

COURT FILE NUMBER 1601-03113

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANTS 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 COMPROMISE OR ARRANGEMENT OF QUICKSILVER RESOURCES CANADA INC., 0942065 B.C. LTD., and 0942069 B.C. LTD.

DOCUMENT **EIGHTH REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS MONITOR OF QUICKSILVER RESOURCES CANADA INC., 0942065 B.C. LTD., and 0942069 B.C. LTD.**

November 9, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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## INTRODUCTION

1. On March 8, 2016 Quicksilver Resources Canada Inc. (“QRCI”), 0942065 B.C. Ltd. (“LNG Co”), and 0942069 B.C. Ltd. (“LNG Subco”) (collectively the “Applicants”) 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"). Note LNG Subco has been sold and accordingly LNG Co and QRCI (collectively the “**Plan Applicants**”) are the remaining parties subject to this application and the Plan.
2. The Initial Order granted, *inter alia*, a stay of proceedings against the Applicants until April 7, 2016, (the "Initial Stay Period") and appointed FTI Consulting Canada Inc. (“FTI”) as Monitor (the “Monitor”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the CCAA proceedings (the “CCAA Proceedings”).
3. On March 29, 2016, this Honourable Court granted a sale approval and vesting order which, *inter alia*, approved the transaction contemplated by the asset purchase agreement for the Applicants’ Horseshoe Canyon Assets.
4. On April 5, 2016, this Honourable Court granted an order which, *inter alia*, extended the stay of proceedings provided in the Initial Order until and including June 2, 2016 and authorized the Applicants to distribute the net proceeds from the sale of the Horseshoe Canyon Assets to the JP Morgan, the senior secured creditor.
5. On April 22, 2016, this Honourable Court granted the following Orders:
  - (a) a sale approval and vesting order which, *inter alia*, approved the transaction contemplated by the asset purchase agreement for the Applicants' Horn River Assets;

- (b) a sale approval and vesting order which, *inter alia*, approved the transaction contemplated by the asset purchase agreement for the LNG Facility; and
  - (c) an order, which *inter alia*, approved the distribution of sale proceeds to the Secured Creditor.
- 6. The Horn River Assets, LNG Facility and Horseshoe Canyon Assets comprise the majority of all the assets of the Applicant (other than miscellaneous receivables and other recoveries). All the proceeds have been received by the Applicants and certain of the proceeds have been distributed to the Secured Creditor to repay the Secured Creditor in full. The remaining net proceeds are being held pending the implementation of a plan of compromise and arrangement, as discussed below in further detail.
- 7. On May 26, 2016 this Honourable Court extended the Stay Period until August 5, 2016 and authorized QRCI to commence a claims process as further set out in the Claims Procedure Order.
- 8. On June 28, 2016 this Honourable Court granted two orders which, among other things;
  - (a) authorized QRCI, by way of shareholder resolution, to assign MMI into bankruptcy;
  - (b) extended the Claims Bar Date to August 5, 2016 for the Partnership to submit a claim against QRCI if required;
  - (c) authorized QRCI to pay certain amounts to the OGC and grant a first ranking priority charge in favor of QRCI to secure the amount of this payment over the assets of the Partnership; and

- (d) approved of the appointment of Representative Counsel for all employees of QRCI who have been terminated in these proceedings and not rehired by CPC Resources (“Represented Employees”), approved the funding of the Representative Counsel by QRCI and extended the Claims Bar Date to August 5, 2016 for Representative Counsel to submit a claim on behalf of the Represented Employees.
9. On August 15, 2016 this Honourable Court granted an order extending the Stay Period until September 30, 2016.
10. On September 26, 2016 this Honourable Court granted an order extending the Stay Period until November 30, 2016 (“**Fourth Stay Extension**”).

## **PURPOSE**

11. The purpose of this report (the “Eighth Report”) is to provide this Honourable Court with the Monitor’s analysis and comments with respect to:
- (a) the activities of the Plan Applicants since the Monitor’s Seventh Report dated September 21, 2016, including its budget to actual cash receipts and disbursements for the period September 17, 2016 to November 4, 2016;
  - (b) the Plan Applicants’ revised cash flow forecast for the period November 5, 2016 to March 3, 2017;
  - (c) The Plan Applicants’ request for an Order approving a settlement agreement between the QRCI and the Represented Employees;
  - (d) The Plan Applicants’ request for amendments to the representation Order granted by this Honourable Court on June 28, 2016 (“**Representation Order**”).

