

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 PRE-FILING REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS PROPOSED MONITOR

September 23, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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

COUNSEL
McCarthy Tétrault LLP
Suite 4000, 421 - 7th Avenue SW
Calgary, AB T2P 4K9
Sean F. Collins / Walker Macleod
Telephone: (403) 260-3531 / (403)260-3710
Fax: (403) 260-3501
Email: scollins@mccarthy.ca
wmacleod@mccarthy.ca

INTRODUCTION

- 1) FTI Consulting Canada Inc. ("**FTI Consulting**" or the "**Proposed Monitor**") has been advised that Lightstream Resources Inc. ("**LTS**"), 1863359 Alberta Ltd. ("**1863359**"), and 1863360 Alberta Ltd. ("**1863360**" and together with LTS, 1863359, the "**Applicants**") intend to make an application under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the "**CCAA**") for an initial order (the "**Initial Order**") granting, inter alia, a stay of proceedings against the Applicants, Lightstream Resources Partnership ("**LTS Partnership**") and Bakken Resources Partnership ("**Bakken Partnership**" and together with the Applicants and LTS Partnership, the "**Company**", "**Lightstream Group**" or "**CCAA Parties**") until October 26, 2016, (the "**Initial Stay Period**") and appointing FTI Consulting as Monitor. The proceedings to be commenced by the CCAA Parties under the CCAA will be referred to herein as the CCAA proceedings (the "**CCAA Proceedings**").

PURPOSE

- 2) The purpose of this report (the "**Report**") of the Proposed Monitor is to inform this Honourable Court on the following:
 - (a) the qualifications of FTI Consulting to act as Monitor and an overview of the involvement of FTI Consulting with the CCAA Parties to date;
 - (b) the state of the business and affairs of the CCAA Parties and the causes of their financial difficulty and insolvency;
 - (c) the CCAA Parties' weekly cash flow forecast for the period of **September 19 to December 30, 2016** (the "**Cash Flow Forecast**") and the reasonableness thereof, in accordance with s. 23(1)(b) of the CCAA;

- (d) the status of the independent opinions being prepared by counsel to the Proposed Monitor (collectively, the “**Security Opinion**”) on the validity and enforceability of the various security held by the First Lien Lenders and the Secured Note Holders;
- (e) the CCAA Parties’ request for approval of a charge in the amount of \$2.0 million securing the fees and expenses of the Monitor, its counsel, counsel to the CCAA Parties, independent counsel to the CCAA Parties’ directors and officers, counsel and financial advisor to the First Lien Lenders, counsel and financial advisor to the Ad Hoc Committee (the “**Administration Charge**”) and the Proposed Monitor’s recommendation thereon;
- (f) the CCAA Parties’ request for approval of a charge in the amount of \$105,000 securing obligations owing to HSBC Bank Canada (“**HSBC**”) in respect of certain corporate credits cards (the “**Credit Card Charge**”) and the Proposed Monitor’s recommendation thereon;
- (g) the CCAA Parties’ request for approval of a charge in the amount of \$2.5 million securing the indemnity in favour of the directors and officers of the CCAA Parties against obligations and liabilities that they may incur as directors or officers of the CCAA Parties after the commencement of the CCAA Proceedings (the “**Directors’ Charge**”) and the Proposed Monitor’s recommendation thereon;

- (h) the CCAA Parties' request for approval of the proposed key employee retention plan (“**KERP**”), the proposed key employee incentive plan (“**KEIP**”), and the granting of charges in the amount of \$4,115,250 securing amounts owing under the KERP (the “**KERP Charge**”) and \$5,007,417 securing the amounts owing under the KEIP (the “**KEIP Charge**”) and the Proposed Monitor's recommendation thereon;
- (i) the CCAA Parties' request for approval of the engagement by LTS of TD Securities Inc. (“**TD Securities**”), Evercore Capital L.L.C. (“**Evercore**”), RBC Dominion Securities Inc. (“**RBC**”), BMO Nesbitt Burns Inc. (“**BMO**”) and Goodmans LLP and the members of the *Ad Hoc* Committee and the granting of a charge in the amount of \$19.41 million (the “**Financial Advisors' Charge**”) securing the fees and expenses of these parties, and the Proposed Monitor's recommendation thereon;
- (j) the priority of the Administration Charge, the Credit Card Charge, the Directors' Charge, the KERP Charge, the KEIP Charge and the Financial Advisor's Charge (together, the “**CCAA Charges**”);
- (k) the CCAA Parties' request for authorization to pay pre-filing amounts to providers of goods and services; and
- (l) the CCAA Parties' request for approval of the proposed sale solicitation process procedures (the “**Sale Procedures**”) and the Monitor's recommendation thereon.

TERMS OF REFERENCE

- 3) In preparing this report, the Proposed Monitor has relied upon unaudited financial information of the CCAA Parties, information contained in the CCAA Parties' books and records, certain financial information prepared by the CCAA Parties and discussions with various parties, including senior management ("**Management**") of the CCAA Parties (collectively the "**Information**") and TD Securities.
- 4) Except as described in this report, the Proposed 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.
- 5) The Proposed 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.
- 6) The Proposed Monitor has prepared this report in connection with the CCAA Parties' application for an Initial Order (the "**Initial Order Application**"). This report should not be relied on for other purposes.
- 7) Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

- 8) This report should be read in conjunction with the affidavit of Peter D. Scott sworn on September 21, 2016 (the “**Scott Initial Order Affidavit**”) filed in support of the CCAA Parties’ application for relief under the CCAA.
- 9) Capitalized terms used in this Report but not otherwise defined herein have the meaning ascribed to them in the CCAA Parties’ application for an Initial Order or the Scott Initial Order Affidavit.

FTI CONSULTING

QUALIFICATIONS TO ACT

- 10) FTI Consulting is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI Consulting has provided its consent to act as Monitor in these CCAA Proceedings, a copy of which is attached to the Scott Initial Order Affidavit as Exhibit "19".
- 11) As set out in greater detail below, FTI Consulting has been acting as advisor to the CCAA Parties and is familiar with the business and operations of the CCAA Parties, their personnel, the key issues and the key stakeholders in these CCAA Proceedings. The senior FTI Consulting personnel with carriage of this matter are experienced Chartered Insolvency and Restructuring Professionals and licensed Trustees in Bankruptcy, who have acted in restructurings and CCAA matters.

