders agreed on an amended Sale Process and this Honourable Court granted an order approving the amended Sale Process which, *inter alia*, amended Schedule “A” of the Sale Process Order and approved the Amended and Restated DIP Facility Loan Agreement.

6. On June 27, 2016, this Honourable Court granted an order which, *inter alia*, extended the Stay Period to and including August 5, 2016.
7. On August 2, 2016, this Honourable Court granted an order (the “**KERP and KEIP Order**”) which, *inter alia*, authorized and approved the KERP and KEIP and granted the KERP Charge and KEIP Charge and extended the Stay Period to and including August 31, 2016.
8. On August 26, 2016, this Honourable Court granted an order which, *inter alia*, extended the Stay Period to and including September 30, 2016.
9. On September 2, 2016, this Honourable Court granted an order which, *inter alia*, approved the Amending Agreement to the Amended and Restated DIP Facility Loan Agreement which extended the maturity date to September 30, 2016 (the “**Maturity Date**”).
10. On September 27, 2016, this Honourable Court granted an order (the “**Sale Approval and Vesting Order**”) which, *inter alia*, approved the Transactions (as defined in Sale Approval and Vesting Order) and extended the Stay Period to and including November 25, 2016.
11. On October 6, 2016, this Honourable Court granted an order which, *inter alia*, approved the Second Amending Agreement to the Amended and Restated DIP Facility Loan Agreement which extended the Maturity Date to the earlier of (i) the closing of the sale of all or substantially all of the Applicant’s assets or (ii) October 30, 2016.

12. On November 21, 2016, this Honourable Court granted the following orders:
- (a) an order which, *inter alia*, approved the procedures outlined for the submission of Claims against the directors and officers of the Applicant (the “**Directors and Officers Claims Procedure Order**”); and
 - (b) an order which, *inter alia*, approved a \$100 million interim distribution to the Lenders (the “**Interim Distribution**”) and extended the Stay Period to and including January 31, 2017 (the “**Interim Distribution and Stay Extension Order**”).

PURPOSE

13. The purpose of this tenth report of the Monitor (the “**Tenth Report**”) is to provide this Honourable Court with the Monitor’s summary and comments with respect to:
- (a) the activities of the Monitor since the Ninth Report of the Monitor dated November 15, 2016;
 - (b) the Applicant’s request for relief expanding the Monitor’s powers as defined in the Initial Order; and
 - (c) the Applicant’s request for relief to make a second interim distribution to the Lenders in the amount of the \$25 million (the “**Second Interim Distribution**”).

TERMS OF REFERENCE

14. 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.
15. 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.
16. Further background and information regarding the Applicant's and these CCAA Proceedings can be found on the Monitor's website (the "**Monitor's Website**") at <http://cfcanada.fticonsulting.com/endurance>.
17. 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 Initial Order and the Directors and Officers Claims Procedure Order.

ACTIVITIES OF THE MONITOR

18. Since the Ninth Report of the Monitor dated November 15, 2016, the Monitor has:
- (a) reviewed the Applicant's cash disbursements on a weekly basis;
 - (b) made the Interim Distribution of \$100 million to the Lenders on behalf of the Applicant and in accordance with the Interim Distribution and Stay Extension Order;
 - (c) published the Notice to Claimants in accordance with the Directors and Officers Claims Procedure Order; and
 - (d) provided assistance to the Applicant in preparing an estimate of the costs to complete the remaining administration of the CCAA Proceedings including settlement of the final statement of adjustments in connection with the Sale Agreements (the "**Wind-down Budget**").
19. On or about June 6, 2016, as prescribed by the CCAA, the Monitor sent a notice to every known creditor who had a claim against the Applicant in excess of \$1,000, made a copy of the Initial Order and other materials available on the Monitor's Website and arranged for the publication of a notice containing the information prescribed under the CCAA in the Globe and Mail (National Edition) on June 9, 2016 (collectively, the "**CCAA Notices**").

