

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

November 30, 2016

ADDRESS FOR SERVICE AND
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INTRODUCTION

1. On September 26, 2016 Lightstream Resources Inc. (“**LTS**”), 1863359 Alberta Ltd. (“**1863359**”), and 1863360 Alberta Ltd. (“**1863360**”), Lightstream Resources Partnership (“**LTS Partnership**”) and Bakken Resources Partnership (“**Bakken Partnership**”) (collectively, the “**Applicants**”, or the “**Lightstream Group**”) sought and obtained protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an order granted by this Honourable Court (the “**Initial Order**”).
2. The Initial Order granted, *inter alia*, a stay of proceedings against the Lightstream Group until and including October 26, 2016, (the “**Initial Stay Period**”) and appointed FTI Consulting Canada Inc. as Monitor (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
3. In addition to the stay of proceedings, the Initial Order granted various relief including, among other things:
 - (a) the Administration Charge;
 - (b) the Credit Card Charge
 - (c) the Directors’ Charge;
 - (d) the KERP and the KEIP Charge;
 - (e) the Financial Advisor Charge; and

- (f) approval of the Sale Procedures to solicit interest in the Lightstream Property (as such term is defined in the Sale Procedures);

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

- 4. Mudrick Capital Management, LP (“**Mudrick**”), FrontFour Capital Corp. and FrontFour Group LLC. (collectively, the “**Front Four Group**”), in their capacity as unsecured noteholders and plaintiffs in an oppression action commenced in the Court of Queen’s Bench of Alberta raised certain objections to the Other Relief. As a result of the objections a comeback hearing (the “**Comeback Hearing**”) was held on October 11, 2016. After hearing from various stakeholders the Court re-affirmed the relief granted in the Initial Order, and no amendments were made to the Initial Order. Also at the Comeback Hearing the Applicants were granted an extension to the stay of proceedings up to and including December 16, 2016.
- 5. On November 7, 2016 the Lightstream Group made an application to this Honourable Court seeking approval to commence a claims process (“**Claims Process**”) in order to determine, assess and categorize claims and/or potential claims against the Applicants including pre-filing claims, post filing restructuring claims, any priority claims, claims against its directors and officers or claims against the Directors Charge. The Court granted the proposed claims process order (“**Claims Process Order**”).

PURPOSE

- 6. The purpose of this third report of the Monitor (the “**Third Report**”) is to advise this Honourable Court and provide the Monitor’s summary and/or comments with respect to:
 - (a) the activities of the Applicants since the November 7, 2016 Court application;

- (b) the continued execution and results of the sales solicitation process (“**Sale Process**”) undertaken by the Company and TD Securities Inc. (the “**Sale Advisor**”);
 - (c) the Lightstream Group’s request for an approval and vesting order (“**Approval and Vesting Order**”) related to an asset purchase agreement between the Lightstream Group and 1090247 B.C. Ltd. (the “**Buyer**”) executed on November 29, 2016;
 - (d) the status of the ongoing Claims Process;
 - (e) the Lightstream Group’s budget to actual results for the period of October 1, 2016 to November 18, 2016 as compared to the previous cash flow statement that was presented to this Honourable Court as attached to the Monitor’s First Report;
 - (f) the Lightstream Group’s revised cash flow forecast for the period November 19, 2016 to December 30, 2016 and estimated post-closing flow of funds;
 - (g) the Applicants’ request to enhance the powers of the Monitor to assist with post-closing matters and wind-down initiatives; and
 - (h) the Applicants’ request for an extension to the stay of proceedings.
7. Further background and information regarding the Applicants and these CCAA Proceedings can be found on the Monitor’s website at <http://cfcanda.fticonsulting.com/lightstream/>.

TERMS OF REFERENCE

8. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with various parties, including senior management ("**Management**") of the Applicants (collectively the "**Information**") and the Sale Advisor.
9. 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.
10. 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.
11. The Monitor has prepared this report in connection with the Lightstream Group's application seeking an approval and vesting Order (the "**Approval and Vesting Order Application**"), an order enhancing the powers of the Monitor ("**Transition Order**") and an Order extending the stay or proceedings ("**Stay Extension Order**"). This report should be read in conjunction with the materials filed by the Applicants with respect to their Approval and Vesting Order Application, including the affidavit of Peter Scott sworn November 29, 2016 ("**Scott Fourth Affidavit**"). This report should not be relied on for other purposes.

12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined herein have the meaning given to them in the Scott Initial Order Affidavit, the Scott Second Affidavit, the Scott Third Affidavit, the Proposed Monitor's report dated September 23, 2016, the Monitor's First Report dated October 7, 2016, the Monitor's Second Report dated November 2, 2016, the Initial Order, the Claims Process Order or the Secured Noteholder APA as defined below.

ACTIVITIES OF THE APPLICANTS

CONSULTATION AND MONITORING

13. Since the November 7, 2016 Application, the Lightstream Group and the Monitor have communicated and consulted on a continuous basis with respect to ongoing operations. The Lightstream Group has consulted the Monitor with respect to ongoing operational disbursements and provided the Monitor with regular cash flow reporting.
14. The Monitor notes that there have been no material changes to the Lightstream Group's operations or cash flows. To date, the Lightstream Group has been successful in maintaining relatively normal course operations with no significant operational issues.
15. In the Monitor's view, the Applicants are continuing to act in good faith and with due diligence.