- (e) An overview of the Plan Applicants' proposed plan of compromise and arrangement ("**Plan**");
  - (f) The Monitor's commentary in respect of the Plan and request for an order ("**Meeting Order**") authorizing the Plan Applicants to conduct a meeting to present the Plan to Affected Creditors and seek approval by having Affected Creditors vote on the Plan; and
  - (g) the Plan Applicants' request for an extension of the Stay Period until and including February 28, 2017 (the "**Fifth Stay Extension**").
12. Further background and information regarding the Applicants and these CCAA proceedings can be found on the Monitor's website at <http://cfcanada.fticonsulting.com/qrci/>.

#### **TERMS OF REFERENCE**

13. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants' books and records, certain financial information prepared by the Applicants and discussions with the Applicants' management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
14. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

15. This report should be read in conjunction with the affidavit of Mr. Bob McGregor sworn on November 7, 2016 (the “**McGregor November 7<sup>th</sup> Affidavit**”), the confidential affidavit of Mr. Bob McGregor sworn on November 7, 2016 (“**Confidential Affidavit**”) and the Plan Applicants’ application materials filed concurrently with the McGregor November 7<sup>th</sup> Affidavit.
16. Capitalized terms not otherwise defined herein have the meaning given to them in the previous reports of the Monitor, the Plan or the Meeting Order.

### **ACTIVITIES OF THE APPLICANTS**

17. Since the date of the Seventh Report, the Plan Applicants have cooperated with the Monitor to facilitate its monitoring of the Plan Applicants' business and operations. The Plan Applicants, in consultation with the Monitor, have worked on the following tasks:
  - (a) drafted a Plan that will allow for an efficient method for distributing, to the Plan Applicants Affected Creditors, the net proceeds that were generated from selling the assets of the Plan Applicants;

- (b) the Monitor, in consultation with the Plan Applicants and respective counsel, have held further discussions with Miles Davison LLP as representative counsel ("**Representative Counsel**") for the Represented Employees. Previously the Plan Applicants had reported to this Honourable Court that it had reached an agreement in principle with the Represented Employees. The Monitor confirms that discussions continued in a productive manner and a settlement and support agreement dated November 4, 2016 ("**Settlement Agreement**") between the QRCI and the Represented Employees has been finalized. The Settlement Agreement (except for Schedule "A" thereto) has been attached as Exhibit "1" to the McGregor November 7<sup>th</sup> Affidavit and Schedule "A" thereto has been attached as Exhibit "1" to the Confidential Affidavit; and
- (c) operated and managed the Plan Applicants' business as required and continued to take steps to wind-down operations, including attempting to finalize the final statement of adjustments for the Alberta asset sale and collect various tax refunds that the Applicants believe they are entitled to.

## CASH FLOW BUDGET TO ACTUAL

18. The table below provides a summary of the Plan Applicants' actual receipts and disbursements for the period of September 17, 2016 to November 4, 2016 (the "Reporting Period") as compared to the cash flow projection previously provided to this Honourable Court in the Monitor's Seventh Report.

<i>September 17 to November 4, 2016</i>			
<i>CAD\$</i>	Forecast	Actual	Variance
<b>Cash - Beginning of Reporting Period</b>	19,496,719	19,496,719	-
<b>Receipts</b>			
Gas Sales	-	-	-
Joint Venture Receivable	45,000	29,138	(15,862)
Other	1,600,000	679,595	(920,405)
<b>Total Receipts</b>	<b>1,633,650</b>	<b>708,733</b>	<b>(924,917)</b>
<b>Disbursements</b>			
Operating Expense	200,000	136,648	(63,352)
Payroll	185,000	90,770	(94,230)
G&A	365,380	17,949	(347,431)
Professional Fees	155,000	217,289	62,289
Tax/Other	289,000	222,548	(66,452)
<b>Total Disbursements</b>	<b>1,092,383</b>	<b>685,205</b>	<b>(407,178)</b>
<b>Change in Cash</b>	<b>541,267</b>	<b>23,528</b>	<b>(517,739)</b>
<b>Cash - End of Reporting Period</b>	<b>20,037,986</b>	<b>19,520,247</b>	<b>(517,739)</b>

