

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 **FOURTH 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.**

May 20, 2016

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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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 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 QRCI’s 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 QRCI’s 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 JPMorgan Chase Bank N.A. as agent of the Secured Creditor.

PURPOSE

- 3. The purpose of this report (the “Fourth Report”) is to provide this Honourable Court with the Monitor’s comments with respect to:
 - (d) the activities of the Applicants since the Monitor’s Third Report dated April 15, 2016, including its budget to actual cash receipts and disbursements for the period ending May 13, 2016;
 - (e) the proposed Claims Procedures set out in the proposed Claims Procedures Order; and
 - (f) the Applicants’ request for an extension of the stay of proceedings against the Applicants until and including August 5, 2016 (the “Second Stay Extension”).
- 4. 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

5. 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.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
7. This report should be read in conjunction with the affidavit of Mr. Bob McGregor sworn on May 18, 2016 (the "McGregor May 18th Affidavit") and the Applicants' Application filed concurrently with this affidavit.
8. Capitalized terms not otherwise defined herein have the meaning given to them in the previous reports of the Monitor and proposed Claims Procedures Order.

ACTIVITIES OF THE APPLICANTS

9. Since the date of the Third Report the Applicants have cooperated with the Monitor to facilitate its monitoring of the Applicants' business and operations including the following tasks:

- (a) completing the March 21, 2016 transaction entered into between 1069130 B.C. Ltd. with respect to the Applicants' Horn River Assets and the March 22, 2016 transaction entered into between 1069130 B.C. Ltd., 0942065 B.C. Ltd. and 0942069 B.C. Ltd. with respect to the LNG Facility, which Orders were granted on April 22, 2016;
 - (b) distributed the net sales proceeds to the Applicants' Secured Lender in accordance with the Order of this Honourable Court granted on April 22, 2016, as more fully described in the budget to actual cash flow below;
 - (c) working with the Monitor to develop the Claims Procedure and a Plan of Compromise and Arrangement to present to the Applicants' creditors; and
 - (d) continuing to operate and manage the Applicants' business in the ordinary course, subject to the terms of the Initial Order.
10. The Applicants intend to use the time requested under the Second Stay Extension to commence the Claims Procedures and identify and confirm the Applicants' creditor claims. Furthermore, the Applicants intend to formulate a Plan that would efficiently and timely address distribution of the net proceeds that have resulted from the recent transactions to the creditors that will be confirmed through the Claims Procedures.
11. As set out in the McGregor May 18th Affidavit, QRCI continues to evaluate its obligations to MMI and the Fortune Creek Gathering and Processing Partnership. The Monitor understands that this will include terminating and obligations of QRCI under the Service Agreement.
12. On May 18, 2016, QRCI sent notices the Fortune Creek Gathering and Processing Partnership advising of its intention to disclaim the following agreements:

(a) The Contribution Agreement dated December 23, 2011; and

(b) The Gathering Agreement dated December 23, 2011.

13. The Monitor approved the disclaimer notices in accordance with section 32(1) of the CCAA. The Monitor will report further on the disclaimer notices in subsequent materials or in the event that the disclaimer notices issued by the Applicants are subject to objection in accordance with section 32(2) of the CCAA.

CASH FLOW BUDGET TO ACTUAL

14. The table below provides a summary of the Applicants' actual receipts and disbursements for the period of March 8, 2016 to May 13, 2016 (the "Reporting Period") as compared to the cash flow projection previously provided to this Honourable Court in the Proposed Monitor's Report.

March 8, 2016 to May 13, 2016

CAD\$	Forecast	Actual	Variance	Notes
Cash - Beginning of Reporting Period	\$18,521,291	\$ 18,521,291	\$ -	
Receipts				
Gas Sales	5,146,832	4,969,497	(177,335)	a
Joint Venture Receivable	542,258	853,484	311,226	b
Other	200,000	-	(200,000)	
Proceeds from Asset Sales	-	111,726,864	111,726,864	c
Total Receipts	\$ 5,889,089	\$ 117,549,845	\$ 111,660,756	
Disbursements				
Royalty Expense	116,551	151,377	34,826	
Operating Expense	3,275,155	4,071,524	796,369	d
LNG Co. Operating Expense	160,000	61,000	(99,000)	
Capital Expenditure	25,000	20,645	(4,355)	
Transportation	359,877	330,956	(28,921)	
Payroll	1,665,000	1,538,650	(126,350)	e
G&A	605,000	483,554	(121,446)	f
Professional Fees	825,000	2,330,790	1,505,790	g
Interest/Fees/Debt repayment	1,381,445	106,456,508	105,075,063	h
Tax/Other	140,000	550,436	410,436	i
Total Disbursements	\$ 8,553,028	\$ 115,995,440	\$ 107,442,412	
Change in Cash	(2,663,939)	1,554,405	4,218,344	
Cash - End of Reporting Period	\$15,857,352	\$ 20,075,696	\$ 4,218,344	j