COMMUNICATION WITH STAKEHOLDERS

16. Since the November 7, 2016 Application, the Monitor and the Applicants have maintained communication with various stakeholders including, the First Lien Lenders, the *Ad Hoc* Committee of Secured Noteholders, the Front Four Group and various trade creditors.

RESTRUCTURING INITIATIVES

17. The Applicants, in consultation with the Sale Advisor, and the Monitor have continued to execute the Court approved Sale Process, including continued negotiations with the Secured Noteholder with respect its credit bid (“**Secured Noteholder Credit Bid**”). The Sale Process is now complete and the Secured Noteholder Credit Bid has been negotiated into a formal asset purchase agreement, as discussed in detail below.
18. The Applicants in consultation with the Monitor have continued the Court approved Claims Process as will be discussed in further detail below.

SUMMARY OF SALE PROCESS

Summary of Sale Process

19. The Applicants and the Sale Advisor have continued the execution of the Sale Process pursuant to the sale procedures (“**Sale Procedures**”) approved by this Honourable Court. The Monitor has been in contact with the Company and the Sale Advisor regularly throughout the Sale Process. The Monitor has been provided with regular ongoing status updates and been included in the discussions and analysis of bids received.
20. As mentioned in the Monitor’s First Report, immediately upon the granting of the Initial Order, the Sale Advisor commenced the implementation of the Sale Procedures pursuant to the Initial Order including the following:

- (a) distributed a teaser, confidentiality agreement (“CA”) and notice of the Phase 1 Bid Deadline (as defined in the Sale Procedures) to approximately 600 parties;
 - (b) made targeted phone calls to strategic financial parties;
 - (c) posted the teaser on the Sale Agent’s website; and
 - (d) provided parties with notification of the CCAA Proceedings and a link to the Monitor’s website.
21. In total 61 parties signed CA’s, 59 parties accessed the virtual data room and 4 management presentations were completed.
22. In accordance with the Sale Procedures the Company and the Sale Advisor sought non-binding letters of intent by October 21st, 2016, the Phase 1 Bid Deadline. On October 24th, 2016 the Monitor met with the Company, the Company’s counsel and the Sale Advisor to review the non-binding bids received. A total of 29 bids in addition to the Secured Noteholder Credit Bid were received either by way of en bloc offers for all of the Lightstream Groups assets or for certain asset packages. Given the commercially sensitive nature of the bid information and the fact that a sale of the Lightstream Groups’ assets has not yet closed, the Monitor has prepared a confidential supplement to this Third Report (“**Confidential Supplement Report**”), which includes detailed bid information. The Monitor has provided a summary of the bids (“**Phase 1 Bid Summary**”) that were received on the Phase 1 Bid Deadline. The Phase 1 Bid Summary was prepared by the Sale Advisor and is attached as Appendix A to the Monitor’s Confidential Supplement Report.

Results of Sale Process

23. The Sale Process resulted in 29 non-binding indications of interest, in addition to the Secured Noteholder Credit Bid at the Phase 1 Bid Deadline, after review and assessment of the Phase 1 Bids the Lightstream Group, in consultation with the Sale Advisor and the Monitor, determined that certain Phase 1 bids received met the criteria to be qualified bids and accordingly proceeded to Phase 2 of the Sale Procedures. However, as noted in the Monitor's Confidential Supplement Report, Phase 2 of the Sale Process did not generate any offers superior to the Secured Noteholder Credit Bid. Accordingly, the Applicants are proceeding to implement the Secured Noteholder Credit Bid and have finalized an asset purchase agreement ("**Secured Noteholder APA**") between the Lightstream Group and 1090247 B.C. Ltd. executed on November 29, 2016. A copy of the Secured Noteholder APA is attached as exhibit C to the Scott Fourth Affidavit.

MONITOR'S COMMENTS AND RECCOMENDATIONS ON THE SALE PROCESS

24. The Sale Procedures were approved by this Honourable Court in the Initial Order and then re-affirmed at the Comeback Hearing.
25. The Sale Advisor and the Lightstream Group kept the Monitor informed throughout the Sale Process and in the Monitor's view the was conducted in accordance with the Sale Procedures approved by this Honourable Court.
26. The Monitor notes the following with respect to the Sale Process:
- (a) The Monitor is of the view that the assets of the Lightstream Group have been adequately exposed to the market through the Sale Process led by the Sale Advisor. The Sale Process was robust as evidenced by the quantity of bids received and the quality of the bidders who submitted bids;

- (b) As set out in the First Report, the Monitor is of the view that the timeline outlined in the Sale Procedures was reasonable in the circumstance and consistent with other CCAA proceedings that involved oil and gas sale processes. Accordingly, the Monitor is of the opinion that the length of the Sale Process was sufficient to maximize value; and
 - (c) The Monitor has reviewed the marketing materials used in the Sale Process and is of the view that they provided a detailed overview of the assets for the purposes of engaging interested parties.
27. The Monitor is of the view that the Sale Process was completed in accordance with the Court approved Sale Procedures. In the Monitor's view, the Sale Procedures were designed to fully and adequately expose the Lightstream Group's assets to the market and maximize value to the Applicants and its stakeholders through a sale. The results of the Sale Process including the number of bids received and the quality of bidders provides evidence that the Lightstream Group's assets were fully and adequately exposed to the market and that the Sale Procedures provided an appropriate platform to allow interested parties to submit offers.

