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COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

APPLICANTS

IN THE MATTER OF THE *SKOPE ENTITIES'*
CREDITORS ARRANGEMENT ACT, R.S.C. 1985,
c.C-36, AS AMENDED

AND IN THE MATTER OF SKOPE ENERGY
PARTNERS, SKOPE ENERGY INC. and SKOPE
ENERGY INTERNATIONAL INC.

DOCUMENT

FIRST REPORT OF THE MONITOR

DECEMBER 12, 2012

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

MONITOR

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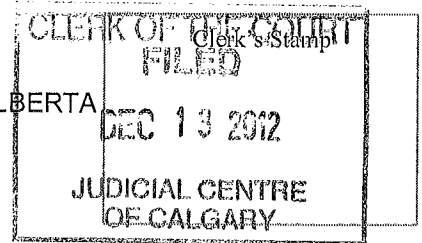


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INTRODUCTION

1. On November 27, 2012, Skope Energy Partners ("Skope Partners"), Skope Energy Inc. ("Skope Energy") and Skope International Energy Inc. ("Skope International") (collectively, "Skope") sought and obtained protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36, as amended (the "CCAA") pursuant to an order of this Honourable Court (the "Initial Order").
2. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of Skope (the "Monitor").
3. The purpose of this first report (the "First Report") of the Monitor is to provide this Honourable Court with the Monitor's comments on the following:
 - a) notice issued to creditors pursuant to the Initial Order;
 - b) an update on the claims packages sent to known creditors pursuant to the claims procedure order granted by this Honourable Court on November 27, 2012 (the "Claims Procedure Order");
 - c) an update on the efforts undertaken under the sales and investment solicitation process ("SISP") approved in the Initial Order;
 - d) the budget to actual cash flow results for the period of November 27, 2012 to December 7, 2012 (the "Reporting Period");
 - e) the cash flow forecast (the "Forecast") from December 8, 2012 to January 31, 2013 (the "Forecast Period");
 - f) the Monitor's comments regarding Skope's request for an extension of the stay period; and
 - g) the Monitor's recommendations.

4. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

5. In preparing this First Report, the Monitor has relied upon unaudited financial information, Company records and discussions with management of Skope. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future orientated financial information referenced in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

BACKGROUND

6. Skope is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves primarily in Western Canada. Skope was formed in 2010 to acquire its primary asset, which is a non-operated working interest in certain shallow gas reserve principally located in Southeastern Alberta and Southwestern Saskatchewan.
7. Skope Partners is a general partnership formed according to the laws of the Province of Alberta and is comprised of two partners, Skope Energy and Skope International. Skope conducts all of its business through Skope Partners. Skope Energy was previously publicly listed on the Toronto Stock Exchange; however was delisted in October 2012 due in large part to their declining market value that result from the dramatic decline in North American natural gas prices.
8. Background for Skope and its operations is contained in the materials filed in support of the application for the Initial Order and these documents, together with other information regarding this CCAA proceeding, have been posted by the Monitor on its website at: www.ey.com/ca/skopeenergy.

NOTICE TO CREDITORS

9. Pursuant to the terms of the Initial Order, the Monitor:
- a) published notice (the "Notice") of Skope's proceedings under the CCAA in both the Calgary Herald and Edmonton Journal on December 3, 2012 and December 10, 2012;
 - b) made the Initial Order publicly available on the Monitor's web site on November 28, 2012;
 - c) on December 4, 2012 mailed the Notice via registered mail to every known creditor (the "Known Creditors") of Skope; and
 - d) prepared a list showing the names and addresses of the Known Creditors and made the list publicly available on the Monitor's web site on December 11, 2012.
10. The Notice also advised that if a creditor was unable to obtain a copy of this Order from the Monitor's website, it could request a copy be delivered.

CLAIMS PROCEDURE

11. Pursuant to the terms of the Claims Procedure Order, the Monitor:
- a) with the assistance of Skope's management, identified 15 individual Known Creditors including their addresses and amounts owed as at November 27, 2012 per Skope's books and records; and
 - b) on December 4, 2012 sent via registered mail a notice (the "Notice to Creditor") and proof of claim form (the "Proof of Claim") via registered mail to all Known Creditors. The Notice to Creditor identified the Known Creditor's claim against Skope as at November 27, 2012 per Skope's books and records and instructed the Known Creditor that the claim amount identified per the Notice to Creditor

would be accepted in the claims process unless the Known Creditor completed and filed a Proof of Claim with the Monitor on or before January 8, 2012.