15. The Applicants' forecast cash receipts during the Reporting Period totaled approximately \$5.9 million, as compared to actual receipts of \$117.6, a positive variance of \$111.6 million. The majority of the variance related to the \$111.7 million in proceeds from asset sales that were not included in the Forecast as they were intentionally kept confidential due to the commercially sensitive nature of the information, as discussed in further detail below.
16. The Applicants' actual cash disbursements during the Reporting Period totaled approximately \$116.0 million, as compared to the forecast of \$8.6 million. The cash disbursements variance mainly related to the distributions to the Secured Creditor of \$105.1 million representing the proceeds from the asset sales. The remaining cash disbursement variances are discussed in further detail below.

17. Forecast ending cash was \$15.9 million as compared to actual ending cash of \$20.1 million.
18. The notes to the above budget to actual variances are summarized below:
- (a) Actual gas sales were slightly lower than forecast by \$177,335 due to lower than forecast gas prices;
 - (b) Joint venture receivables were \$311,226 over budget primarily due to timing as the related receivables were collected quicker than anticipated;
 - (c) Asset sale proceeds relate the sale of Horseshoe Canyon Assets, Horn River Assets and the LNG Facility;
 - (d) Operating expenses were \$796,369 higher than forecast primarily due to surface rental payments made by QRCI on behalf of the purchaser of the Horseshoe Canyon Assets, that were subsequently adjusted for on the statement of adjustments;
 - (e) Payroll was \$126,350 less than forecast primarily due to less staff count than originally forecast;
 - (f) General and administrative expenses were \$121,446 less than forecast, due to various immaterial items;
 - (g) Professional fees were \$1.5 million higher than forecast due to the payment of transaction fee to QRCI's financial advisor Houlihan Lokey in the amount of \$1.6 million relating to the closing of the sale of the assets as discussed above;

- (h) Variance in debt repayment relates to the distribution of approximately \$105 million to the Secured Creditor relating to the net proceeds received from the asset sales;
- (i) Taxes and other items were \$410,436 higher than forecast due to the cash replacement of a letter of credit on the LNG Facility, these amounts are expected to be returned to QRCI at a later date by the purchasers of the assets.
- (j) Actual ending cash as at May 13, 2016 was \$20.1 million as compared to the forecast ending cash balance of \$15.9 million, due to the variances discussed above.

CASH FLOW STATEMENT

19. The Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow statement (the “Cash Flow Statement”) for the period May 16, 2016 to August 5, 2016 covering the Second Stay Extension. A copy of the Cash Flow Statement is attached as Appendix A.
20. A summary of the Cash Flow Statement is presented in the table below.

\$ CAD May 16 to August 5/16	TOTAL
	Forecast
Opening Cash	20,075,696
Cash Receipts	
Gas Sales	2,800,000
Joint Venture Receivable	425,000
Other	550,000
Total - Operating Receipts	3,775,000
Cash Disbursements	
Royalty Expense	65,000
Operating Expense	2,335,525
LNG Co. Operating Expense	37,000
Capital Expenditure	-
Transportation	330,000
Payroll	1,180,000
G&A	727,000
Professional Fees	1,200,000
Interest/Fees/Debt repayment	-
Tax/Other	1,460,000
Total - Operating Disbursements	7,334,525
Net Change in Cash from Operations	(3,559,525)
Total Net Cash Flow	(3,559,525)
Ending cash	16,516,171

21. The Cash Flow Statement indicates the following for the Second Stay Extension:
- (e) total cash receipts of \$3.8 million;
 - (f) total cash disbursements of \$7.3 million; and
 - (g) disbursements relating to the professional fees and restructuring costs of \$1.2 million, which are included in the above total cash disbursements.
22. The major assumptions made by the Applicants are set out at Appendix B to this Fourth Report.
23. The Monitor notes that the Cash Flow Statement indicates the Applicants will have sufficient funds available to fund its operations during the Second Stay Extension.
24. The Monitor has reviewed the assumptions supporting the Cash Flow Statement and is of the view that the assumptions are reasonable.