20. As described in the Ninth Report of the Monitor dated November 15, 2016, counsel to the Monitor provided an opinion on the validity of the Lenders' security as against the Applicant's Property; however, due to the number of wells operated by the Applicant (approximately 900 wells), it was not practical or cost effective to search title to each of these properties. Out of an abundance of caution and to ensure no creditors were asserting a claim in priority to the Lenders, the Monitor published notice of the November 21, 2016 application in the Calgary Herald on November 11, 2016 and in the Globe and Mail (National Edition) on November 14, 2016 (collectively, the "Notice"). The purpose of the Notice was to make the public and potential creditors who have not participated in these proceedings nor asked for notice in these proceedings (including any party that may assert a priority over the Lenders' security) aware of the interim distribution application that was heard by this Honourable Court on November 21, 2016.
21. Neither the Monitor nor the Applicant have been made aware of any party asserting a priority claim over the security of the Lenders as a result of the CCAA Notices, the Notice, or otherwise.

Directors and Officers Claims Procedure

22. On November 22, 2016, the Monitor posted the Notice to Claimants, the Claims Package and the Directors and Officers Claims Procedure Order to the Monitor's Website in accordance with the the Directors and Officers Claims Procedure Order.
23. On November 25, 2016, the Monitor published the Notice to Claimants in the Globe and Mail (National Edition) in accordance with the Directors and Officers Claims Procedure Order.

24. The Monitor has received Claims in connection with the Claims Procedure and will review them in accordance with the Claims Procedure to determine whether to accept, revise or disallow the amount of each Claim. However, after the Monitor's preliminary review, it does not appear that any of the Claims are as against the current or former Directors or Officers of the Applicant.

EXPANSION OF THE MONITOR'S POWERS

25. Since the closing date of the sale transactions, the Applicant has continued its efforts to transition the purchased assets to the Purchaser and substantially wind-down the estate. The Applicant has reduced staff to a minimal level and retained only those personnel whose services were deemed necessary to assist with any post-closing matters. In connection with such post-closing matters, the Applicant has retained the services of four former employees on a contract basis whose services are likely to be substantially complete by the end of December 2016.
26. As more fully described in the Applicant's materials filed in connection with the application scheduled to be heard by this Honourable Court on December 5, 2016, the Applicant is seeking relief to expand the Monitor's powers in respect of the Applicant (the "**Expanded Monitor's Powers**"), in addition to the powers and duties set out in the Initial Order, authorizing and empowering the Monitor to:
- (a) preserve, protect and maintain control of the Property, or any parts thereof;
 - (b) take all steps and actions the Monitor considers necessary or desirable in these proceedings including, without limitation:
 - (i) retaining or terminating employees or contractors; and

- (ii) administering and winding-down the estate of the Applicant and making and endorsing all filings related thereto (including, without limitation, tax returns and tax filings).
- (c) engage consultants, agents, experts, accountants and such other persons from time to time and on whatever basis, including on a temporary basis;
- (d) receive, collect and take possession of all monies and accounts now owed or hereafter owing to the Applicant;
- (e) execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Monitor's name or in the name and on behalf of the Applicant (including, without limitation, tax returns and tax filings);
- (f) initiate, prosecute, make and respond to applications in, and continue the prosecution of any and all proceedings on behalf of or involving the Applicant (including the within proceedings) and settle or compromise any proceedings or claims by or against the Applicant;
- (g) exercise any rights which the Applicant may have;
- (h) provide instruction and direction to the advisors of the Applicant;
- (i) make any distribution or payments required under any order in these CCAA Proceedings;
- (j) assign the Applicant into bankruptcy or obtain a bankruptcy order against the Applicant; and

- (k) to perform such other duties or take any steps reasonably incidental to the exercise of such powers and obligations conferred upon the Monitor by this Order or any other order of this Court.
27. The Expanded Monitor's Powers would come into force and effect upon the filing of a Monitor's Transition Certificate with this Honourable Court, and the Monitor will have the authority and discretion to file the Monitor's Transition Certificate as and when it deems appropriate to do so.
28. The Monitor supports the Applicant's position that in the absence of any directors and/or employees, expanding the Monitor's powers will ensure the ability to cost effectively preserve, protect and maintain control of the Applicant's property, collect funds on behalf of the Applicant, make distributions on behalf of the Applicant, sign documents on behalf of Applicant and instruct advisors to assist in completing the remaining matters and assign the Applicant into bankruptcy at such time as the Monitor deems appropriate.
29. The Monitor is willing to exercise such expanded powers, as necessary, as a Court officer and on the terms set out in the Order being sought by the Applicant.