SECURED NOTEHOLDER APA

28. The following section provides a high level summary of the major terms included in the Secured Noteholder APA.

Purchased Assets

29. Purchased Assets include all of Lightstream Group's assets with the exception of certain Excluded Contracts as defined in the Secured Noteholder APA.
30. The Excluded Contracts include:

- (a) The credit agreement of the first secured banking syndicate (“**First Lien Lenders**”) which is being paid out in full;
- (b) The indenture agreement of the Secured Noteholders, the debt under which is being bid pursuant to the Secured Noteholder APA;
- (c) The indenture agreement of the unsecured noteholders, which is out of the money based on the results of the Sale Process;
- (d) An office lease (“**Lease**”) that the Buyer does not intend to assume due to the current terms of the agreement. The Secured Noteholder APA contains an occupancy agreement (the “**Occupancy Agreement**”) to be entered into between the Applicants and the Buyer which has the effect of, among other things, permitting the Buyer to occupy all of Applicants’ leased head-office premises until March 31, 2017 with the ability to extend the term provided there are sufficient funds in the Wind-Down Amount to permit payment of the Applicants’ liabilities to the landlord under the Lease. For clarity, it is proposed that the Applicants will continue to pay rent and all other amounts due under the Lease during the term of the Occupancy Agreement. The Monitor notes that the Wind-Down Amount makes adequate provision for payment of the rent during the initial term of the Occupancy Agreement. Finally, the Monitor notes that the Lease mandates that the Landlord must consent to the Occupancy Agreement but that the Landlord must not unreasonably withhold its consent;
- (e) Various agreements with trade creditors including a backstop agreement backstopping firm commitment transportation services with Pembina Pipeline Corporation, a waste processing agreement with the town of Stoughton and an application fee with Moody’s Canada Inc. who have an agreement to provide services with respect to the Lightstream Group’s corporate issuer status.

Purchase Price

31. Purchase price is calculated as the sum of:
- (a) Credit Facility Payout Amount – represents the payout of the First Lien Lenders.
 - (b) Assumed liabilities – includes, among other things, liabilities under the Assigned Contracts, Environmental Liabilities, all Taxes related to the purchased assets, all Trade Payables and not yet invoiced or paid reorganization costs, accrued vacation pay for Transferred Employees, Priority Claims if not satisfied through the Reserve Amount.
 - (c) Credit Bid Amount – represents the debt owing to the Secured Noteholders including principal, accrued interest and make-whole.
 - (d) Deficiency Payment – is calculated by the Lightstream Group’s cash on hand at closing less hold backs for the Reserve Payment Amount and the Wind-Down Amount. Based on the revised cash flow forecast presented below this amount is expected to be nil as the cash on hand at closing is expected to exceed aggregate of the Reserve Payment Amount and the Wind-Down Amount.
32. The Monitor estimates the value of the purchase price to be approximately \$1.39 billion.

Treatment of Employee

33. The Monitor understands that the Buyer will operate the assets of Lightstream Group as a going concern and accordingly intends to offer employment to the majority, if not all, of Lightstream Group’s current employees.

Closing Date

34. The closing date (“**Closing Date**”) shall occur no later than three business days after each of the conditions set forth in Article 9 and Article 10 of the Secured Noteholder APA have been satisfied or waived but in no event later than the Outside Date of December 31, 2016.

Holdbacks

35. The Secured Noteholder APA includes holdback provisions whereby the Applicants are to holdback cash on hand at closing for a Reserve Payment Amount and a Wind-Down Amount. The holdback provisions are necessary to allow the Applicants sufficient funding to complete post-closing matters, wind-down the business and ensure adequate funding for potential priority claims that have not yet been settled.
36. The Reserve Payment Amount is a holdback for priority claims which includes claims that rank pari passu with, or senior in priority to, the Secured Noteholder’s second lien indebtedness (other than the Senior Secured Credit Facility or the replacement credit facility), including the following:
- (a) any claims subject to a statutory deemed trust as described in Section 37(2) of the CCAA (inclusive of the statutory deemed trusts described in paragraph 9(a) of the CCAA Initial Order) or subject to a statutory lien as described in Section 38(3) of the CCAA;
 - (b) any Success Fees owing to the financial advisors covered by the Financial Advisors Charge;
 - (c) any amounts owing under the KERP and KEIP, up to the maximum amount of the KEIP Charge and the KERP Charge;