INVOLVEMENT TO DATE OF FTI CONSULTING

- 12) FTI Consulting was engaged by LTS on or around June 13, 2016 primarily to assist the Company in preparation for a potential CCAA filing.
- 13) FTI Consulting’s assistance included:

- (a) Gaining an understanding of the Lightstream Group's operations and cash flows, potential critical vendors, and other potential operational issues that may result upon a CCAA filing;
 - (b) Assisting in the preparation of the Company's cash flow forecasts assuming a CCAA filing;
 - (c) Gaining an understanding of the general terms and reasonableness of the proposed CCAA Charges, Sale Procedures and KERP/KEIP plans to be included in an Initial Order, in order to allow the Proposed Monitor to prepare this Report; and
 - (d) Keeping apprised of the progress and status of the sale process that was launched by the Company in July 2016.
- 14) FTI Consulting has not been involved in negotiations or discussions regarding the Arrangement Proceedings (as defined and set out in the Scott Initial Order Affidavit).
- 15) In summary, FTI Consulting's retention was in the role of a 'proposed monitor' and not as a financial advisor engaged to develop or implement any restructuring alternative. FTI Consulting's role during the lead up to the proposed CCAA filing was focused on the items set out above.

THE CCAA PARTIES' BUSINESS, AFFAIRS AND CAUSES OF INSOLVENCY

- 16) The business of the CCAA Parties is the exploration, development, and production of oil and natural gas reserves, with a focus on light oil, with operations in Alberta, Saskatchewan and British Columbia.
- 17) The CCAA Parties have suffered from the significant and sustained decrease in oil and gas prices since 2014 which has negatively affected the CCAA Parties' cash flow, liquidity and the value of its reserves. As a result, the CCAA Parties are currently in default under the terms of the credit agreement with the First Lien Lenders, the Secured Notes Indenture, and the Unsecured Notes Indenture.
- 18) The business and affairs of the CCAA Parties and the causes of their insolvency are described in the Scott Initial Order Affidavit. The Proposed Monitor has reviewed the Scott Initial Order Affidavit and discussed the business and affairs of the CCAA Parties and the causes of their insolvency with Management and is of the view that the Scott Initial Order Affidavit provides a fair summary thereof.

CASH FLOW FORECAST

- 19) The Cash Flow Forecast, together with management’s report on the cash-flow statement as required by section 10(2)(b) of the CCAA, is attached hereto as Appendix A. The Cash Flow Forecast shows a net use of cash of totaling \$5.3 million to October 26, 2016 (“**Initial Stay Period**”) and \$9.7 million for the 16-week period ending December 30, 2016 (the “**Forecast Period**”), and is summarized below:

<i>(CAD \$000s)</i>	Initial Stay Period	Forecast Period
Cash Receipts		
Product Revenue	48,729	97,975
Hedging and other	515	1,003
Total - Operating Receipts	49,244	98,978
Cash Disbursements		
Trade Payables	31,339	58,499
Royalties	5,043	10,140
Property Taxes	2,461	2,668
Capital/cash calls	550	1,650
Taxes/other	1,542	2,742
G&A (payroll and rent)	7,809	15,689
Professional fees/Retainer	3,366	8,496
Interest and bank charges	2,430	8,745
Total - Operating Disbursements	54,540	108,629
Net increase/(decrease) in cash from operating activities	(5,296)	(9,651)
Opening Cash before Collateralized L/C's	38,396	38,396
Ending Cash before Collateralized L/C's	33,100	28,745
Cummulative Cash Collateralized L/C's	8,225	8,225
Ending Cash after Collateralized L/C's	24,875	20,520

- 20) The Cash Flow Forecast indicates the following for the Forecast Period:
- (a) total cash receipts of \$98.98 million; and

- (b) total cash disbursements of \$108.63 million including disbursements relating to the professional fees and restructuring costs of \$8.5 million.

- 21) The Cash Flow Forecast indicates the following for the Initial Stay Period:
 - (a) Total cash receipts of \$49.24 million;
 - (b) Total cash disbursements of \$54.54 million, including disbursements relating to professional fees and restructuring costs of \$3.37 million.

- 22) Section 23(1)(b) of the CCAA states that the Monitor shall:

“review the company’s cash-flow statement as to its reasonableness and file a report with the court on the monitor’s findings;”

- 23) Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports as follows:
 - (a) The Cash Flow Forecast has been prepared by the Management of the CCAA Parties for the purpose described in the notes to the Cash Flow Forecast, using the Probable Assumptions and the Hypothetical Assumptions set out in Notes 2 to 12 thereof;

- (b) The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by Management and employees of the CCAA Parties. Since Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor has also reviewed the support provided by Management of the CCAA Parties for the Probable Assumptions, and the preparation and presentation of the Cash Flow Forecast;

- (c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
 - (i) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Forecast;

 - (ii) As at the date of this report, the Probable Assumptions developed by Management are not suitably supported and consistent with the plans of the CCAA Parties or do not provide a reasonable basis for the Cash Flow Forecast, given the Hypothetical Assumptions; or

 - (iii) The Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions;

- (d) Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Proposed Monitor in preparing this Report; and
- (e) The Cash Flow Forecast has been prepared solely for the purpose described in the notes to the Cash Flow Forecast and readers are cautioned that it may not be appropriate for other purposes.

THE SECURITY OPINION

- 24) Counsel to the Proposed Monitor is in the process of completing a review of the security held by the First Lien Lenders and the Secured Noteholders and expects to be in a position to deliver security opinions to the Monitor shortly.

PROPOSED ADMINISTRATION CHARGE

- 25) The CCAA Parties are seeking an Administration Charge in the amount of \$2.0 million with priority over all claims against the property of the CCAA Parties other than any person who is a "secured creditor" as defined in the CCAA that has not been served with notice of the Initial Application.

- 26) The beneficiaries of the Administration Charge, if granted, would be the Monitor, counsel to the Monitor, counsel to the CCAA Parties, independent counsel to the CCAA Parties' directors and officers, counsel and financial advisor to the First Lien Lenders, counsel to the Ad Hoc Committee and BMO, as financial advisor to the Ad Hoc Committee (on account of BMO's monthly work fee only), as security for the professional fees and disbursements incurred both before and after the granting of this Order.
- 27) The Proposed Monitor believes that it is appropriate that the proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceedings.
- 28) The Proposed Monitor has reviewed the underlying assumptions upon which the CCAA Parties have based the quantum of the proposed Administration Charge, the potential complexities of these proceedings, the services to be provided by the beneficiaries of the Administration Charge and the number of beneficiaries of the Administration Charge and is of the view that the proposed quantum of the Administration Charge is reasonable and appropriate in the circumstances. The creation of the Administration Charge is standard in CCAA proceedings as is the priority of the Administration Charge as set out the proposed form of the Initial Order.
- 29) Accordingly, the Proposed Monitor respectfully recommends that the CCAA Parties' request for the Administration Charge be granted by this Court.