THE CHARGES

30. The Initial Order and KERP and KEIP Order provided for various Court ordered charges including the Administration Charge, the Interim Lender's Charge, the Directors' Charge, the KERP Charge and KEIP Charge (the "Charges").
31. The Interim Distribution and Stay Extension Order discharged and extinguished and Interim Lender's Charge, the KERP Charge and the KEIP Charge and reduced the Administration Charge from \$1,000,000 to \$500,000.

32. The Applicant is seeking an order which discharges and extinguishes the Administration Charge.
33. The Monitor is not aware of any significant outstanding amounts owed to professionals in connection with the Administration Charge, and sufficient funds have been retained in the Wind-down Budget (in addition to outstanding retainers), as discussed in greater detail below. As a result, the Monitor is of the view that the Applicant's request to discharge and distinguish the Administration Charge is appropriate and will not prejudice any party.

PROPOSED SECOND INTERIM DISTRIBUTION

34. The Applicant, with the assistance of the Monitor, has prepared the Wind-down Budget, a copy of which is attached hereto as Appendix "A" and includes the following:
 - (a) an estimate of the remaining costs in connection with the Applicant's operations;
 - (b) estimated professional fees that are currently outstanding and forecasted to complete the CCAA Proceedings and the administration of the estate;
 - (c) the completion of any post-closing matters in connection with the sale of the Applicant's assets including settlement of the final statement of adjustments and remaining administrative matters; and
 - (d) holdback of the Directors' Charge (to the maximum amount of \$1,000,000) as set out in the Initial Order.

35. The table below summarizes the receipts and disbursements from the Monitor's trust account since the Ninth Report of the Monitor dated November 15, 2016.

Monitor's Trust Account (CAD)	
Schedule of Receipts and Disbursements	
As of November 28, 2016	
Opening Cash	118,860,078
Interim Distribution	100,000,000
Net Cash on Hand	18,860,078

- (a) the only disbursements from the Monitor's trust account related to the Interim Distribution.

36. The table below summarizes the Applicant's receipts and disbursements since the Ninth Report of the Monitor dated November 15, 2016.

Applicant's Account (CAD)			
November 13 to November 26, 2016	Week 1	Week 2	Total
	19-Nov	26-Nov	
	Actual	Actual	Actual
Opening Cash	9,702,228	9,233,112	9,702,228
Cash Receipts			
Revenue	17,398	8,652,417	8,669,815
Total - Cash Receipts	17,398	8,652,417	8,669,815
Cash Disbursements			
Royalty Expense	-	-	-
Operating Expense	80,061	412,477	492,538
Monthly AER LLR Deposit Payments	-	-	-
Property Taxes	-	-	-
Capital Expenditure	-	-	-
Transportation	-	889,492	889,492
Payroll	-	1,775	1,775
G&A	79,987	32,233	112,220
Professional Fees	152,491	-	152,491
Interest/Fees	-	-	-
Tax/Other	173,975	1,609,465	1,783,440
Total - Cash Disbursements	486,514	2,945,442	3,431,956
Net Change in Cash from Operations	(469,116)	5,706,975	5,237,858
Ending cash	9,233,112	14,940,086	14,940,086

37. The material items of note in the table above include the following:
- (a) the receipt oil and gas revenue for the Applicant's October production (received on or about November 25th); and
 - (b) GST remitted in connection with the sale of the Applicant's assets of approximately \$1.4 million.
38. Prior to the Interim Distribution to the Lenders of \$100 million directed by the Interim Distribution and Stay Extension Order, Endurance was indebted to the Lenders in the amount of \$196,036,747. The Applicant is seeking relief from this Honourable Court to make the Second Interim Distribution in the amount of \$25 million to the Lenders in partial satisfaction of the amounts owing under the Credit Agreement.
39. The table below summarizes the cash on hand from the Monitor's trust account, the Applicant's cash on hand and proposed holdback for the Wind-down Budget and the Directors' Charge.