SALE AND INVESTMENT SOLICITATION PROCESS

12. Pursuant to the terms of the SISP which were attached as Schedule A to the Initial Order, the Monitor and Ernst & Young Orenda Corporate Finance Inc. (the “Financial Advisor”) with the assistance of Skope’s management:
 - a) published notice of the SISP in the Daily Oil Bulletin on December 3rd to December 5th, 2012 (the “DOB Advertisements”);
 - b) drafted an information package (the “Information Package”) providing a summary description of Skope’s assets and the SISP. The Monitor mailed the Information Package to approximately 250 parties which the Monitor had identified as potentially being interested in acquiring or investing in Skope;
 - c) drafted a non-disclosure agreement (“NDA”) which was reviewed and approved by Skope and its legal counsel to govern the confidential information being provided to interested parties in the SISP;
 - d) drafted a confidential information memorandum (the “CIM”) which contained further detail with respect Skope’s operations and assets; and
 - e) set-up and populated a electronic data room (the “Data Room”) with information that interested parties would require in order to evaluate the potential acquisition of or investment in Skope.
13. Interested parties are required to execute the NDA to obtain a copy of the CIM and access to the Data Room.

14. The Financial Advisor has been contacted by several interested parties who became aware of the SISP through the Information Package and DOB Advertisements. To date, the Financial Advisor has sent the NDA to 13 interested parties per their request and has received back 8 executed NDAs. The interested parties who executed NDAs have received a copy of the CIM and access to the Data Room.
15. The Financial Advisors anticipates further interested parties executing NDAs and evaluating an acquisition of Skope or investment in Skope.

OPERATOR CASH CALLS

16. On the date of the granting of the Initial Order, Spur Resources Ltd. ("Spur"), the corporation which operates Skope's shallow gas wells in Alberta and Saskatchewan was owed funds from Skope for capital expenditures performed in September and October 2012. Skope may also owe Spur for additional capital expenditures incurred in October and November 2012 and that information will become know later this month.
17. Spur requested payment (the "September Cash Call") of approximately \$80,796 for Skope's portion of September and October 2012 capital expenditures incurred by Spur as well as the accounting services performed by Spur for Skope. The September Cash Call was payable subsequent to the granting of the Initial Order and pursuant the Initial Order, Skope is prohibited from issuing payment for the September Cash Call.
18. The September Cash Call was accounted for as a disbursement on the cash flow forecast as provided to this Honourable Court in the report of the proposed monitor dated November 27, 2012 (the "Initial Forecast").
19. The Monitor understands that Spur intends to request payment for October 2012 and November 2012 capital expenditures incurred by Spur which Skope is liable for a portion in relation to their working interests in the associated wells however

Skope is also prohibited from paying the October and November Cash Calls under the Initial Order as they are pre-filing claims. Spur has not yet provided an estimate of the October and November Cash Calls. The September Cash Call and October and November Cash Calls are collectively referred to as the “Cash Calls”.

20. As the operator of the wells which Skope has working interests in, Spur receives gross production revenue generated by the wells on a monthly basis and is required to remit to Skope its net interest in the production revenue. Spur therefore has the ability to set-off the Cash Calls against production revenue otherwise payable by Skope.
21. Skope is requesting that this Honourable Court grant Skope the right to pay the Cash Calls owed to Spur and the Monitor understands that Pine Cliff Energy Ltd. (“Pine Cliff”), as the primary secured creditor of Skope, supports the payment of the Cash Calls.

FINANCIAL PERFORMANCE UPDATE

22. Attached as Appendix A to this First Report is a summary of Skope’s actual receipts and disbursements for the Reporting Period combined with an analysis of variances from the Initial Forecast. A summary budget to actual analysis is provided in the table below:

Skope - budget to actual	Nov. 27, 2012 to Dec. 7, 2012		
	Forecast	Actual	Difference
Receipts	1,711,605	80,027	(1,631,578)
Disbursements	2,242,871	129,049	2,113,823
Net Change in cash	(531,267)	(49,022)	482,245
Opening cash*	1,277,188	1,277,188	
Ending cash	745,921	1,228,167	482,245

23. As set out in the table above, Skope’s total receipts collected during the Reporting Period were approximately \$80,000, approximately \$1.6 million less than the total receipts projected in the Initial Forecast.