19. The Plan Applicants' forecast cash receipts during the Reporting Period totaled approximately \$708,733, as compared to actual receipts of \$1,633,650.
- (a) Joint venture receivables were \$15,862 under budget primarily due to timing as the related receivables were not collected as anticipated, the Applicant is still working to collect the remaining receivables; and



- (b) Other receipts were \$920,405 less than budget. This variance was mainly a result of a negative variance of \$1,600,000 related to non-receipt of a refund payment that was expected to be received from Canada Revenue Agency for GST ITC during the Reporting Period; this payment is now expected to be received in December. The \$1,600,000 negative variance was offset by a \$675,000 positive variance related to a realized foreign exchange gain that resulted from the Applicants converting all U.S. dollar denominated cash into Canadian dollars, this gain was not included in the previous forecast.
20. The Plan Applicants' actual cash disbursements during the Reporting Period totaled approximately \$685,205, as compared to the forecast of \$1,092,383. The cash disbursements variance relates to lower than expected cash disbursements mainly resulting from timing:
- (c) Operating expenses were \$63,352 lower than forecast primarily due to timing of payments outstanding to joint venture partners, the Plan Applicants expect these amounts to reverse as final joint venture billings are reconciled;
- (d) Payroll was \$94,230 less than forecast due to continued reduction of payroll expenses;
- (e) General and administrative expenses were \$347,431 less than forecast due to delayed timing of expect settlement payment to Represented Employees;
- (f) Professional fees were \$62,289 greater than forecast due to catch up of accrued but unpaid professional fees that had been erroneously omitted from previous forecast; and

- (g) Taxes and other items were \$66,452 lower than forecasted due final adjustment related to the B.C. asset sales being less than originally estimated.
21. Actual ending cash as at November 4, 2016 was \$19,520,247 as compared to the forecast ending cash balance of \$20,037,986, due to the variances discussed above.

## REVISED CASH FLOW FORECAST

22. The Plan Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow forecast (the “**Cash Flow Forecast**”) for the 17 week period November 5, 2016 to March 3, 2017 covering the requested Fifth Stay Extension period. A copy of the Cash Flow Forecast on a weekly basis and the major assumptions made by the Plan Applicants is attached as Appendix A.
23. A summary of the Cash Flow Forecast is presented in the table below.

Cash Flow Forecast (\$ CAD)	TOTAL
<b>Opening Cash</b>	<b>\$ 19,520,247</b>
<b>Cash Receipts</b>	
Gas Sales	-
Joint Venture Receivable	115,000
Other	-
<b>Total - Operating Receipts</b>	<b>115,000</b>
<b>Cash Disbursements</b>	
Royalty Expense	-
Operating Expense	87,000
Payroll	355,000
G&A	750,000
Professional Fees	350,000
<b>Total - Operating Disbursements</b>	<b>1,542,000</b>
<b>Total Net Cash Flow</b>	<b><u>(1,427,000)</u></b>
<b>Ending cash</b>	<b><u>\$ 18,093,247</u></b>

24. The Cash Flow Forecast indicates the following for the Fifth Stay Extension:
- (a) total cash receipts of \$115,000 related to expected collection of joint venture receivables.;
  - (b) total cash disbursements of \$1,542,000 mainly related to:
    - i. final payment of remaining operating expenses,
    - ii. payroll for staff required to assist in implementing the Plan and ongoing wind-down initiatives,
    - iii. G&A related to wind-down initiatives which includes a provision for a payment to the Represented Employees if the Settlement Agreement is approved by this Honourable Court; and
    - iv. disbursements relating to the accrued unpaid professional fees and estimated future professional fees to complete the proposed Plan and wind-down the initiatives.
25. The Monitor notes that the Cash Flow Forecast indicates the Plan Applicants will have sufficient funds available to fund its operations during the requested Fifth Stay Extension.

26. The Monitor has reviewed the assumptions supporting the Cash Flow Forecast and is of the view that the assumptions are reasonable. Note the Cash Flow Forecast does not include distributions under the plan. If the Plan is approved by the Affected Creditors and implemented the Plan Applicants in consultation with the Monitor would provide for the Administrative Reserve and the Disputed Claims Reserve according to the Plan and any additional funds would be distributed to the Affected Creditors by way of Initial Distribution. See paragraph 36 for illustrative Initial Distributions under the Plan and amounts estimated to be withheld for the Administrative Reserve and Disputed Claims Reserve.

