

**REPORT OF TRUSTEE'S PRELIMINARY ADMINISTRATION**

**IN THE MATTER OF THE BANKRUPTCY OF  
ENDURANCE ENERGY LTD.**

**of the City of Calgary  
in the Province of Alberta**

**December 5, 2017**

**BACKGROUND**

Endurance Energy Ltd. ("**Endurance**") is a private company incorporated under *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9 (the "**ABCA**").

Endurance is an exploration and production company focused on the acquisition and development of natural gas assets in the Western Canadian Sedimentary Basin. In 2013 Endurance purchased its main producing asset, the Sierra field, located in northeast British Columbia which contained approximately 900 producing wells.

On September 3, 2015, Endurance acquired all the outstanding common shares of Stone Point Energy Inc. ("**StonePoint**") by way of a plan of arrangement under the ABCA. Endurance amalgamated with Stone Point on October 1, 2015. StonePoint was a Calgary based junior oil and gas company engaged in petroleum and natural gas exploration and development primarily in the Deep Basin and Peace River Arch area of Western Canada.

On May 30, 2017, Endurance 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 the Court of Queen's Bench of Alberta (the "**Initial Order**").

The Initial Order granted, among other things, a stay of proceedings against Endurance, appointing FTI Consulting Canada Inc. ("**FTI**") as Monitor (the "**Monitor**") and approved a sale and investor solicitation process (the "**SISP**").

Endurance implemented the SISP, under the supervision of the Monitor and the Court, and on September 27, 2016, the Court of Queen’s Bench of Alberta (“**Court**”) approved the sale transactions (the “**Transactions**”) between Endurance and Shanghai Energy Corporation dated September 21, 2016 and between Endurance and 1994450 Alberta Inc. dated September 21, 2016. The Transactions closed on October 26, 2016.

On December 5, 2016, the Court granted an Order which, among other things, extended the stay of proceedings to January 31, 2017 (subsequently extended to June 30, 2017), expanding the Monitor’s powers with respect to the Applicant to assist in administering remaining tasks required to complete the CCAA Proceedings, and directing the Monitor to assign the Applicant into bankruptcy if the Monitor deemed it appropriate to do so.

On November 14, 2017, Deryck Helkaa of the Monitor signed the voluntary assignment in bankruptcy pursuant to the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the “**BIA**”).

On November 17, 2017, the Office of the Superintendent of Bankruptcy issued a certificate of appointment appointing FTI as Trustee.

## **CAUSES OF INSOLVENCY**

Our review of Endurance’s affairs indicate the following factors contributed to its insolvency:

### 1. Global Decline Oil and Gas Prices

- a. The decline in global oil and gas prices resulted in a significant reduction in Endurance’s operating income such that it could no longer meet its liabilities as they became due. Additionally, the decline in commodity prices resulted in a significant reduction in the value of Endurance’s reserves.

### 2. Pursuant to a credit agreement dated June 27, 2013 (as amended) (the “**Credit Agreement**”) between Endurance, CIBC, BMO, HSBC Bank Canada, TD, ATB and Union Bank, Canada Branch (the “**Lenders**”), the Lenders agreed to provide Endurance certain credit facilities. The Lenders made the following credit facilities available to Endurance:

- a. Non-revolving facility in the amount of \$45 million (“**Non-Revolving Facility**”);

- b. Revolving facility in the amount of \$185 million (“**Revolving Facility**”); and
- c. Operating facility in the amount of \$15 million (“**Operating Facility**”).

(collectively, the “**Credit Facilities**”)

3. Each of the Non-Revolving Facility and Revolving Facility were fully drawn as at April 1, 2016.
4. On May 26, 2016, Endurance’s Lenders issued a borrowing base shortfall under the Credit Agreement which resulted in a shortfall of \$71 million.
  - a. Under the Credit Agreement, upon receipt of the borrowing base shortfall the lenders were not required to make any further advances under the Credit Agreement. As a result, Endurance had no liquidity and no ability to fund its obligations as they became due.
  - b. As at May 25, 2016, the total amount of the indebtedness owing under the Credit Facilities was \$221,886,331.
5. The proceeds from the Transactions were used to make a number of distributions (the “**Distributions**”) to the Lenders in partial satisfaction of the amounts owing under the Credit Facilities.
6. After completing the Distributions to the Lenders, there is still approximately \$61.5 million owing under the Credit Facilities. Substantially of Endurance’s assets have been realized on and the Trustee does not anticipate any further distributions at this time.

#### **APPOINTMENT OF TRUSTEE IN BANKRUPTCY**

The Trustee has performed the following duties as required under the BIA:

- Obtained control of Endurance’s available books and records; and
- Attended to the various statutory notice requirements.

## **SECTION A – Summary of Assets**

As detailed in the Statement of Affairs, as at November 14, 2017 Endurance had no assets remaining to be realized.

## **SECTION B**

### **1. Conservatory and protective measures**

There is no property requiring conservatory or protective measures as Endurance had no assets at the date of bankruptcy.

### **2. Carrying on Business**

Endurance has ceased operations and as such there are no current operations for the Trustee to carry on.

## **SECTION C: Legal Proceedings**

The Trustee is not aware of any pending legal proceedings.

## **SECTION D: Provable Claims**

As at the date of this report, the Trustee has received 39 (thirty-nine) claims from unsecured creditors totaling \$2,450,4691.41.

## **SECTION E: Secured Creditors**

As at the date of this report, the Trustee has not received any claims from secured creditors.

## **SECTION F: Security for unpaid wages – Wage Earner Protection Program Act (“WEPPA”) Claims**

The Trustee is not aware of any unpaid wages.

## **SECTION G: Anticipated realization and projected distribution**

As Endurance has no assets there is not likely to be any realization or distribution of funds by the Trustee to creditors.

**SECTION H: Preferences and transfers at undervalues**

The Trustee has conducted a review of Endurance's bank records for the twelve-month period prior to the date of bankruptcy for the purposes of identifying any payments that may be considered preference payments under the BIA. The Trustee found no evidence of potential preference and/or transfers at undervalue arising from its limited review.

**SECTION I: Third Party Deposits & Guarantees**

The Trustee is not aware of any deposits or third part guarantees.

**SECTION J: Other Matters**

There are no other matters.

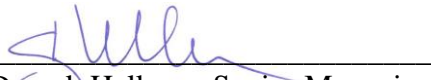
Further information relating to the bankruptcy proceeding may be obtained from the Monitor's website at <http://cfcanada.fticonsulting.com/endurance/>.

All of which is respectfully submitted this 5 day of December, 2017.

Yours truly,

**FTI Consulting Canada Inc.**

In its capacity as Trustee of  
Endurance Energy Ltd.  
and not in its personal capacity

Per:   
Deryck Helkaa – Senior Managing Director, LIT