

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 **SIXTH 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.**

August 11, 2016

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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").
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 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 Applicant 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 completion of the claims process 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.

PURPOSE

- 9. The purpose of this report (the “Sixth Report”) is to provide this Honourable Court with the Monitor’s comments with respect to:
 - (a) the activities of the Applicants since the Monitor’s Fifth Report dated June 23, 2016, including its budget to actual cash receipts and disbursements for the period May 16, 2016 to August 5, 2016;
 - (b) the Applicant’s revised cash flow forecast for the period August 6, 2016 to September 30, 2016; and
 - (c) the Applicants’ request for an extension of the stay of proceedings against the Applicants until and including September 30, 2016 (the “Third Stay Extension”).
- 10. 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

11. 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.
12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
13. This report should be read in conjunction with the affidavit of Mr. Bob McGregor sworn on August 10, 2016 (the "McGregor August 10th Affidavit") and the Applicants' Application filed concurrently with the McGregor August 10th Affidavit.
14. Capitalized terms not otherwise defined herein have the meaning given to them in the previous reports of the Monitor.

ACTIVITIES OF THE APPLICANTS

15. Since the date of the Fifth Report, the Applicants have cooperated with the Monitor to facilitate its monitoring of the Applicants' business and operations. The Applicants, in consultation with the Monitor, have been working on the following tasks:

- (a) implementing the steps set out in the Claims Procedure Order and assisting in reviewing and reconciling claims as received. The Monitor received claims submitted by Representative Counsel on behalf of the Represented Employees and a claim from MNP Ltd. on behalf of the Fortune Creek Partnership by the August 5, 2016 extended claims bar deadline. The Monitor is in the process of reviewing these claims in consultation with the Applicants;
- (b) completing final accounting necessary to prepare the final statement of adjustments for the Horseshoe Canyon and Horn River asset sales. The Applicants are in the process of reviewing and discussing the final statement of adjustments with the purchasers;
- (c) assisting the Applicants in continuing to operate and manage their business as required and take initial steps to wind-down operations, including, among other things;
 - (a) continuing to reduce staff to a minimal level required to assist in the coordinating the Claims Procedures;
 - (b) assisting in responding and coordinating audit requests from the Canada Revenue Agency;
 - (c) continuing attempts to collect and monetize miscellaneous minor assets, including collecting various old receivables, obtaining refunds of credits/deposits held by suppliers etc.;
 - (d) archiving and storing records; and
 - (e) significantly downsizing office space to a minimal level required to manage claims procedure and wind-down initiatives.

CASH FLOW BUDGET TO ACTUAL

16. The table below provides a summary of the Applicants' actual receipts and disbursements for the period of May 16, 2016 to August 5, 2016 (the "Reporting Period") as compared to the cash flow projection previously provided to this Honourable Court in the Proposed Monitor's Report.

May 16, 2016 to August 5, 2016				
CAD\$	Forecast	Actual	Variance	Notes
Cash - Beginning of Reporting Period	20,075,696	20,075,696	-	
Receipts				
Gas Sales	2,800,000	1,606,001	(1,193,999)	a
Joint Venture Receivable	425,000	1,578,019	1,153,019	b
Other	550,000	1,145,142	595,142	c
Total Receipts	3,775,000	4,329,162	554,162	
Disbursements				
Royalty Expense	65,000	25,725	(39,275)	
Operating Expense	2,335,525	1,740,833	(594,692)	d
LNG Co. Operating Expense	37,000	18,750	(18,250)	
Transportation	330,000	157,510	(172,490)	e
Payroll	1,180,000	685,520	(494,480)	f
G&A	727,000	323,753	(403,247)	g
Professional Fees	1,200,000	743,030	(456,970)	h
Tax/Other	1,460,000	518,186	(941,814)	i
Total Disbursements	7,334,525	4,213,307	- 3,121,218	
Change in Cash	(3,559,525)	115,855	3,675,380	
Cash - End of Reporting Period	16,516,171	20,191,551	3,675,380	j

17. The Applicants' forecast cash receipts during the Reporting Period totaled approximately \$3.8 million, as compared to actual receipts of \$4.3 million.

- (a) Actual gas sales were lower than forecast by \$1.2 million as the forecast was inclusive of receiving May gas sales. The May gas revenue was remitted straight to the new owner once received, resulting in reduced actual gas sales receipts for the Reporting Period;
 - (b) Joint venture receivables were \$1.2 million over budget primarily due to timing as the related receivables were collected quicker than anticipated; and
 - (c) “Other” receipts were \$595,142 higher than the forecast mainly due to the monetization of a pipe inventory credit QRCI had with one of its suppliers.
18. The Applicants’ actual cash disbursements during the Reporting Period totaled approximately \$4.2 million, as compared to the forecast of \$7.3 million. The cash disbursements variance relates to lower than expected cash disbursements mainly resulting from timing:
- (d) Operating expenses were \$594,692 lower than forecast primarily due to timing of payments outstanding to joint venture partners. Clarification over invoices has been requested and payments are on hold until further support is received. The Applicant anticipates the remaining estimated amount outstanding (\$400,000) will be paid out by the end of September;
 - (e) Transportation was \$172,490 below forecast as the May gas sales were not received, as discussed above, as such transportation for May was not required;
 - (f) Payroll was \$494,480 less than forecast primarily due to lower staff count than originally forecast, and some staff were let go sooner than originally planned;

- (g) General and administrative expenses were \$403,247 less than forecast due to over-estimated costs included in the forecast and cost savings incurred as a result of moving offices;
- (h) Professional fees were \$456,970 lower than forecast mainly due to timing and professionals drawing from their retainers;
- (i) Taxes and other items were \$941,814 lower than forecast as the forecast includes an estimate for a Payment to CPC Resources per the Final Statement of Adjustments which has not been paid. The Applicant made a payment of \$500,000 as a deposit for the Partnership to OGC, which they expect to have refunded through a first secured charge over the Partnerships assets;
- (j) Actual ending cash as at August 5, 2016 was \$20.2 million as compared to the forecast ending cash balance of \$16.5 million, due to the variances discussed above.