### **SETTLEMENT ORDER AND AMENDMENT TO REPRESENTATION ORDER**

27. The Represented Employees asserted claims totaling \$9,748,560 (“**Settled Claims**”) that comprised both pre-filing and post-filing claims against the Applicants and their directors and officers, and included claims for priority, pursuant to which the Represented Employees asserted priority status over the claims of all unsecured creditors of the Plan Applicants. As discussed in the Monitor’s Seventh Report, the Plan Applicants’, in consultation with the Monitor, have been negotiating a settlement agreement with the Represented Employees.
28. The Monitor reports that a Settlement Agreement has been finalized and signed by QRCI, the Represented Employees and the Monitor. The Plan Applicants are seeking an order (“**Sealing Order**”) sealing the contents of the Confidential Affidavit as it contains sensitive personal information about the individuals in the Represented Employees, from which individual compensation levels of Represented Employees could be derived. Accordingly, the Monitor supports the Plan Applicants’ request for the Sealing Order. The Monitor has the following comments with respect to the Settlement Agreement:

- (a) The Settlement Agreement was reached as a result of productive discussions between the Plan Applicants, the Monitor and the Steering Committee for the Represented Employees and their respective counsel;
  - (b) The Settlement Agreement was negotiated in good faith and at arm's length;
  - (c) The Settlement Agreement achieves the settlement of the Settled Claims in exchange for a total payment by QRCI to the Represented Employees of \$450,000 (\$325,000 by way of settlement payment and the remaining by way of distribution under the Plan); and
  - (d) The Settlement Agreement requires the Represented Employees to vote in favour of the Plan.
29. The Monitor supports the Settlement Agreement and is of the view that the Settlement Agreement is beneficial to all of the Applicants' stakeholders as it provides for a timely and efficient resolution to the Settled Claims and allows the Plan Applicants' to advance their Plan without ongoing disputes. Accordingly the Monitor recommends approval of the Plan Applicants request for the Settlement Order.
30. In connection with the Settlement Agreement the Monitor understands that the Plan Applicants are seeking an amendment to the Representation Order, increasing the maximum fees of Representative Counsel from \$50,000 to \$75,000. The Monitor is of the view that the requested increase is fair and reasonable, given the Representative Counsel has been acting in good faith working to finalize the Settlement Agreement. Accordingly the Monitor recommends approval of the requested amendment to the Representation Order.

## PLAN OF COMPROMISE AND ARRANGEMENT

### Overview of Plan

31. The Plan Applicants are seeking approval to conduct a meeting of creditors for the purposes of voting on and approving the Plan. A copy of the Plan is attached as Exhibit "2" to the McGregor November 7<sup>th</sup> Affidavit. The following provides a summary of the high-level aspects of the Plan; however stakeholders are encouraged to review the Plan for full details.
  
32. As previously reported to this Honourable Court, the Applicants have sold all of their oil and gas assets. The proceeds from the sale of the Applicants' assets were previously used to repay the senior secured creditor in full and pay for goods and services provided to the Applicants throughout the CCAA Proceedings. After making these payments the Applicants anticipated having funds remaining for distribution to their unsecured creditors ("**Available Funds**") and accordingly obtained authorization to complete a claims process ("**Claims Process**") according to the Claims Procedure Order to determine the quantum of claims against the Applicants and its directors/officers. The overall purpose of the Plan is to provide an efficient timely distribution of the Available Funds to the Plan Applicants' affected creditors as determined by the Claims Process.

### Class of creditors

33. The Plan contemplates a single class of creditors (the "**Unsecured Creditor Class**") The Unsecured Creditor Class is made up of affected creditors (the "**Affected Creditors**") who are all creditors holding valid proven unsecured claims against the Applicants. The Affected Creditors were determined as a result of the Claims Process undertaken by the Applicants. The Monitor notes that all claims accepted by the Applicants are unsecured claims and there are currently no disputed claims.

34. The Plan designates certain claims against the Applicants as unaffected claims ("**Unaffected Claims**"). Holders of Unaffected Claims will be paid in the ordinary course, will not be entitled to vote on the Plan and will not receive any distribution under the Plan. The Unaffected Claims are:
- (a) claims secured by charges granted in Orders in these CCAA proceedings;
  - (b) claims enumerated in sections 5.1(2) and 19(2) of the CCAA;
  - (c) Post-Filing Trade Payables;
  - (d) Government Priority Claims; and
  - (e) Employee Priority Claims.