PROPOSED CREDIT CARD CHARGE

- 30) The CCAA Parties enjoy the use of corporate credit cards provided by HSBC, a member of the syndicate of First Lien Lenders, to pay for general operational and administrative purposes and other business-related expenses (the "**Credit Cards**").

- 31) Management has indicated to the Proposed Monitor that the use of the Credit Cards facilitates day-to-day operations by allowing certain authorized employees to acquire goods and services, thereby avoiding a purchase order and invoicing process in respect of approved higher volume, lower dollar value purchases.
- 32) The CCAA Parties' wish to continue, and avoid any disruption in, the use the Credit Cards following the date of the Initial Order and in that regard, are seeking a charge in the amount of \$105,000 on the property of the CCAA Parties to secure all obligations owed to HSBC related to the Credit Cards (the "**Credit Card Charge**").
- 33) The Company is also seeking authorization to continue making payments on the Credit Cards, including with respect to any pre-filing charges, which are not expected to be significant.
- 34) The Proposed Monitor has discussed the use of the Credit Cards with Management and believes the uninterrupted use of the Credit Cards will continue to facilitate the day-to-day operations of the Company during the CCAA Proceedings and is of the view that the Credit Card Charge is justified in the circumstances.

PROPOSED DIRECTORS' CHARGE

- 35) The CCAA Parties are seeking the Directors' Charge in the amount of \$2.5 million with priority over all claims against the property of the CCAA Parties other than:
 - (a) the Administration Charge; and
 - (b) the Credit Card Charge.

- 36) The beneficiaries of the Directors' Charge, if granted, would be the directors and officers the CCAA Parties. It is the Proposed Monitor's view that the continued support and service of the directors and officers during the CCAA Proceedings would be beneficial to the CCAA Parties' efforts to preserve value and maximize recoveries for stakeholders through completion the Sales Procedures. The Proposed Monitor has been informed that the directors and officers will not continue to serve unless the Directors' Charge is granted.
- 37) The Directors' Charge was calculated based on the estimated maximum liability of directors and officers arising from statutory obligations for employee related liabilities and sales taxes that may arise during the CCAA Proceedings as follows:
- (a) Bi-monthly exposure of employee related liabilities for salaries and wages and the cost of supplemental benefits; and
 - (b) One month average exposure for goods and services tax obligations.
- 38) The Proposed Monitor has reviewed the underlying calculations upon which the CCAA Parties have based the estimate of the potential liability in respect of directors' statutory obligations and is of the view that the Directors' Charge is reasonable in relation to the quantum of the estimated potential liability and appropriate in the circumstances.
- 39) As described in the Scott Initial Order Affidavit, the CCAA Parties maintain certain insurance coverage for the directors and officers, but the deductibles and exclusions from the policies mean that the insurance may not fully cover the potential statutory liabilities of the directors and officers of the CCAA Parties.

- 40) The Proposed Monitor notes that the directors and officers will only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any existing insurance policy, or to the extent that such coverage is insufficient to pay amounts for which the directors and officers are entitled to be indemnified pursuant to the provisions of the proposed Initial Order.
- 41) The Proposed Monitor notes that the creation of a charge in favour of directors and officers is common in CCAA Proceedings. Accordingly, the Proposed Monitor is of the view the proposed Directors' Charge is reasonable in the circumstances and respectfully recommends that the CCAA Parties' request for the Directors' Charge be granted by this Court.