- (d) any unpaid Sales Taxes (as defined in the CCAA Initial Order) required to be paid pursuant to paragraph 9(b) of the CCAA Initial Order;
 - (e) all municipal realty, municipal business or other taxes, assessments or levies of any kind or nature attributable to or in respect of the carrying on of the Business accrued and unpaid by Sellers accrued and unpaid to Closing required to be paid pursuant to paragraph 9(c) of the CCAA Initial Order;
 - (f) any accrued and unpaid amounts in respect of the type of claims (but not amounts) subject to Section 36(7) of the CCAA and Sections 6(5)(a) and 6(6)(a) of the CCAA in respect of Transferred Employees and Non-Transferred Employees up to and including the Closing Date (except for accrued vacation pay for Transferred Employees assumed by Buyer pursuant to Section 2.2(f)); and
 - (g) claims filed as a Priority Claim in the Claims Bar Process that have not been finally determined, resolved or settled pursuant to the Claims Bar Process.
37. The Wind-Down Amount is a hold back to ensure the Applicants have sufficient funds for the complete post-closing matters and the orderly wind-down of the Applicants estate. The Wind-Down amount includes:
- (a) amounts owing by the Applicants in respect of goods and services provided to the Applicants prior to the Initial Order (other than in respect of Excluded Assets) or during the post-filing, not otherwise assumed by Buyer pursuant to Sections 2.2(e) and 2.2(g) of the Secured Noteholder APA;
 - (b) fees and expenses of Sellers' advisors and Monitor and its advisors;
 - (c) the Applicants' transaction expenses;
 - (d) the Cure Costs;

- (e) the D&O Reserve; and
 - (f) the costs of winding down Sellers' estates after the Closing, including the cost of goods and services provided to Applicants post-closing.
38. The Reserve Payment Amount and a Wind-Down Amount are to be deducted from cash on hand at closing and paid to the Monitor to be held in trust. The remaining cash (“**Remaining Cash**”) after deducting the Reserve Payment Amount and the Wind-Down Amount will be paid to the Buyer. The claims bar dates in the Claims Process have not yet passed and certain items within the Reserve Payment Amount remain subject to change the Reserve Payment Amount can be adjusted up to the Closing Date. For illustrative purposes, the Monitor, in consultation with the Applicants, has presented an estimate of the Reserve Payment Amount and the Wind-Down Amount in the revised forecast section below.

Monitor’s Comments on the Secured Noteholder APA

39. The Monitor recommends that this Honourable Court approve the Secured Noteholder APA based on the following:
- (a) No superior bids were received in the Sale Process. The aggregate implied purchase price is higher than any of the bids received through the Sale Process and accordingly maximizes value to the Applicants’ stakeholders.
 - (b) The offers received in the Sale Process, including a combination of offers, were not sufficient to repay the Secured Noteholders in full and accordingly they are the fulcrum creditors. The Applicants and the Secured Noteholders support the Secured Noteholder APA. Additionally the First Lien Lenders support the Secured Noteholder APA.

- (c) Positive outcome for a large number of unsecured creditors as the trade debts and majority of the Applicants contracts are being assumed by the Buyer;
- (d) Business is essentially being sold as a going concern under a different corporate structure and accordingly the Buyer is expected to employ the majority, if not all, of the Lightstream Group's employees; and
- (e) Based on review of the conditions precedent the Monitor is of the view that the transaction has a high likelihood of successfully closing.

SECURITY REVIEW

- 40. The Applicants' assets subject to the Secured Noteholder APA are located in the provinces of Alberta, Saskatchewan, British Columbia, and Manitoba, and the Northwest Territories.
- 41. In order to perfect the personal property security granted by the Applicants to the Secured Noteholders, the Secured Noteholders have registered financing statements, in accordance with the applicable *Personal Property Security Act*, against all of the Applicants' present and after-acquired personal property, assets, and undertaking, in Alberta, British Columbia, Saskatchewan, and Manitoba.
- 42. The Secured Noteholders have also registered, against all Applicants: (i) land charges, in the Alberta Personal Property Registry, in accordance with the provisions of the Law of Property Act (Alberta); and, (ii) an uncrystallized floating charge on land, in the British Columbia Personal Property Registry, in accordance with the Land Title Act (British Columbia). The Secured Noteholders have not registered or perfected their security in the Northwest Territories Personal Property Registry.

43. Finally, the Secured Noteholders have registered fixed charges against certain of the titles and/or mineral leases of the Applicants' petroleum and natural gas interests in Alberta, British Columbia, and Saskatchewan.
44. The Monitor has conducted an independent review of the Secured Noteholders security. Specifically:
- (a) counsel to the Monitor, McCarthy Tétrault LLP ("McT"), prepared an opinion of the Secured Noteholders' security in Alberta and British Columbia. Subject to customary assumptions and qualifications McT has opined that the Secured Noteholders' personal property security in both Alberta and British Columbia is valid and enforceable, in accordance with the terms therein, and has priority over all of the Applicants' unsecured creditors and any subsequently appointed trustee(s) in bankruptcy of the Applicants;
 - (b) Saskatchewan counsel to the Monitor, MacPherson, Leslie & Tyerman LLP ("MLT"), prepared an opinion of the Secured Noteholders' personal property security in Saskatchewan. Subject to the customary assumptions and qualifications MLT has opined that the Secured Noteholders' personal security in Saskatchewan is valid and enforceable, in accordance with the terms therein, and has priority over all of the Applicants' unsecured creditors and any subsequently appointed trustee(s) in bankruptcy of the Applicants; and,
 - (c) Manitoba counsel to the Monitor, Taylor McCaffrey LLP ("TMC"), prepared an opinion of the Secured Noteholders' security in Manitoba. Subject to the customary assumptions and qualifications TMC has determined that the Secured Noteholders' security in Manitoba is valid and enforceable, in accordance with the terms therein, and has priority over all of the Applicants' unsecured creditors and any subsequently appointed trustee(s) in bankruptcy of the Applicants.