#### **Available Funds**

35. The Available Funds shall be determined based on the total funds available at the Plan Implementation Date less amounts required for administration of the Plan and wind-down of the estate (the "**Administrative Reserve**") and amounts held back for disputed claims (the "**Disputed Claim Reserve**"). At the current time there are no disputed claims and therefore it is anticipated that the Disputed Claim Reserve will be nil.

36. The Administrative Reserve shall be determined by the Plan Applicants in consultation with the Monitor three business days prior to the Plan Implementation Date and is meant to include an amount to be held back to make the payments required by the Settlement Agreement. The Monitor has provided a table below outlining the estimated Administrative Reserve, the estimated Disputed Claim Reserve, the estimated Available Funds and the estimated total Affected Claims of the Unsecured Creditor Class. This table has been provided for illustrative purposes, the Monitor notes that all of the amounts outlined below are subject to change prior to the Plan Implementation Date and is based on information currently available to the Plan Applicants and the Monitor.

<b>Illustrative Cash Reserves and Initial Distribution</b>	
Estimated Cash available at Plan Implementation Date (assume Dec 31/16)	\$ 19,168,247
Cash held back for estimated Administrative Reserve	(1,075,000)
Cash held back for estimated Disputed Claims Reserve	-
Estimated Available Funds for Initial Distribution	<b>18,093,247</b>
Total Affected Claims of Unsecured Creditor Class	820,904,793
Approximate Initial Distribution as % of Affected Claims	2.2%

37. The Monitor notes that there are various large additional potential cash recoveries that the Plan Applicants continue to work on collecting. The following potential additional recoveries are no included in the table above or the Cash Flow Forecast and if recovered would result in additional distributions to the Affected Creditors after the Initial Distribution:



- (a) Tax refunds related to GST and withholding taxes. The tax refunds are currently estimated to be approximately \$1.5 million (“**Potential Tax Refund**”) however the refunds are currently under review with the Canada Revenue Agency (“**CRA**”) and the amount may change materially depending on the results of the CRA’s review.
  
- (b) Final statement of adjustments related to the Alberta Horseshoe Canyon asset sales. QRCI is currently negotiating the final statement of adjustments with the purchaser, CPC Resources ULC (“**CPC**”). Currently QRCI is of the view that they are owed approximately \$3.0 million (“**Alberta Asset Sale Adjustment Amount**”) from CPC related to the final statement of adjustments. CPC is currently disputing this amount and the two parties are in the process of engaging an independent third party accountant, Collins Barrow Calgary LLP to assist in settling the dispute.

- (c) By way of background QRCI has a wholly-owned subsidiary known as Makarios Midstream Inc. (“**MMI**”). MMI’s only asset is a 50% partnership interest in the Fortune Creek Gathering & Processing Partnership (“**Partnership**”). As more fully described in the Monitor’s Fifth Report dated June 23, 2016 QRCI paid \$599,400 (“**OGCBC Payment**”) to the Oil and Gas Commission of British Columbia (“**OGCBC**”) on behalf of the Partnership and to secure repayment of that amount, this Honourable Court ordered that QRCI would have a first-ranking priority charge over the assets of the Partnership. QRCI also paid property taxes in the amount of \$218,298 (“**Partnership Property Tax Payment**”) related to the Partnership’s assets on behalf of the Partnership. As discussed above the Partnership and MMI filed for bankruptcy and MNP was appointed as Trustee in bankruptcy over the Partnership and MMI. QRCI has filed a proof of claim with MNP related to the OGCBC Payment and the Partnership Property Tax Payment. The Monitor understands that MNP has recently obtained Court approval for the sale of the Partnership’s assets and that the proceeds from this sale, if/when it closes, will be sufficient to repay the OGCBC Payment and the Partnership Property Tax Payment in full. The Monitor expects these recoveries once received to be distributed to the Affected Creditors however; the amounts have not been included in the Initial Distribution table above as it is uncertain whether recoveries will occur prior to the Plan Implementation Date.
- (d) The Monitor understands from discussions with management that QRCI, through its 100% ownership of MMI, and MMI’s 50% interest in the Partnership may have claim to certain proceeds (“**Potential MMI Recoveries**”) that are generated through the bankruptcy of the Partnership, including any dividend the Partnership receives pursuant to its claim as an Affected Creditor pursuant to the Plan.