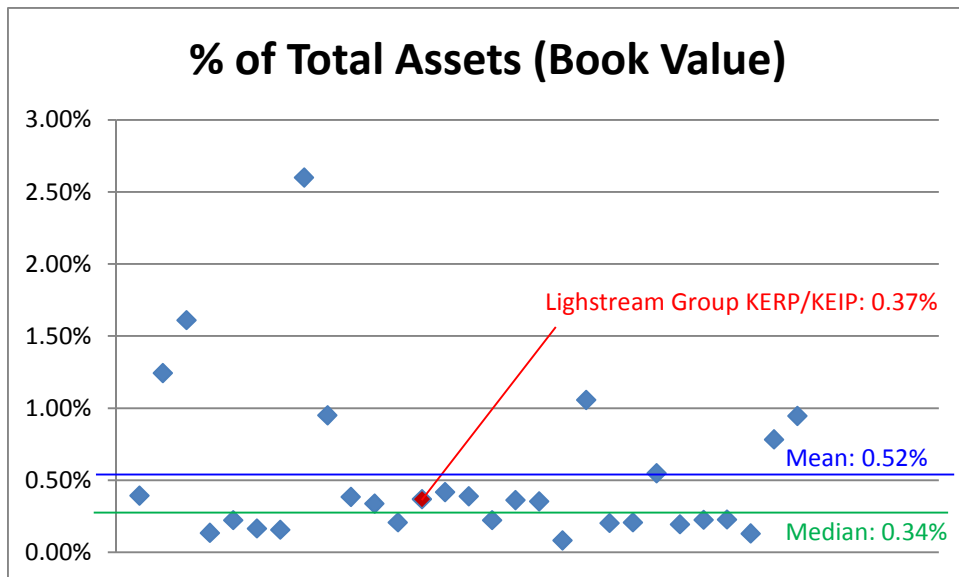
PROPOSED KERP and KEIP

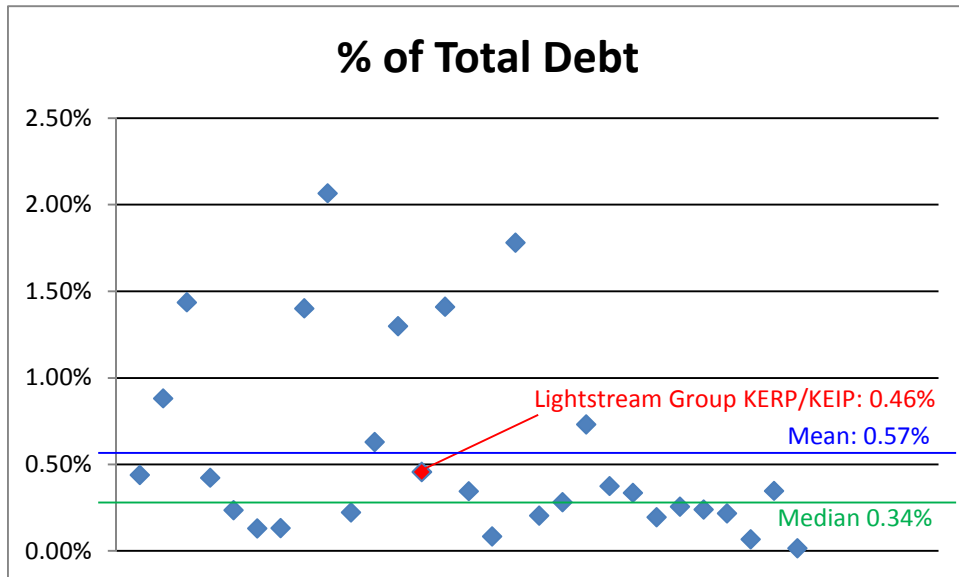
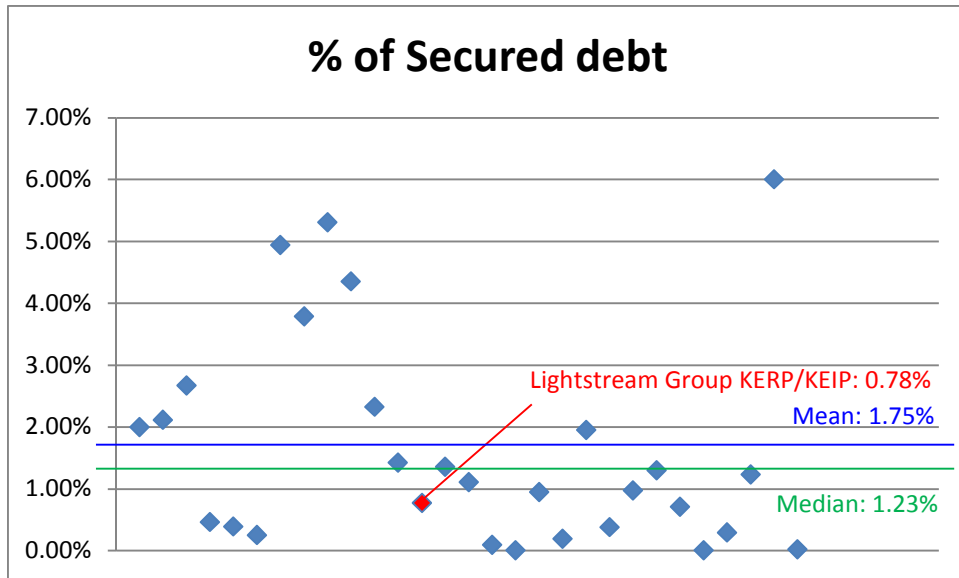
- 42) The CCAA Parties are seeking the approval of a KERP and KEIP as well as the granting of the KERP and KEIP Charges. If approved, certain employees of the CCAA Parties', each of whom is considered by the CCAA Parties to be necessary to the successful completion of the CCAA Proceedings, will participate in the KERP or KEIP.
- 43) A summary of the KERP terms is as follows:
- (a) The maximum aggregate amount payable under the KERP to all beneficiaries is \$4,115,250 ("**KERP Payment**");
 - (b) There are a total of 193 employees included in the KERP ("**KERP Employees**"). The KERP Employees represent approximately 65% of the CCAA Parties' employees;
 - (c) Employees who resign or who are terminated with cause are not eligible to participate;

- (d) The KERP Payment only becomes payable if a sale is completed pursuant to the Sale Procedures and the successful bid is a bid other than the Secured Noteholder Credit Bid (defined below). If the Secured Noteholder Credit Bid is the successful bid, the KERP Payment will not be made, except to the extent any employees are not offered continued employment on substantially the same terms as their current employment with the entity formed to complete the Credit Bid acquisition;
 - (e) Any amounts received by a KERP Employee pursuant to the terms of the KERP will be applied against any statutory or contractual severance entitlements such KERP Employee may have. Accordingly any KERP Payment received by a KERP Employee is intended to mitigate any potential claims for severance or termination.
 - (f) A spreadsheet (the "**KERP/KEIP Summary**") containing a summary of the KERP Employees and proposed payments under the KERP has been included as Exhibit 20 to the Scott Initial Order Affidavit and is sought to be sealed due to the confidential nature of the information. The Proposed Monitor has reviewed KERP/KEIP Summary in detail. The KERP/KEIP Summary contains confidential information, the disclosure of which would be harmful to the Company's commercial interests, as well as the privacy interests of its employees. Accordingly, the Proposed Monitor is supportive of the Company's request that the KERP/KEIP Summary be sealed on the Court file.
- 44) A summary of the KEIP terms is as follows:
- (a) There are 9 executive employees ("**KEIP Executives**") that have been included in the proposed KEIP. The KEIP Executives' ongoing efforts are expected to have a significant positive impact on the sales process;

- (b) A payment under the KEIP only becomes payable if a sale is completed pursuant to the Sale Procedures and the successful bid is a bid other than the Secured Noteholder Credit Bid. If the Secured Noteholder Credit Bid is the successful bid, no KEIP payments will be made, except to the extent any KEIP Executives are not offered continued employment on substantially the same terms as their employment contracts;
- (c) The KEIP is based on a sliding scale depending on the net proceeds received from a successful sale pursuant to the Sale Procedures. A minimum threshold of sale proceeds must be obtained before any amounts become payable under the KEIP. The sliding scale and the thresholds triggering the sliding scale KEIP are included in the KERP/KEIP Summary. The maximum payment under the KEIP is \$5,007,417 which represents 100% of the contractual severance that would be owed to the KEIP Executives if their employment were to be terminated without cause.
- (d) Any amounts received by a KEIP Executive pursuant to the terms of the KEIP will be applied against the contractual severance entitlements of the KEIP Executives. Accordingly any payment received under the KEIP by a KEIP Executive is intended to mitigate any potential claims for severance. Ultimately, the maximum the KEIP Executives may receive is the full amount of their contractual severance entitlement.