- (d) As a result of the Secured Noteholders not registering any fixed charges in Manitoba, TMC also conducted a review of the real and licensed property of the Applicants, subject to the Secured Noteholder APA, in Manitoba (collectively referred to as, the “Manitoba RP Assets”). Upon TMC’s review of the Manitoba RP Assets search results, TMC has informed the Monitor that, based on the information available and subject to certain limitations and qualifications, TMC: (i) has not identified any claims in priority to the unregistered claims of the Secured Noteholders (other than the First Lien Lenders); and, (ii) is not aware of any additional searches to be undertaken to confirm if there are any potential claims ranking in priority to the unregistered claims of the Secured Noteholders.
- (e) Denroche & Associates (“DA”), the Monitor’s independent Northwest Territories counsel has conducted a review of the registrations made against the Applicants’ in the Northwest Territories Personal Property Registry and against the Applicants’ interests in the Significant Discovery License being acquired by the Secured Noteholders located in the Northwest Territories. DA has informed the Monitor that they have not identified any claims that would have priority over the Secured Noteholders’ unperfected security interest in the Northwest Territories.
45. The aforementioned opinions from McT and MLT opine that the fixed charges registered by the Secured Noteholders were duly perfected by registration under the applicable legislation.
46. In order to perfect the security granted by the Applicants to the First Lien Lenders, the First Lien Lenders have registered financing statements against all present and after acquired property, assets and undertaking:
- (a) in Alberta and Saskatchewan, against all the Applicants; and
 - (b) in British Columbia and Manitoba against LTS, 1863359 Alberta Ltd, and LTS Partnership.

47. The First Lien Lenders also registered: (i) land charges against all Applicants, in the Alberta Personal Property Registry, in accordance with the provisions of the Law of Property Act (Alberta); and, (ii) an uncrystallized floating charge on land against LTS, 1863359, and LTS Partnership, in the British Columbia Personal Property Registry, in accordance with the Land Title Act (British Columbia).
48. Additionally, the First Lien Lenders have registered fixed charges against certain of the titles and/or mineral leases of the Applicants' petroleum and natural gas interests in Alberta, British Columbia, and Saskatchewan.
49. The Monitor has completed a review of the First Lien Lenders' personal property security, as perfected in the applicable personal property registries. The Monitor's counsel, in each of British Columbia, Alberta, Saskatchewan and Manitoba have opined that subject to the customary assumptions and qualifications, that the First Lien Lenders' personal property security has been duly perfected against the applicable Lightstream Group members with corresponding priority over the unsecured creditors and any subsequently appointed trustee(s) in bankruptcy.
50. Pursuant to the provisions of an Intercreditor and Priority Agreement dated July 2, 2015, the Secured Noteholders agreed that the security held on their behalf is fully subordinated to the claims of the First Lien Lenders.

CLAIMS PROCESS

51. On November 7, 2016 the Applicants were granted approval to commence the Claims Process. Immediately after the granting of the Claims Process Order, the Monitor, in consultation with the Applicants commenced the Claims Process pursuant to the Claims Process Order. The following provides a summary of the Claims Process to date.

Notice

52. On November 9, 2016 the Monitor mailed a Claims Package to:
- (a) each party that appeared on the service list or had requested a Claims Package; and
 - (b) all known Creditors, other than Employees, as evidenced by the books and records of the Applicants and the CCAA Parties at their respective last known addresses as recorded in the Applicants' and CCAA Parties' books and records.
53. The Monitor caused the Notice to Creditors to be published in two separate newspapers:
- (a) the Calgary Herald on November 8, 2016 and November 9, 2016; and
 - (b) the Globe and Mail (National Edition) on November 8, 2016 and November 9, 2016.
54. The Monitor also posted the Claims Package to its website.

Status of Claims Process

55. Since sending notice of the Claims Process the Monitor has been fielding inquiries from creditors and/or possible creditors with respect to the requirement to complete a proof of claim and the CCAA Proceedings generally.

56. To date the Monitor has received 32 claims for a total of \$844,568. No priority claims have been filed to date. The Monitor is in the process of reviewing the claims filed in consultation with the Applicants to determine if they are valid claims and will report further to this Honourable Court in this regard.
57. The Monitor notes that the bar dates for creditors to file claims have not yet past and accordingly will provide a further update to this Honourable Court in a subsequent report. For reference the Claims Bar date for Prefiling Claims, a Directors' Charge Claims or Priority Claims is 5:00 p.m. (Calgary time) on December 7, 2016. Restructuring Period Claims have a different bar date, the Restructuring Period Claims Bar Date, which is the later of:
- (a) 15 days after the date on which the Monitor sends a Claims Package with respect to such Restructuring Period Claim; and
 - (b) the Claims Bar Date.