38. The Potential Tax Refund, the Alberta Asset Sale Adjustment Amount, OGCBC Payment, the Partnership Property Tax Payment and any Potential MMI Recoveries have not been included in the Cash Flow Forecast nor the illustrative Available Funds for initial distribution above as they are not certain at this time. The Monitor notes that Plan Applicants continue to work on collecting these amounts and they represent two potential future recoveries that if collected would have the largest impact on additional distributions to the Affected Creditors.

### **Distribution**

39. The Plan contemplates an initial distribution of the Available Funds to the Affected Creditors based on each Affected Creditor's *pro rata* share of total amount owing to all Affected Creditors.
40. If additional funds become available for distribution to Affected Creditors after the Initial Distribution Date the Plan provides a mechanism for the Applicants to make additional *prorata* distributions as frequently as the Monitor directs.

### **Releases**

41. The Plan provides for releases on the Plan Implementation Date in favour of various parties including:
- (e) The Quicksilver Canada Entities and their respective Directors, Officers, current and former employees, advisors, legal counsel and agents (collectively the “**Quicksilver Canada Released Party**”); and
  - (f) The Monitor and its current and former directors, officers and employees, legal counsel and agents (collectively the “**Monitor Released Party**”).

## **Voting**

42. Each Affected Creditor in the Unsecured Creditors' Class who is entitled to vote at the Creditors' Meeting, pursuant to and in accordance with the Claims Procedure Order, the Meeting Order, the Plan and the CCAA, shall be entitled to one vote equal to the dollar value of its Affected Claim determined as a Voting Claim.
  
43. Quicksilver Resources Inc. ("**QRI**") the parent company of QRCI has filed a proof of claim asserting a claim for unsecured inter-company debt. This claim has been accepted by the Monitor as an Affected Claim. The Monitor notes that section 22.(3) of the CCAA states that related creditors are allowed to vote against but not in favour of the Plan. The Monitor has been informed by QRCI that, pursuant to QRI's Chapter 11 plan of liquidation, the right to vote such claim resides with the Trustee under the liquidating trust established pursuant to QRI's Chapter 11 plan for the benefit of QRI's creditors.

## **Creditors' Meetings**

44. The Plan Applicants are seeking authorization to call and hold the Creditors' Meeting on December 13, 2016, to allow the Affected Creditors to vote in respect of the Plan. The only Persons entitled to attend the Creditors' Meeting shall be representatives of the Plan Applicants and their respective legal counsel and advisors, the Monitor and its legal counsel and advisors and Affected Creditors, including the holders of Proxies, entitled to vote at the Creditors' Meeting and their respective legal counsel and advisors.

## Notice to Creditors

45. The proposed Meeting Order outlines how Affected Creditors will be given notice of the Meeting. Notice to Affected Creditors will be provided by the Monitor within one business day of the granting of the Meeting Order. The notice will be provided by way of courier, personal delivery or e-mail to Affected Creditors and will be posted on the Monitor's website. The Affected Creditors will be provided with the following:

- (a) the Notice to Affected Creditors;
- (b) the Plan;
- (c) the Meeting Order; and
- (d) a blank form of the Affected Creditors' Proxy.

(collectively "**Affected Creditor Meeting Materials**")

## Sanction Order

46. If the Required Majority of the Affected Creditors approves the Plan, the Applicants shall apply for the Sanction Order on or before December 15, 2016 or such later date as the Court may set.

## **MONITOR'S ANALYSIS OF THE PLAN AND MEETING ORDER**

47. The Monitor has reviewed and considered the Plan and Meeting Order and provides the following views.

### **Net realization of assets in the Plan versus liquidation**

48. The Applicants assets have all been monetized and the only assets remaining are in the form of cash or potential collections of receivables. The difference in net realization of cash between a liquidation scenario and a Plan is insignificant (ie. cash has the same value in liquidation as it does in the Plan). However, the Monitor notes that the Plan and Meeting Order contemplate an efficient distribution of the Available Funds to the Creditors and significant time and effort has already been incurred drafting the Plan, therefore the process costs associated with the Plan are likely less than incremental process costs if a liquidation were to be initiated including potential bankruptcy costs/levies. Lower process costs result in a higher distribution to Affected Creditors.