24. Forecast receipts were significantly less than actual receipts due to the Initial Forecast being prepared on a monthly basis and therefore included receipts for the entire month of December 2012 while actual results are only until December 7, 2012. The Initial Forecast included the collection of approximately \$1.7 million on December 24, 2012 representing October 2012 production revenue. Production revenue is collected on the 25th of the month following production by the operator of the wells and distributed to Skope on the 25th of the following month with the exception of when the 25th is a holiday or on the weekend.
25. Skope's disbursements for the Reporting Period totalled approximately \$130,000, which was approximately \$2.1 million less than the total disbursements projected in the Initial Forecast. The variance primarily relates to the Initial Forecast including royalties, operating expenses and mineral and surface lease rentals which are to be netted against October 2012 production revenue forecast to be collected on December 24, 2012 and therefore did not occur in the Reporting Period which ended on December 7, 2012.
26. The ending cash balance as at December 7, 2012 was approximately \$1.2 million, as compared to a forecast balance of approximately \$745,000. The positive variance was due to the cash receipt and disbursement variances discussed above.

REVISED CASH FLOW FORECAST THROUGH JANUARY 31, 2013

27. Skope, with the assistance of the Monitor, has prepared the Forecast which is attached hereto as Appendix B to this First Report (the "Forecast"). Management has prepared the Forecast based on the most current information available. The table below summarizes cash flow for the Forecast Period.

Cash Flow Forecast	
December 8, 2012 to January 31, 2013	
Receipts	
Non-operated natural gas and petroleum joint venture revenue	\$ 3,679,425
Reimbursement of KERP	105,000
Total Receipts	3,784,425
Disbursements	
Royalties	478,325
Mineral and surface lease rentals & acquisitions	795,358
Operating expenses	1,400,000
General & administrative expenses (excluding wages)	31,681
Management and employee retention program	51,762
Capital expenditures	250,000
Timing adjustment from operator payments	(12,398)
Cash Call	76,566
Contingency	20,000
Interest	724,608
CCAA professional fees	95,511
Total Disbursements	3,911,413
Net Cash Flow	(126,988)
Opening Cash	1,228,167
Ending Cash	\$ 1,101,179

28. As set out at Appendix B, during the Forecast Period, Skope is projecting total cash receipts of approximately \$3.8 million, cash disbursements of approximately

\$3.9 million and a net cash decrease of approximately of \$125,000. The Forecast indicates that Skope will have sufficient cash throughout the Forecast Period to operate.

29. Significant observations with respect to the Forecast are:
- a) revenue collected from oil and gas properties of approximately \$1.7 million in December 2012 and \$2.0 million in January 2013, representing revenue from October and November 2012 as production is collected on the 25th of the month following production by the operator of the wells and distributed to Skope on the 25th of the following month;
 - b) royalties, operating expenses, general and administrative expenses and capital expenditures are based on historical results;
 - c) professional fees relate to the costs of the Monitor and legal counsel that have been accrued but not previously billed and to future work to be performed to implement the Plan; and
 - d) interest is being calculated and paid on a monthly basis in accordance with the credit facility from Pine Cliff Energy Ltd.
30. Based on the above assumptions, the Forecast indicates that Skope will have sufficient cash to meet current obligations throughout the Forecast Period.

SKOPE'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD

31. Pursuant to the Initial Order, Skope's stay period (the "Stay Period") under the CCAA expires on December 21, 2012 for Skope.
32. Skope is seeking an extension of the Stay Period up to and including January 31, 2013 (the "Stay Extension").

33. The Stay Extension is necessary to allow Skope to:

- a) complete the claims process in accordance with the Claims Procedure Order;
- b) complete the SISP in accordance with the Initial Order; and
- c) to potentially formulate a plan of arrangement under the CCAA.

34. In the Monitor's view, Skope is continuing to act in good faith and with due diligence and the Stay Extension is reasonable in the circumstances.

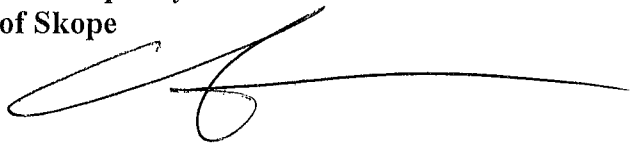
MONITOR'S RECOMMENDATIONS

35. The Monitor recommends that that this Honourable Court approve the:

- a) Cash Calls; and
- b) Stay Extension.

Dated at Calgary, this 12th day of December, 2012.

ERNST & YOUNG INC.
in its capacity as the Monitor
of Skope

A handwritten signature in black ink, appearing to be 'Neil Narfason', written over a horizontal line.

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

A handwritten signature in black ink, appearing to be 'Peter Chisholm', written in a cursive style.