45) The Proposed Monitor has reviewed information available in respect of approximately 29 CCAA cases dating back to 2011 where employee retention plans have been approved and has compared these retention plans to the Proposed KERP and KEIP. The analysis was completed by calculating the total retention plan payments as a percentage of the companies' total book value of assets, total secured debt, and total debt and comparing these metrics to the CCAA Parties' proposed KERP and KEIP. The results of this analysis are presented in the graphs below. The amounts identified for the CCAA Parties in the graphs reflect the full KERP payment plus the maximum amount that could become payable under the KEIP.





46) From its review of prior court-approved retention plans, the Proposed Monitor is satisfied that the proposed KERP and KEIP are consistent with current practice for retention plans in the context of a CCAA proceeding and that the quantum of the proposed payments under the KERP and KEIP are reasonable in the circumstances.

- 47) The Proposed Monitor agrees with the CCAA Parties' assessment that the departure of the KERP Employees and KEIP Executives may be detrimental to their business and operations and could impair the likelihood of a successful outcome of the Sales Procedures and the CCAA Proceedings. The approval of the KERP and KEIP should provide incentive for the employees to remain in their employment for the duration of the CCAA Proceedings.
- 48) The Proposed Monitor notes that the KERP is being extended to approximately 65% of the CCAA Parties' employees. Often key employee retention plans are limited to a smaller subset of employees. The Proposed Monitor notes, however, that the CCAA Parties have recently made significant staffing reductions. Since December 31, 2014 the CCAA Parties have reduced staffing from 433 to approximately 297, a reduction of approximately 31%.
- 49) The majority of the remaining employees are considered by the Company to be important to their operations and accordingly included in the proposed KERP. Furthermore the Proposed Monitor notes that the Secured Noteholder Credit Bid contemplates an en-bloc going concern sale of the CCAA Parties assets. Article 7 of the current draft APA contemplates all, or substantially all, employees (including KEIP Executives) receiving an offer of employment. Although the loss of a few employees would likely not have a detrimental effect on the ability to close the Secured Noteholder Credit Bid, a significant exodus would have negative repercussions and a material impact on the operations and going concern value.

- 50) The proposed Monitor notes that the KEIP is limited to a small subset of employees given the size of the CCAA Parties' operations. The KEIP was limited to those executives who are believed to have the ability to provide significant added value to the Sale Procedures and in turn maximizing value for stakeholders. The KEIP was designed to incentivize key executives to be motivated to seek a superior bid to the Secured Noteholder Credit Bid. Therefore, to incentivize the KEIP Executives to assist in seeking a bid superior to the Secured Noteholder Credit Bid, the KEIP was structured to provide a payment estimated to equal their contractual severance, as the KEIP Executive contractual severance is likely to be assumed by the credit bidder in the draft APA (as discussed above) In the event of a successful bid other than the Secured Noteholder Credit Bid, there is no certainty that a successful bidder would honour contractual severance obligations.
- 51) Based on the foregoing, the Proposed Monitor is of the opinion that the KERP and KEIP are reasonable in the circumstances and their implementation will be beneficial to the CCAA Parties and its stakeholders.
- 52) The Proposed Monitor respectfully recommends that the KERP and KEIP be approved by this Honourable Court. The Proposed Monitor also supports the granting of the KERP and KEIP Charges to secure the obligations thereunder, as discussed in further detail below.

FINANCIAL ADVISORS' CHARGE

- 53) The Lightstream Group has retained TD Securities and Evercore as financial advisors and RBC to provide independent advice to the board of directors, to assist in its overall strategic review process including a pre-CCAA sale and investor solicitation process (the "**Pre-CCAA SISF**"), the Arrangement Proceedings and these restructuring proceedings. TD Securities, Evercore and RBC are collectively referred to as the "**Financial Advisors**". Furthermore, the Ad Hoc Committee has engaged BMO as its independent financial advisor, and BMO's fees are an obligation of the Lightstream Group pursuant to the terms of the Support Agreement.
- 54) The Initial Order contemplates a charge of \$19.4 million to secure all obligations that may become owing to the Financial Advisors and BMO under their respective engagement letters (the "**Financial Advisors' Charge**").
- 55) The Financial Advisors' Charge comprises the fees payable to the Financial Advisors and BMO and equates to approximately 1.5% of the total transaction value of the Secured Noteholder Credit Bid (\$19.4 million / \$1,316 million). Details of the estimated value of the Secured Noteholder Credit Bid are discussed below.
- 56) Using publicly available data and certain confidential data available, the Proposed Monitor has compiled a summary of financial advisor fees in 16 formal restructurings where information regarding the total fees and transaction value were available/known. Since the level of disclosure in public data is somewhat limited, some assumptions were made with respect to the quantum of the actual restructuring fees, work fees and total fees payable.

- 57) Based on the information available to the Proposed Monitor, the financial advisor fees payable in the cases reviewed ranged from a low of .075% to a high of 3% of total transaction value. The lower range is more typical of a straight asset divestiture process and the higher range with more all-encompassing debt restructurings.
- 58) The amount of fees included in the Financial Advisors' Charge are approximately in the mid-point of the data reviewed by the Proposed Monitor and accordingly, the Monitor is of the view that the Financial Advisors' Charge is reasonable in the circumstances.

PRE-FILING PAYMENTS

- 59) The proposed Initial Order contemplates the Lightstream Group making payments for goods and services supplied post-filing as set out the Cash Flow Forecast and in consultation with the Monitor. Additionally, the CCAA Parties seek the Court's approval to make payment of pre-filing amounts or to honour cheques issued to certain providers of goods and services prior to the date of filing that the Lightstream Group, in consultation with the Monitor, believe are necessary to the ongoing operations of the Lightstream Group and to preserve value in these CCAA Proceedings. The Proposed Monitor's understanding is that Lightstream intends to make normal course payments in relation to the supply of goods and services to the CCAA Parties. This normal course payment of suppliers who have provided goods and services has been assumed in the Cash Flow Forecast. The Monitor has reviewed the Cash Flow Forecast and notes that it does not assume any material acceleration of payment terms or cash on demand requirements from suppliers.