Proposed Second Interim Distribution (CAD)		Note
Cash on Hand		
Monitor's Trust Account	18,860,078	a
Applicant's cash on hand	14,940,086	b
Total - Cash on Hand	33,800,164	
Holdbacks		
Wind-down Budget & Final Statement of Adjustments	7,800,164	c
Directors' Charge	1,000,000	d
Total - Holdbacks	8,800,164	
Proposed Second Interim Distribution	25,000,000	

- (a) as at November 28, 2016, the Monitor is holding \$18.9 million in trust for the Applicant;

- (b) as at November 28, 2016, the Applicant has \$14.9 million in cash on hand;
 - (c) the holdback for the Wind-down Budget is approximately \$7.8 million which includes the following major categories:
 - (i) the remaining costs to complete the CCAA Proceedings including outstanding and forecasted professional fees;
 - (ii) remaining unpaid operating expenses and other amounts relating to the Applicant's operations incurred subsequent to the Initial Order; and
 - (iii) a holdback for the accounting of the final statement of adjustments that is to be completing within 90 days of the closing in accordance with the sale of the Applicant's assets;
 - (d) the holdback for the Directors' Charge to the maximum amount of \$1,000,000 as set out in the Initial Order.
40. Supporting details of the Wind-down Budget have been provided to the Lenders' financial advisors.
41. The Monitor is in agreement with the proposed Second Interim Distribution based on the following:
- (a) as outlined in the Ninth Report of the Monitor dated November 15, 2016, counsel to the Monitor provided an opinion on the security granted by the Applicant to the Lenders under the laws of Alberta and British Columbia. The Monitor and its counsel determined that it was not necessary or practical to obtain an opinion regarding the laws of Saskatchewan, given the value of Endurance's Saskatchewan assets;

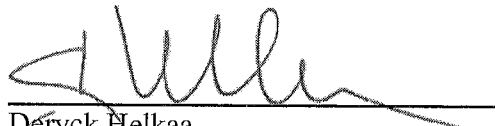
- (b) a sufficient reserve has been retained in the Wind-down Budget to complete the winding up of the Applicant's estate, including to deal with any claims arising from the Claims Procedure; and
 - (c) no party has contacted the Applicant nor the Monitor asserting a claim in priority to the Lenders, and the Monitor is not aware of any party asserting priority to the Lenders' security.
42. The Monitor understands that a further (third) distribution to the Lenders will potentially be made after completion of the Claims Procedure and the Wind-down Budget which is dependent on the following matters:
- (a) the release of amounts held by government agencies that could result in the additional recovery of approximately \$2.3 million;
 - (b) the discharge and extinguishment of the Directors' Charge if no Claims are received in connection with the Directors and Officers Claims Procedure (\$1 million); and
 - (c) any funds remaining from holdbacks contained in the Wind-down Budget once the administration of the CCAA Proceedings is complete.

RECOMMENDATIONS

43. The Monitor respectfully recommends that this Honourable Court to approve:

- (a) expanding the Monitor's powers; and
- (b) the proposed Second Interim Distribution of \$25 million to the Lenders;

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



Deryck Helkaa
Senior Managing Director,
FTI Consulting Canada Inc.

Appendix A

Wind-down Budget

Projected Costs	November	December	January	Post January	TOTAL
Due to Purchaser / Final Statement of Adjustments	-	1,145,570	1,934,812	-	3,080,382
Royalties	-	34,000	-	-	34,000
Operating expenses	650,000	1,137,150	758,100	151,620	2,696,870
G&A	160,649	231,023	136,620	117,620	645,912
GST Payable	-	433,000	-	-	433,000
Professional Fees	280,000	150,000	35,000	45,000	510,000
Contingency	100,000	100,000	100,000	100,000	400,000
TOTAL	1,190,649	3,230,743	2,964,532	414,240	7,800,164

Potential recoveries	November	December	January	Post January	TOTAL
SME Deposit	-	-	-	2,140,000	2,140,000
AER Deposit	-	-	-	205,500	205,500
Directors' Charge	-	-	1,000,000	-	1,000,000
TOTAL	-	-	1,000,000	2,345,500	3,345,500