BUDGET TO ACTUAL RESULTS

58. The table below provides a summary of the Lightstream Group's budget to actual results for October 1, 2016 to November 18, 2016 ("**Reporting Period**") as compared to the cash flow statement ("**October 7 Forecast**") attached to the Monitor's First Report dated October 7, 2016.

(CAD \$000's)	Reporting Period		
	Forecast	Actual	Variance
Cash Receipts			
Product Revenue	24,965	25,473	508
Hedging and other	234	431	197
Total - Operating Receipts	25,199	25,904	705
Cash Disbursements			
Trade Payables	33,378	12,933	(20,445)
Royalties	4,504	2,487	(2,017)
Property Taxes	207	205	(2)
Capital/cash calls	1,100	-	(1,100)
Taxes/other	900	(999)	(1,899)
G&A (payroll and rent)	5,440	5,223	(217)
Professional fees	3,912	2,962	(950)
Interest and bank charges	4,161	4,325	164
Other	-	-	-
Total - Operating Disbursements	53,602	27,136	(26,466)
Net increase/(decrease) in cash from operating activities	(28,403)	(1,232)	27,171
Opening Cash before Collateralized L/C's	47,528	47,528	-
Ending Cash before Collateralized L/C's	19,125	46,296	27,171
Cummulative Cash Collateralized L/C's	8,225	8,225	-
Ending Cash after Collateralized L/C's	10,900	38,071	27,171

59. The following provides a summary of the major budget to actual variances:

- (a) Production Revenue – oil and gas production revenue for the Reporting Period is slightly higher than budget due to the realized selling price being higher than expected.

- (b) Hedging and Other receipts – was \$197,000 greater than budget mainly due to unexpected timing and application of joint venture receivables.
 - (c) Trade Payables – \$20.4 million favourable variance can be attributable in part to timing, some of which may reverse in future periods. The Lightstream Group has been more successful than expected in maintaining normal payment terms with their vendors. No material upfront deposits or prepayments have been required.
 - (d) Royalty Expense – favourable \$2.0 million timing variance, some or all of which variance is expected to reverse in future periods.
 - (e) Capital/cash calls – favourable variance of \$1.1 million as the Lightstream Group has not been cash called from joint venture partners for any capital projects since commencing CCAA Proceedings.
 - (f) Taxes / other expenses – favourable variance of \$1.9 million relates to timing between collection and remittance of GST and an unexpected cheque for approximately \$700,000 that was received from the Canada Revenue Agency by the Lightstream Group which is in the process of being reconciled. The majority of the favourable variance is expected to reverse in future periods.
 - (g) G&A (payroll & rent) – is materially in line with budget.
 - (h) Professional fees – favourable variance of \$950,000 due to timing and some or all of this variance is expected to reverse in future periods.
60. Overall the Lightstream Group's cash balance at the end of the Reporting Period is \$27 million ahead of forecast. No variances that occurred during the Reporting Period are expected to have a materially negative impact on the Applicants' liquidity. Given the status of the CCAA Proceedings and the large positive timing variances the Applicants have prepared a revised cash flow forecast as presented below.

REVISED CASH FLOW FORECAST AND POST-CLOSING FUNDS FLOW

61. The Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow forecast (the “Cash Flow Forecast”) for the period November 19, 2016 to December 30, 2016 (the “Forecast Period”). The Cash Flow Forecast assumes that the Lightstream Group closes the Secured Noteholder APA as contemplated and accordingly will operate in normal course through to the end of December 2016, at which time, they will close the Secured Noteholder APA. According to the Secured Noteholder APA, the Lightstream Group must deliver its cash on hand at closing to the Buyer less certain holdbacks for the Reserve Payment Amount and the Wind-Down Amount as defined in the Secured Noteholder APA. Appendix A provides the detailed weekly Cash Flow Forecast to December 30, 2016 and the post-closing flow of funds assuming the Secured Noteholder APA closes as contemplated.

November 19 to December 30, 2016	
CAD \$000	Total
Cash Receipts	
Product Revenue	55,130
Other	85
Total - Operating Receipts	55,215
Cash Disbursements	
Trade Payables	25,333
Royalties	3,932
Property Taxes	10
Capital/cash calls	550
Taxes/other	(820)
G&A (payroll and rent)	6,386
Professional fees	3,340
Interest and bank charges	4,210
Total - Operating Disbursements	42,941
Net increase/(decrease) in cash from operating activities	12,274
Opening Cash before Collateralized L/C's	46,296
Ending Cash prior to Closing Date	58,570
Post Closing flow of funds	
Estimated Reserve Payment Amount - held by Monitor	(20,000)
Estimated Wind-Down Amount - held by Monitor	(8,584)
Estimated Remaining Cash paid to Buyer upon closing	(29,986)
Ending Cash after Closing held by the Lightstream Group	nil