- 60) The payment of certain of these suppliers of goods and services (including pre-filing amounts) is not always typical in CCAA proceedings. However, the payment of pre-filing trade payables in normal course or in some other fashion has been approved in previous CCAA proceedings in Alberta, including, for example Quicksilver Resources Canada Inc. and Lone Pine Resources Ltd.
- 61) With respect to the CCAA Parties' request for the ability to continue to pay suppliers of goods and services in the normal course, the Proposed Monitor understands the following:
- (a) The APA contemplates that the purchaser shall assume all pre-filing liabilities arising from the provision of goods and services to the Lightstream Group;
 - (b) The Monitor has discussed the request to pay pre-filing suppliers of goods and services in the normal course with management of the Lightstream Group who advised that they believe the current relationship with its trade suppliers enhances overall value of the business and potential return to the stakeholders as they have built long standing relationships with their suppliers. Paying pre-filing amounts should assist in avoiding any disruption to service that may impact ongoing production, increase costs by switching suppliers or result in losing previously negotiated contractual payment or economic terms; and
 - (c) The Proposed Monitor understands the potential pre-filing amounts owing to goods and services providers that would be included in this category is approximately \$25 million.

- 62) The ability to pay certain pre-filing suppliers of goods and services has been approved in prior CCAA proceedings when it was determined by the court that doing so may provide economic benefit (or avoid economic loss) to the Company. The Cash Flow Forecast has been built on the basis that suppliers of goods and services will be paid in the normal course (no assumption of payment acceleration). If the CCAA Parties request to pay certain pre-filing suppliers of goods and services in the normal course is approved by this Court, the Monitor will consult closely with the CCAA Parties to ensure the CCAA Parties adhere to the assumptions in the Cash Flow Forecast and the provisions of the Initial Order and will report to this Honourable Court if there is a material variance from the Cash Flow Forecast due to acceleration of payments. Accordingly, the Proposed Monitor is of the view that authorization for the CCAA Parties to pay certain pre-filing suppliers of goods and services in the normal course, in consultation with the Monitor, is fair and reasonable in the circumstances.

REQUEST FOR APPROVAL OF THE SALE PROCEDURES

- 63) Capitalized terms used in this section of the Report not otherwise defined are as defined in the Sale Procedures, a copy of which is attached as Appendix "A" to the CCAA Parties' proposed form of Initial Order (the "Proposed Initial Order").

THE SALE PROCEDURES

- 64) As described in greater detail in the Scott Initial Order Affidavit, pursuant to the terms of a support agreement with the Secured Noteholders and a forbearance agreement with the First Lien Lenders, on July 13, 2016, the CCAA Parties commenced the Pre-CCAA SISP.
- 65) Since that time, TD Securities, has contacted over 600 parties seeking expressions of interest in acquiring or investing in some or all of the property of the CCAA Parties. Accordingly, the process to conduct a full marketing of the CCAA Parties assets and operations has been in progress for over 2 months.

- 66) The CCAA Parties are seeking approval to continue the Pre-CCAA SISP through the CCAA Proceedings by way of the proposed Sale Procedures. The Proposed Monitor understands that the Sale Procedures have been designed to thoroughly canvass the market to identify parties interested in acquiring the operations or property of the CCAA Parties in an effort to maximize value and recoveries for all stakeholders.
- 67) The Sale Procedures describe the process for the solicitation, assessment and approval of qualified proposals in respect of the Property of the CCAA Parties including, *inter alia*:
- (a) The manner and timelines in which a Prospective Bidder has access to due diligence materials concerning the Lightstream Property and the Lightstream Business;
 - (b) The manner and timelines in which Prospective Bidders may submit an Indication of Interest for all or substantially all of the Lightstream Property or any of the Parcels, and the required content of any Indication of Interest;
 - (c) The manner and timelines in which Qualified Phase I Bidders may submit a Qualified Phase I Bid and the required content of a Qualified Phase I Bid;
 - (d) The manner and timelines in which Qualified Phase II Bidders may submit a Qualified Bid and the required content of a Qualified Bid;
 - (e) The process and criteria for the ultimate selection of one or more Successful Bids (and/or more than one Aggregated Qualified Bids, in each case other than the Secured Noteholder Credit Bid); and
 - (f) The process for obtaining approval of one or more Successful Bids by the Court.

- 68) The general concept of the Sale Procedures are to continue in these CCAA Proceedings with the efforts previously undertaken in the pre-CCAA SISF in order to determine if a Qualified Bid (or combination of bids) can be obtained that would exceed the recoveries contemplated under the Secured Noteholder Credit Bid. An overview of the proposed Sale Procedures is discussed in further detail below.

SECURED NOTEHOLDER CREDIT BID

- 69) The Sale Procedures contemplate the inclusion of the Secured Noteholder Credit Bid that would essentially act as a ‘floor’ bid (but, for clarity, the Secured Noteholders Credit Bid does not include a break fee or overbid requirements nor will the Secured Noteholders increase their bid). The Monitor understands that the total purchase price of any Qualified Bid (or combination of bids) would need to exceed the total of the following amounts contemplated in the Secured Noteholder Credit Bid:
- (a) The amounts owing under the Credit Facility;
 - (b) The amounts owing to the Secured Notes (including outstanding interest, make-whole fees, costs and expenses);
 - (c) A “Reserve Payment Amount”, which would be used to pay any priority claims that rank in priority to the Second Lien Indebtedness (other than the Credit Facility); and
 - (d) A Wind-Down Amount, which comprises funds to be used to fund post-Closing matters in connection with the CCAA Proceedings.

- 70) For illustrative purposes, the Proposed Monitor has provided an estimated value that would be required of any Qualified Bid in order to ‘clear’ the Secured Noteholder Credit Bid. The Proposed Monitor notes that the items below are only estimates based on available information and that a more definitive estimate will be calculated by TD Securities in contemplation with the Sale Procedures in order to assist potential bidders in the process.

In millions		Notes
Credit facility	371	(a)
Secured Notes	915	(b)
Reserve Payment Amount	30	(c)
Wind-down Amount	TBD	
Total illustrative price	<u>1,316</u>	

- (a) Credit facility amount includes current amount outstanding plus outstanding letters of credit;
- (b) Secured Notes include principal and estimated make-whole amount, all of which converted at the current USD/CAD exchange rate; and
- (c) Reserve Payment comprises maximum KERP Charge, KEIP Charge and the Financial Advisors’ Charge.

PROCESS OVERVIEW

- 71) After consultation with TD Securities, the Company has concluded to seek approval of a standard two-phase sale process in the CCAA Proceedings in an attempt to solicit a bid (or bids) that exceed the amount of the Secured Noteholder Credit Bid. The Monitor has been advised that the Secured Noteholder Credit Bid will not be increased or revised throughout the Sale Procedures.