### **Notice to Affected Creditors**

49. The notice provisions contemplated in the Plan provide sufficient time and appropriate materials to allow Affected Creditors to attend the Creditors' Meeting and participate in voting either in person or by proxy;

## Releases

50. The Monitor is of the view that the releases provided to the Quicksilver Canada Released Parties and the Monitor Released Parties are consistent with the CCAA, do not compromise or extinguish claims identified in section 5.1(2) of the CCAA and are rationally connected to the Plan and the work undertaken by the Quicksilver Canada Released Parties and the Monitor Released Parties in the CCAA Proceedings. The Monitor supports the releases provided to all of the Quicksilver Canada Released Parties and the Monitor Released Parties as being fair, reasonable and appropriate in all of the circumstances.

## Distribution

51. The Plan and Meeting Order contemplate and efficient and timely distribution of the Available Funds to Affected Creditors and provide an appropriate mechanism to distribute additional funds that may become available to the Applicants Affected Creditors.

## Conditions Precedent

52. The Monitor notes that the Plan is subject to certain conditions precedent (“**Conditions Precedent**”) that must be satisfied or waived in order for the Plan to be implemented. The Monitor has reviewed and discussed the Conditions precedent with the Applicants and the Applicants’ counsel. The Monitor is informed by counsel to the Applicants that there are no Conditions Precedent that are within the Applicants’ control which remain outstanding that, as of the date of this Report, have no reasonable prospect of being satisfied. The Monitor will continue to monitor the status of the outstanding conditions precedent and provide further update regarding the same in a subsequent report.

## Conclusion on Plan

53. It is the Monitor's view that the Applicants pursued the Plan with due diligence and in good faith. The Monitor is satisfied that the Plan represents a timely and efficient mechanism to distribute the Available Funds to its Affected Creditors. Nothing has come to the attention of the Monitor that would suggest that the Applicants have not acted in compliance with the terms of the Initial Order, the Claims Procedure Order and /or the CCAA generally.
54. Based on the above the Monitor respectfully recommends that this Honourable Court approve the Plan and proposed Meeting Order. Furthermore, based on the above the Monitor would recommend the Affected Creditors vote in favour of the Plan.

## THE PLAN APPLICANTS REQUEST FOR AN EXTENSION TO THE STAY PERIOD

55. Pursuant to the Initial Order and extended by way of Order granted by this Honourable Court on September 26, 2016, the Stay Period has been extended until and including November 30, 2016. The Plan Applicants are seeking an extension of the Stay Period until and including February 28, 2017 (the "**Fifth Stay Extension**").
56. An extension of the stay period is necessary for the Plan Applicants to:
- (a) hold a meeting of creditors to vote on the Plan;
  - (b) if the Plan Applicants' creditors vote to accept the Plan, seek an Order sanctioning the Plan and then implementing the Plan;
  - (c) finalizing the monetization of all the remaining claims and assets of the Applicants; and



(d) continue with wind-down initiatives.

57. In the Monitor's view, the Plan Applicants are acting in good faith and with due diligence during the CCAA Proceedings. The Monitor is of the view that the extension to the Stay Period is appropriate in the circumstances and therefore recommends that the Plan Applicants request for an extension to the Stay Period be granted to, and including, February 28, 2017.

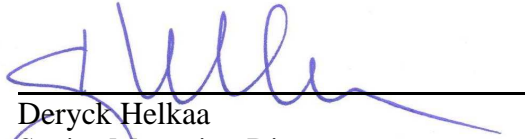
## **CONCLUSIONS AND RECOMMENDATIONS**

58. The Monitor respectfully recommends that this Honourable Court approve:

- (a) The Plan Applicants' request for an Order:
  - i. approving the Settlement Agreement; and
  - ii. amending the June 28, 2016 Representation Order, by increasing the maximum amount payable to Representative Counsel in respect of its fees, from \$50,000 to \$75,000;
- (b) The Plan Applicants' request for a Meeting Order authorizing the Applicants to file their Plan and conduct a meeting of their Affected Creditors to vote on the Plan, and to grant various relief related to such meeting and the Plan;
- (c) The Plan Applicant's request for the Sealing Order; and
- (d) the Plan Applicants' request for the Fifth Stay Extension.

All of which is respectfully submitted this 9<sup>th</sup> day of November, 2016.

FTI Consulting Canada Inc.  
in its capacity as the Court-Appointed Monitor  
of Quicksilver Resources Canada Inc.



Deryck Helkaa  
Senior Managing Director  
FTI Consulting Canada Inc.



Dustin Olver  
Managing Director  
FTI Consulting Canada Inc.