62. The Cash Flow Forecast indicates the following for the Forecast Period:
- (a) total cash receipts of \$55.2 million;
 - (b) total cash disbursements of \$42.9 million;
 - (c) total disbursements relating to the professional fees and restructuring costs of \$3.3 million. Note this amount does not include success fees for financial advisors that will become payable upon closing the Secured Noteholder APA. The success fees are included as part of the Reserve Payment Amount.
63. The detailed notes at Appendix A provide a summary of the major assumptions supporting the Cash Flow Forecast.
64. The table above reflects the flow of funds post-closing that will occur in the event the Secured Noteholder APA closes as contemplated. Accordingly the table includes final disbursements that will be made post-closing and held by the Monitor to fund the Wind-Down Amount (\$8.6 million) and the Reserve Payment Amount (\$20 million). The Wind-Down Budget is attached as Schedule J to the Secure Noteholder APA. The Monitor has reviewed the Wind-Down amount and determined that it is based on reasonable assumptions.
65. The Reserve Payment amount is currently estimated to be approximately \$20 million. The current estimate is attached as Appendix B to this report. The Monitor notes that the Reserve Payment Amount remains an estimate at this time and is subject to change due to various reasons including, the ongoing Claims Process, exchange rate fluctuations, assumptions made with respect to the employees that will be offered employment by the Buyer etc. To account for these uncertainties the Reserve Payment Amount may be adjusted up to the Closing Date of the Secured Noteholder APA. The estimate has been provided for illustrative purposes only.

66. The Monitor has reviewed the assumptions supporting the Cash Flow Forecast to December 30, 2016, the Wind-Down Amount and the Reserve Payment Amount and determined that they are reasonable. Additionally the Monitor is satisfied that the provisions in the Secured Noteholder APA that allow for the hold back of funds required to satisfy the Reserve Payment Amount and the Wind-down Amount are adequate to allow the Lightstream Group to close the Secured Noteholder APA and continue with post-closing and wind-down activities through the proposed extension to the stay of proceedings discussed below. If the Secured Noteholder APA does not close a revised cash flow would have to be completed to reflect continued normal course operations past December 2016, however, if that were to occur the Monitor is satisfied that the Applicants would have adequate liquidity to continue operations through the proposed stay extension.

EXPANDED POWERS OF THE MONITOR

67. The Applicants are requesting approval of the Transition Order which enhances the powers of the Monitor to assist in various post-closing matters and wind-down initiatives. As noted in the Scott Fourth Affidavit, the directors and officers of the Applicants intend to resign concurrently with the closing of the Secured Noteholder APA and the majority, if not all, of the Applicants employees will commence employment with the Buyer. Accordingly the Applicants will require someone with the authority to direct and manage post-closing matters and the orderly wind-down of the business. Transition has reviewed the Transition Order and is of the view that it provides the appropriate authority to allow it to direct and manage post-closing matters and the orderly wind-down of the business. Given the above, the Monitor supports the Applicants request for the Transition Order.

THE APPLICANTS' REQUEST FOR AN EXTENSION TO THE STAY PERIOD

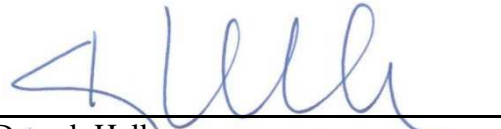
68. The current stay of proceedings expires December 16, 2016. The Applicants are seeking a Stay Extension Order which contemplates extending to the stay period up to and including May 31, 2017 (the “**Second Stay Extension**”).
69. As discussed above, with the amounts held back by the Monitor for wind-down initiatives the Monitor has determined that the Applicants will have sufficient liquidity to operate their business through the Second Stay Extension Period. It is the Monitor’s view that the Second Stay Extension is necessary to allow the Company to complete the Secured Noteholder APA and to conduct an orderly wind-down.
70. In the Monitor’s view, the Applicants are continuing to act with due diligence and in good faith.

CONCLUSIONS AND RECOMMENDATIONS


71. The Monitor respectfully recommends that this Honourable Court grant the Applicants’ request for:
- (a) Approval of the Secured Noteholder APA;
 - (b) Approval of the Sale Approval and Vesting Order;
 - (c) Approval of the Transition Order, enhancing the powers of the Monitor; and
 - (d) Approval of the Stay Extension Order, extending the stay of proceedings to May 31, 2017.