- 72) The first phase of the Sale Procedures contemplates seeking non-binding letters of intent from interested parties. While TD Securities has already performed a full canvassing of the marketplace in the Pre-CCAA SISP, which is evident by the numbers of parties contacted (more than 600) and 37 non-disclosure agreements having been executed, the Sale Procedures contemplate Qualified Indications of Interests (“**Qualified IOI’s**”) to be received by October 21, 2016, or 25 days following the commencement of these CCAA Proceedings (or 111 days since the commencement of the Pre-CCAA SISP)
- 73) The Monitor believes that an additional 25 days will provide sufficient time for bidders to submit a Qualified IOI given that interested parties would likely have been contacted by TD Securities or would have known of the opportunity due to the July 12 press release announcing the commencement of the Pre-CCAA SISP and that the Lightstream Group was seeking restructuring proposals. While Phase I is on a more condensed timeline than is typical, the Monitor notes the following:
- (a) The Pre-CCAA SISP was launched over two months ago with TD Securities contacting over 600 companies;
 - (b) The Pre-CCAA SISP was press released;
 - (c) 37 Parties have already executed non-disclosure agreements and have been provided access to the data-room and, accordingly, do not need further time to complete this task; and
 - (d) The hurdle to submit a Qualified IOI is relatively low (bid is non-binding, no deposit is required, only preliminary evidence of financing, description of additional diligence to be completed, and outstanding conditions, etc.).

- 74) The Proposed Monitor appreciates that a small number of potential bidders may not have participated in the Pre-CCAA SISF. However, after consultation with TD Securities, the Proposed Monitor agrees that the initial 25 day period for submissions of a Qualified IOI is reasonable.
- 75) After Phase I is completed, the Company, in consultation with TD Securities and the Monitor, will determine if any Qualified IOI (or a combination of bids) from Phase I exceed the Secured Noteholder Credit Bid. If there are no Qualified IOIs (or combination) that exceed the Secured Noteholder Credit Bid, the Secured Noteholder Credit Bid shall be deemed the “Successful Bidder” and the Company may terminate the Sale Procedures and seek to implement the Secured Noteholder Credit Bid.
- 76) If the Company, in consultation with TD Securities and the Monitor, determines that one or more of the Qualified IOI’s exceed the Secured Noteholder Credit Bid, Phase II of the Sale Procedures would commence for a further 31 days with the goal to allow the bidders who submitted Qualified IOIs to continue with diligence in order to submit a “Qualified Bid” which has the following requirements:
- (a) To be received by November 21, 2016;
 - (b) Irrevocable for a further 45 days;
 - (c) Evidence to support the bidder’s ability to close the transaction;
 - (d) Not conditional on further diligence or financing;
 - (e) A non-refundable deposit in the amount of 2.5% of the purchase price;
 - (f) Includes the specific treatment of the employees; and

(g) Definitive documents to be executed by December 2, 2016

- 77) The Proposed Monitor believes, after consultation with TD Securities, that the duration of Phase II is a reasonable period of time to allow any Phase I bidder sufficient time to complete remaining diligence and prepare to submit a final bid as set out above.

MONITOR’S SUMMARY COMMENTS WITH RESPECT TO THE SALE PROCEDURES

- 78) The following table summarizes the proposed timeline for the major steps contemplated in the Sale Process:

Sale process Timeline	Date	Days from launch
Launch Sale Process (CCAA)	26-Sep-16	-
Completion of Phase I (non-binding LOIs)	21-Oct-16	25
Completion of Phase II	21-Nov-16	56
Execution of definitive agreements	2-Dec-16	67
Approval Hearing	15-Dec-16	80
Closing upon granting of court approval	15-Dec-16	80

- 79) In the Proposed Monitor’s view, the proposed Sale Procedures are reasonable in the circumstances. The Sale Process were developed with considerable input by TD Securities, who has significant experience in marketing Canadian oil and gas assets, and in particular, asset packages of the size, quality and nature of the Lightstream Group’s assets. TD Securities has been overseeing the Pre-CCAA SISP and has advised the Proposed Monitor that the timelines and overall Sale Procedures are reasonable and will permit a full canvassing of the market. While the Lightstream Group has been marketed prior to the CCAA proceedings, the above Sale Procedures will also provide parties that, to-date, have not been actively engaged in the process sufficient time to participate in the process.

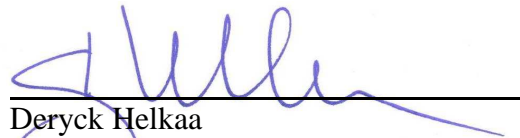
80) In the circumstances, the Sale Procedures:

- (i) Provides for a broad, open, fair and transparent process for seeking interested buyers of the property, assets and operations of the CCAA Parties;
- (ii) Has an appropriate level of independent oversight;
- (iii) Should encourage and facilitate bidding by interested parties; and
- (iv) Should not discourage parties from submitting offers.

81) Accordingly, the Proposed Monitor supports the CCAA Parties' request for approval of the Sale Procedures and respectfully recommends that an order approving the Sale Procedures be granted by the Court.

All of which is respectfully submitted this 23rd day of September, 2016.

FTI Consulting Canada Inc.
in its capacity as the Proposed Monitor of the
CCAA Parties



Deryck Helkaa
Senior Managing Director,



Dustin Olver
Managing Director

Appendix A

Report containing prescribed Cash Flow Statement representations

Lightstream Resources Ltd (the "Company")
 Consolidated Weekly Cash Flow Statement
 CAD \$'000