Peter Chisholm, CA
Manager

APPENDIX A

Skopec
Budget to Actual Analysis for the period of November 27, 2012 to December 7, 2012
CDN \$

	Notes	Nov. 27/12 to Dec. 27/12 Budget	Nov 27/12 to Dec 7/12 Actual	Difference
Receipts				
Non-operated natural gas and petroleum joint venture revenue	1	1,711,605	-	(1,711,605)
Receivable from the operator	2		80,027	80,027
GST Received		-	-	-
Total Receipts		<u>1,711,605</u>	<u>80,027</u>	<u>(1,631,578)</u>
Disbursements				
Royalties	3	222,509	-	222,509
Mineral and Surface lease rentals & Acquis	3	293,091	-	293,091
Operating expenses	3	800,000	-	800,000
General & administrative expenses (excluding wages)		26,967	44,101	(17,135)
Management and employee retention program		56,321	30,458	25,863
Capital expenditures	3	125,000	-	125,000
Timing adjustment from Operator payments	3	203,662	-	203,662
Cash Call	4	76,566	-	76,566
Contingency		10,000	-	10,000
Interest	5	353,755	-	353,755
CCAA professional fees		75,000	54,489	20,511
Total Disbursements		<u>2,242,871</u>	<u>129,049</u>	<u>2,113,823</u>
Net Cash Flow		(531,267)	(49,022)	482,245
Opening Cash	6	1,277,188	1,277,188	
Ending Cash		<u>745,922</u>	<u>1,228,167</u>	<u>482,245</u>

Notes:

1. Actual receipts significantly lower than forecast due to a timing difference. Cash receipts per forecast are to be collected on December 24, 2012 from October 2012 production revenue however actual results are only for the period of November 27, 2012 to December 7, 2012.

2. September Joint Interest Billing received on November 27, 2012 which was forecast to be received prior to November 27, 2012.

3. Actual disbursements are significantly less than forecast due to a timing difference as these expenses are to be paid on December 24, 2012 however actual results are only for the period of November 27, 2012 to December 7, 2012.

4. Refer to section on Operator's Cash Calls in First Report of the Monitor for explanation of variance.

5. Payment of November interest owing to Pine Cliff Energy Ltd., Skopec's primary secured lender, ("Pine Cliff") is pending the Monitor obtaining an independent security opinion regarding the validity and enforceability of Pine Cliff's security.

6. Estimated opening cash balance as at November 27, 2012 after September Joint Interest Billing deposit. The opening cash balance in the forecast attached to the Report of the Proposed Monitor dated November 27, 2012 was not reduced for outstanding cheques and therefore it has been revised to reflect the actual opening cash balance.

APPENDIX B

Skope

Cash Flow Forecast for the period of December 8, 2012 to January 31, 2013

CDN \$

		Nov 27/12 to Dec 7/12 Actual	Dec 8/12 to Dec 31 12 Forecast	Jan 1/13 to Jan. 31/13 Forecast
	<u>Notes</u>			
Receipts				
Non-operated natural gas and petroleum joint venture revenue	1	-	1,711,605	1,967,820
Receivable from the operator	13	80,027	-	-
Reimbursement of KERP		-	105,000	-
Total Receipts		80,027	1,816,605	1,967,820
Disbursements				
Royalties	2	-	222,509	255,817
Mineral and surface lease rentals & acquisitions	3	-	293,091	502,266
Operating expenses	4	-	800,000	600,000
General & administrative expenses (excluding wages)	5	44,101	15,464	16,217
Management and employee retention program	6	30,458	25,881	25,881
Capital expenditures	7	-	125,000	125,000
Timing adjustment from Operator payments	8	-	209,175	(221,573)
Cash Call	9	-	76,566	-
Contingency		-	10,000	10,000
Interest	10	-	353,755	370,853
CCAA professional fees	11	54,489	20,511	75,000
Total Disbursements		129,049	2,151,953	1,759,460
Net Cash Flow		(49,022)	(335,348)	208,360
Opening Cash		1,277,188	1,228,167	892,819
Ending Cash		1,228,167	892,819	1,101,178

Notes:

Management of the Skope Entities have prepared this Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed in Notes 1 - 11. Consequently, actual results will likely vary from performance projected and such variations may be material.

1. Skope's oil and gas interests are all non-operated. As such the monthly receipts from the operator are net of royalties, lease and mineral rentals, other operating expenditures and capital expenditures. For disclosure purposes the items are shown on a 'gross' basis.
2. 2012 YTD average is approximately 12%. The Forecast has assumed 13% to be somewhat conservative given recent results.
3. Estimated based on historical trends.
4. Estimated based on historical trends, December operating expenses include annual operating insurance payment.
5. Estimated based on historical trends, including GST
6. As set out in the proposed management and employee retention program, including GST
7. Estimated based on historical trends.
8. The Operator charges lease rental one month in advance.
9. Cash call from the Operator.
10. Per existing terms under the Credit Agreement
11. Estimated based upon similar CCAA proceedings.