REVISED CASH FLOW FORECAST

19. The Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow forecast (the “Cash Flow Forecast”) for the period August 6, 2016 to September 30, 2016 covering the requested Third Stay Extension period. A copy of the Cash Flow Forecast on a weekly basis and the major assumptions made by the Applicants is attached as Appendix A.
20. A summary of the Cash Flow Forecast is presented in the table below.

\$ CAD August 6 to Sept 30/16	TOTAL
	Forecast
Opening Cash	20,191,551
Cash Receipts	
Joint Venture Receivable	333,650
Other	<u>1,600,000</u>
Total - Operating Receipts	1,933,650
Cash Disbursements	
Operating Expense	532,383
Payroll	395,000
G&A	205,000
Professional Fees	<u>400,000</u>
Total - Operating Disbursements	<u>1,532,383</u>
Total Net Cash Flow	<u>401,267</u>
Ending cash	<u>20,592,818</u>

21. The Cash Flow Statement indicates the following for the Third Stay Extension:
- (a) total cash receipts of \$1.9 million;
 - (b) total cash disbursements of \$1.5 million; and

- (c) disbursements relating to the professional fees and restructuring costs of \$400,000, which are included in the above total cash disbursements.
- 22. The Monitor notes that the Cash Flow Statement indicates the Applicants will have sufficient funds available to fund its operations during the requested Third Stay Extension.
- 23. The Monitor has reviewed the assumptions supporting the Cash Flow Statement and is of the view that the assumptions are reasonable.

THE APPLICANTS REQUEST FOR AN EXTENSION TO THE STAY PERIOD

- 24. Pursuant to the Initial Order and extended by way of Order granted by this Honourable Court on May 26, 2016, the stay of proceedings against the Applicants is until and including August 5, 2016. The Applicants are seeking an extension of the stay period until and including September 30, 2016.
- 25. An extension of the stay period is necessary for the Applicants to allow for:
 - (a) the completion of the Claims Procedures including the resolution of any remaining disputed claims with the Applicants' creditors;
 - (b) continued discussions/negotiations with purchasers with respect to the final statement of adjustments related to the Horseshoe Canyon and Horn River Asset sales;
 - (c) the continued work towards a Plan of Compromise and Arrangement;
 - (d) seeking an Order from this Honourable Court authorizing the Applicants to hold a meeting of their creditors to vote on the Plan;

- (e) time permitting, seeking an Order sanctioning the Plan and then implementing the Plan; and
 - (f) the continued work on the wind-down of the Applicants business and operations in an efficient manner.
26. In the Monitor's view, the 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 Applicants request for an extension to the stay period be granted to, and including, September 30, 2016.

CONCLUSIONS AND RECOMMENDATIONS

27. The Monitor respectfully recommends that this Honourable Court approve the Applicants' request for a *nunc pro tunc* extension to the stay period until and including September 30, 2016.

All of which is respectfully submitted this 11th day of August, 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

Quicksilver Resources Canada Inc.
8 Week Cash Flow Forecast
August 6 to September 30, 2016

Week Ending	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	TOTAL	Note
	12-Aug	19-Aug	26-Aug	2-Sep	9-Sep	16-Sep	23-Sep	30-Sep		
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
Opening Cash	20,191,551	20,022,818	19,742,818	19,502,818	19,577,818	20,752,818	20,532,818	20,507,818	20,191,551	1
Cash Receipts										
Joint Venture Receivable	33,650	-	25,000	250,000	25,000	-	-	-	333,650	2
Other	-	-	-	-	1,300,000	-	-	300,000	1,600,000	3
Total - Operating Receipts	33,650	-	25,000	250,000	1,325,000	-	-	300,000	1,933,650	
Cash Disbursements										
Operating Expense	32,383	200,000		150,000	150,000	-	-	-	532,383	4
Payroll	160,000	5,000	45,000	5,000	-	110,000	5,000	65,000	395,000	5
G&A	10,000	75,000	20,000	20,000	-	10,000	20,000	50,000	205,000	6
Professional Fees	-	-	200,000	-	-	100,000	-	100,000	400,000	7
Total - Operating Disbursements	202,383	280,000	265,000	175,000	150,000	220,000	25,000	215,000	1,532,383	
Total Net Cash Flow	(168,733)	(280,000)	(240,000)	75,000	1,175,000	(220,000)	(25,000)	85,000	401,267	
Ending cash	20,022,818	19,742,818	19,502,818	19,577,818	20,752,818	20,532,818	20,507,818	20,592,818	20,592,818	

Notes:

Management of Quicksilver Resources Canada Inc. ("QRCI") has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of QRCI during the CCAA Proceedings. The Projected Cash Flow Statement 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 August 8th, 2016, U.S. cash has been converted at 0.7598 CAD:1USD
- 2 - Joint Venture Receivables relates to expected receipts from non-operated joint venture partner billings.
- 3 - Expect to receive ITC refund and Non resident tax refund.
- 4 - Expected costs to resolve Joint Venture partner invoices for pre May costs.
- 5 - 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
- 6 - G&A includes costs associated with running the Company's head office and includes It costs, regulatory costs, office lease costs
- 7 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel and QRCI's counsel