# Appendix A

## Cash Flow Forecast & Assumptions

Quicksilver Resources Canada Inc.  
17 Week Cash Flow Forecast  
November 5, 2016 to March 3, 2017

Cash Flow Forecast (\$ CAD)	Week 1 11-Nov	Week 2 18-Nov	Week 3 25-Nov	Week 4 2-Dec	Week 5 9-Dec	Week 6 16-Dec	Week 7 23-Dec	Week 8 30-Dec	Week 9 6-Jan	Week 10 13-Jan	Week 11 20-Jan	Week 12 27-Jan	Week 13 3-Feb	Week 14 10-Feb	Week 15 17-Feb	Week 16 24-Feb	Week 17 3-Mar	TOTAL	Note	
Opening Cash	19,520,247	19,472,247	19,422,247	19,460,247	19,330,247	19,333,247	19,258,247	19,243,247	19,168,247	18,828,247	18,753,247	18,688,247	18,613,247	18,518,247	18,493,247	18,358,247	18,093,247	19,520,247	1	
<b>Cash Receipts</b>																				
Gas Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Joint Venture Receivable	47,000	-	50,000	-	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	115,000	2
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total - Operating Receipts</b>	<b>47,000</b>	<b>-</b>	<b>50,000</b>	<b>-</b>	<b>18,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,000</b>	
<b>Cash Disbursements</b>																				
Royalty Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Operating Expense	30,000	-	12,000	-	5,000	-	-	-	-	-	-	-	-	-	-	40,000	-	-	87,000	3
Payroll	30,000	-	-	25,000	-	25,000	-	25,000	-	25,000	-	25,000	80,000	25,000	70,000	25,000	-	-	355,000	4
G&A	15,000	-	-	25,000	10,000	50,000	15,000	-	340,000	-	15,000	50,000	15,000	-	15,000	200,000	-	-	750,000	5
Professional Fees	20,000	50,000	-	80,000	-	-	-	50,000	-	50,000	50,000	-	-	-	50,000	-	-	-	350,000	6
<b>Total - Operating Disbursements</b>	<b>95,000</b>	<b>50,000</b>	<b>12,000</b>	<b>130,000</b>	<b>15,000</b>	<b>75,000</b>	<b>15,000</b>	<b>75,000</b>	<b>340,000</b>	<b>75,000</b>	<b>65,000</b>	<b>75,000</b>	<b>95,000</b>	<b>25,000</b>	<b>135,000</b>	<b>265,000</b>	<b>-</b>	<b>-</b>	<b>1,542,000</b>	
<b>Total Net Cash Flow</b>	<b>(48,000)</b>	<b>(50,000)</b>	<b>38,000</b>	<b>(130,000)</b>	<b>3,000</b>	<b>(75,000)</b>	<b>(15,000)</b>	<b>(75,000)</b>	<b>(340,000)</b>	<b>(75,000)</b>	<b>(65,000)</b>	<b>(75,000)</b>	<b>(95,000)</b>	<b>(25,000)</b>	<b>(135,000)</b>	<b>(265,000)</b>	<b>-</b>	<b>(1,427,000)</b>		
Ending cash	19,472,247	19,422,247	19,460,247	19,330,247	19,333,247	19,258,247	19,243,247	19,168,247	18,828,247	18,753,247	18,688,247	18,613,247	18,518,247	18,493,247	18,358,247	18,093,247	18,093,247	18,093,247		

**Notes:**

Management of Quicksilver Resources Canada Inc. ("QRCI") has prepared this Projected Cash Flow Forecast solely for the purposes of determining the liquidity requirements of QRCI during the CCAA Proceedings. The Projected Cash Flow Forecast is based on the probable and hypothetical assumptions detailed in Notes 1 - 7. Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - Opening Canadian dollar cash as at November 5th, 2016.
- 2 - Joint Venture Receivables relates to expected receipts from non-operated joint venture partner billings and refund of other deposits.
- 3 - Expected costs to resolve Joint Venture partner invoices for pre May costs and late invoices by 3rd party vendors for post March work
- 4 - Payroll relates to salaries of remaining QRCI employees that are assisting in the wind-down of operations, finalizing closing items related to asset sales and final accounting
- 5 - G&A includes costs associated with running the Company's head office and includes IT costs, regulatory costs, office lease costs, settlement with employee group, future offsite storage and retention for records, costs for arbitration for Alberta Asset Sale Adjustment recovery from CPC
- 6 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel and QRCI's counsel.