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

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



Deryck Helkaa
Senior Managing Director,



Dustin Olver
Managing Director

Appendix A

Revised Cash Flow Forecast

Lightstream Group
Consolidated Weekly Cash Flow Forecast
November 19, 2016 to December 30, 2016
CAD \$000

	Notes	Week 1 25-Nov	Week 2 2-Dec	Week 3 9-Dec	Week 4 16-Dec	Week 5 23-Dec	Week 6 30-Dec	Total
Cash Receipts								
Product Revenue	1	29,312	-	-	-	-	25,818	55,130
1 Other	2	(102)	-	-	-	-	187	85
Total - Operating Receipts		29,210	-	-	-	-	26,005	55,215
Cash Disbursements								
Trade Payables	3	4,315	4,984	4,306	3,263	6,812	1,653	25,333
Royalties	4	830	105	-	2,050	165	782	3,932
Property Taxes	5	5	5	-	-	-	-	10
Capital/cash calls	6	-	-	-	550	-	-	550
Taxes/other	7	(479)	-	-	-	(341)	-	(820)
G&A (payroll and rent)	8	-	2,443	-	1,500	-	2,443	6,386
Professional fees	9	943	575	383	383	435	621	3,340
Interest and bank charges	10	-	2,105	-	-	-	2,105	4,210
Total - Operating Disbursements		5,614	10,217	4,689	7,746	7,071	7,604	42,941
Net increase/(decrease) in cash from operating activities		23,596	(10,217)	(4,689)	(7,746)	(7,071)	18,401	12,274
Opening Cash before Collateralized L/C's		46,296	69,892	59,675	54,986	47,240	40,169	46,296
Ending Cash before Collateralized L/C's		69,892	59,675	54,986	47,240	40,169	58,570	58,570
Cumulative Cash Collateralized L/C's	11	7,425	7,425	7,425	7,425	7,425	-	-
Ending Cash after Collateralized L/C's		62,467	52,250	47,561	39,815	32,744	58,570	58,570
Estimated Reserve Payment Amount - held by Monitor	12							(20,000)
Estimated Wind-Down Amount - held by Monitor	13							(8,584)
Estimated Remaining Cash paid to Buyer upon closing	14							(29,986)
Ending Cash after Closing held by the Lightstream Group	15							nil

**Notes and assumptions on following page.*

Global Assumptions:

- Trade suppliers/JV partners assumed to remain unaffected consistent with Secured Noteholder APA.
- Interest on bank loan assumed to continue as cash flow permits.
- Cash on hand sufficient to avoid requirement for interim loan.
- Cash flow assumes implementing the Secured Noteholder APA and reflects the holdback provisions related to the Wind-Down Amount and the Reserve Payment Amount.

Notes:

Management has prepared this Cash Flow Forecast solely for the purposes of determining the liquidity requirements of the Company during the CCAA Proceedings. The Cash Flow Forecast 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.
- 2 - Other receipts relates to joint venture receivables expected to be received from joint venture partners.
- 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, Saskatchewan 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 includes advisor/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 this line item as they are included in the Reserve Payment Amount.
- 10 - Interest and bank fees includes interest on the Syndicated bank loan. Assumed to be paid in a CCAA scenario as cash flow permits.
- 11 - cash held to collateralize letters of credit will no longer be required post closing as the Secured Credit Facility will be paid out and replaced.
- 12 - Reserve Payment Amount is estimated based on known potential priority claims and is subject to change up to the Closing Date of the Secured Noteholder APA.
- 13 - Estimated Wind-Down Amount relates amounts held back for post-closing matters and wind-down of the business. The Wind-Down Budget is attached as Schedule J to the Secured Noteholder APA.

Appendix B

Estimated Reserve Payment Amount

Lightstream Group
Estimated Reserve Payment Amount

Potential Priority Claims

Item	Reference	Amount	Notes
Deemed Trust	37(2) CCAA and 9(a) CCAA Initial Order	-	1
Statutory Liens	38(3) CCAA	-	2
Builders Liens		724,442	3
Success Fees	TD, BMO, Evercore, RBC	17,775,840	4
KERP		-	5
KEIP		-	6
Unpaid Sales Taxes	9(b) CCAA	-	7
Accrued Unpaid Taxes	Property tax, Municipal, Other Levies	-	8
Accrued Unpaid Wages/Vacation Pay	36(7) CCAA, 65(a) CCAA and 6.6(a) CCAA	1,500,000	9
Priority Claims Filed in Claims Process		-	10
Total Priority Claims		20,000,282	

* Reserve Payment Amount is subject to change up to the Closing Date

Notes/Assumptions:

- 1 - The Applicants are not aware of any deemed trust claim for unpaid pre- CCAA filing amounts.
- 2 -The Applicants are not aware of any statutory liens.
- 3 - Includes known builder's liens. Represents a hold back for the full amount of the lien as the Applicants and the Monitor have not yet completed a review of the validity or enforceability of the liens
- 4 - Estimated Success fees to financial advisors who are secured by the Financial Advisor Charge. Estimated amount assumes the closing of the Secured Noteholder APA.
- 5 - KERP, all employees assumed to be offered employment with the Buyer, therefore no holdback for KERP.
- 6 - KEIP, all KEIP Executives assumed to be offered employment with the Buyer, therefore no holdback for KEIP.
- 7 - The Applicants do not expect any unpaid sales taxes post-filing (the Applicants are in credit position with Canada Revenue Agency pending completion of 2015 tax returns).
- 8 - All property taxes, municipal business taxes levies etc., assumed to be paid up to date at closing.
- 9 - Payroll that is expected to be accrued and unpaid at closing. Vacation pay assumed to be assumed by the Buyer.
- 10 - No priority claims filed to date within the Claims Process.