	Notes															
	Week 1 16-Sep	Week 2 23-Sep	Week 3 30-Sep	Week 4 7-Oct	Week 5 14-Oct	Week 6 21-Oct	Week 7 28-Oct	Week 8 4-Nov	Week 9 11-Nov	Week 10 18-Nov	Week 11 25-Nov	Week 12 2-Dec	Week 13 9-Dec	Week 14 16-Dec	Week 15 23-Dec	Week 16 30-Dec
Cash Receipts																
Product Revenue	1	-	-	25,443	-	-	23,286	-	-	250	-	-	-	-	24,984	-
Hedging and other	2	-	-	515	-	-	-	-	-	-	-	-	-	-	238	-
Total - Operating Receipts		-	-	25,443	515	-	23,286	-	-	250	-	-	-	-	24,984	-
Cash Disbursements																
Trade Payables	3	2,043	1,549	7,375	3,939	6,667	2,314	7,452	1,758	3,842	2,646	5,314	1,890	3,760	2,030	5,400
Royalties	4	1,797	165	671	-	1,700	-	710	-	-	1,700	-	886	-	1,700	-
Property Taxes	5	-	2,456	-	-	-	-	5	-	202	-	-	5	-	-	-
Capital/cash calls	6	-	-	-	-	550	-	-	-	550	-	-	-	-	550	-
Taxes/other	7	1	-	941	-	-	-	600	-	-	-	-	600	-	-	600
G&A (payroll and rent)	8	1,429	-	2,440	-	1,500	-	2,440	-	1,500	-	2,440	2,440	1,500	-	2,440
Professional fees - Retainer	9	163	825	451	604	441	441	441	574	441	441	441	616	616	616	811
Professional fees - Success	10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest and bank charges	11	150	175	-	2,105	-	-	-	2,105	-	-	-	2,105	-	-	2,105
Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total - Operating Disbursements		5,583	5,170	11,878	6,648	10,858	2,755	11,648	4,437	5,035	6,287	5,755	8,500	4,376	6,396	6,016
Net increase/(decrease) in cash from operating activities		(5,583)	(5,170)	13,565	(6,133)	(10,858)	(2,755)	11,638	(4,437)	(4,785)	(6,287)	19,229	(8,500)	(4,376)	(6,158)	(6,016)
Operating Cash before Collateralized L/C's		38,396	33,813	27,643	41,208	35,075	24,217	21,462	33,100	28,663	23,878	17,591	36,820	28,320	23,944	17,786
Ending Cash before Collateralized L/C's		32,813	27,643	41,208	35,075	24,217	21,462	33,100	28,663	23,878	17,591	36,820	28,320	23,944	17,786	11,770
Cash Collateralized L/C's	12	2,700	-	4,963	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative Cash Collateralized L/C's		3,262	3,262	8,225	8,225	8,225	8,225	8,225	8,225	8,225	8,225	8,225	8,225	8,225	8,225	8,225
Ending Cash after Collateralized L/C's		29,551	24,381	32,983	26,850	15,992	13,237	24,875	20,438	15,653	9,366	28,595	20,095	15,719	9,561	3,545


 Peter D. Scott, Senior Vice President & Chief Financial Officer
 Lightstream Resources Ltd

Global Assumptions:

- Trade suppliers/ JV partners assumed to remain unaffected consistent with current credit bid. Further analysis may be required if there is a change in the structure of the credit bid. However not expected to have a material affect on the filing Companies Creditors Arrangement Act ("CCAA") cash flows as payables relatively current
- CCAA assumed to commence on September 26, 2016
- Interest on bank loan assumed to continue as cash flow permits
- Cash on hand sufficient to avoid requirement for interim loan

Notes:

Management has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of the Company during the CCAA Proceedings. The Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed below. Actual results will likely vary from performance projected and such variations may be material.

- 1 - Product revenue relates to proceeds from the sale of the Company's oil & gas production. Production forecast based on current production adjusted for natural production decline and planned downtime. The forecast sales price is based on third party strip pricing, less 5%, and factoring in the company's typical quality discount to benchmark prices.
- 2 - Hedge gains included in forecast as detailed in forbearance agreement
- 3 - Trade payables is largely opex including, lease rentals, utilities, transportation, Alberta Energy Regulator ("AER")/BC Oil and Gas Commission ("BCOG") fees, other opex and includes some minor miscellaneous G&A
- 4 - Royalties include crown royalties in Alberta, Sask and B.C., Freehold/GORR royalties Indian Oil and Gas Royalties, Freehold Mineral taxes and Saskatchewan Resource surcharge. Assumed to be approximately 10.0% of revenue (when incorporating Alberta crude oil crown royalties that are actually Take-in-Kind ("TIK") by the Alberta Petroleum Marketing Commission ("APMC")).
- 5 - Property taxes based on prior assessments received.
- 6 - Capital/Cash calls are based on our historical records of Independent Operation Notices (ION's) received
- 7 - Taxes and Other relates to GST remittances
- 8 - G&A includes payroll and rent, other miscellaneous G&A is included in trade payables.
- 9 - Professional fees include advisors/legal fees for Company, Monitor, Monitor's counsel, Syndicate advisors/legal and second lien advisor/legal. Financial advisor/selling agent success fees are not included in the cash flow.
- 10 - Success fees include fees paid to advisors and lending syndicate at specific milestones
- 11 - Interest and bank fees includes interest on the Syndicated bank loan and the Agent default fee. Assumed to be paid in a CCAA scenario as cash flow permits.
- 12 - Letters of Credit issued while an event of default exists are required to be cash collateralized as per section 10.12 of the May 29, 2015 Credit Agreement: Effective Sept 30, 2016 all remaining 2016 L/C auto renewals are cash collateralized



2800, 525 - 8th Avenue SW
Calgary, Alberta T2P 1G1
www.lightstreamresources.com
TSX : LTS

September 23 2016

FTI Consulting Canada Inc.
Bankers Hall, West Tower
1000, 888-3rd Street SW
Calgary, AB T2P 5C5

Attention: Deryck Helkaa, CA•CIRP

Dear Sir:

**Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA")
Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections**

In connection with the application by Lightstream Resources Ltd., 1863359 Alberta Ltd. and 1863360 Alberta Ltd. (collectively "Lightstream Group") for the commencement of proceedings under the CCAA in respect of Lightstream Group, the management of Lightstream Group ("Management") has prepared the attached Cash Flow Statement and the assumptions on which the Cash Flow Statement is based. Lightstream Group confirms that:

1. The Cash-Flow Statement and the underlying assumptions are the responsibility of the Lightstream Group;
2. All material information relevant to the Cash Flow Statement and to the underlying assumptions has been made available to FTI Consulting Canada Inc. in its capacity as proposed Monitor; and
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the Cash Flow Statement are appropriate in the circumstances; and
 - b. That the individual assumptions underlying the Cash Flow Statement, taken as a whole, are appropriate in the circumstances.

Yours truly,

LIGHTSTREAM RESOURCES LTD.

A handwritten signature in black ink, appearing to be "P. Scott", with a long horizontal line extending to the right.

Peter Scott,
Senior Vice President and Chief Financial Officer

Encl.