CLAIMS PROCEDURES

25. The Claims Procedures provide for a mechanism to establish an effective claims process to determine the nature, quantum, validity and enforceability of all claims against the Applicants, as discussed in further detail below under the Claims Procedure.
26. The Claims Procedure has been designed to identify all claims, including:
- (a) Claims of Known Claimants; and
 - (b) Claims of Unknown Claimants.

27. The Monitor will send a Claims Package to each of the Known Claimants by prepaid ordinary mail before 11:59 p.m. on June 3, 2016.
28. The Monitor will publish the Newspaper Notice to Claimants on two separate dates prior to June 3, 2016, in each of the Calgary Herald and the Globe and Mail (National Edition). The Monitor will also post electronic copies of the Newspaper Notice to Claimants, the Proof of Claim, and the Claims Procedures Order on the Monitor's Website as soon as practically possible after the date on which the Order is granted.
29. Claimants must submit their Proofs of Claim to the Monitor prior to 5:00 p.m. (Calgary time) on July 5, 2016 (the "**Claims Bar Date**"). The Applicants and the Monitor will review each Proof of Claim submitted by the Claims Bar Date. The Monitor will accept, revise or disallow the amount of each Claim set out therein for voting and/or distribution purposes.
30. The Monitor shall by no later than 11:59 p.m. on July 15, 2016, notify each Claimant who has delivered a Proof of Claim as to whether such Claimant's Claim as set out therein has been revised or rejected for voting purposes (and for distribution purposes, if the Applicants elect to do so), and the reasons therefor, by sending a Notice of Revision or Disallowance. Where the Applicants do not send by such date a Notice of Revision or Disallowance to a Claimant, the Applicants shall be deemed to have accepted such Claimant's Claim in the amount set out in that Claimant's Proof of Claim as a Voting Claim for voting purposes only, which shall be deemed to be that Claimant's Voting Claim.

31. Any Claimant who disputes the classification or amount of its Claim as set forth in a Notice of Revision or Disallowance shall deliver a Notice of Dispute to the Monitor (with a copy to the Applicants) by no later than 5:00 p.m. on the date that is fifteen (15) Calendar Days after receipt of the Notice of Revision or Disallowance.
32. Upon receipt of a Notice of Dispute, the Applicants, with the assistance of the Monitor, may attempt to consensually resolve the classification and amount of the Claim with the Claimant.
33. If an Claimant does not deliver a Notice of Dispute in accordance with the preceding paragraph, it shall be deemed to have accepted the Notice of Revision or Disallowance and the Claim, unless otherwise ordered by this Honourable Court, shall be deemed to be as set out in the Notice of Revision or Disallowance for distribution purposes and the Claimant will be barred from disputing or appealing same.
34. In order to deal with any indemnity claims that directors and officers of QRCI may have, the proposed Claims Procedures also requires persons who assert claims against QRCI's officers and directors to file a Proof of Claim in respect of such Claims prior to the Claims Bar Date.
35. The Monitor believes that the proposed Claims Procedures and proposed Claims Procedure Order are reasonable and appropriate in the circumstances and provides for a timely review of all potential claims against the Applicants. The Monitor believes the various timelines set out in the Claims Procedures Order provide sufficient notice for all potential creditors to file claims.

THE APPLICANTS REQUEST FOR AN EXTENSION TO THE STAY PERIOD

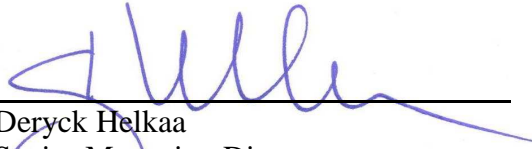
36. Pursuant to the Initial Order and extended by way of Order granted by this Honourable Court on April 5, 2016, the stay of proceedings against the Applicants is until and including June 2, 2016. The Applicants are seeking an extension of the Stay Period until and including August 5, 2016.
37. An extension of the Stay Period is necessary for the Applicants to allow for:
- (a) The continued work towards a Plan of Compromise and Arrangement and dealing with certain of QRCI's obligations in respect of MMI and the Fortune Creek Gathering and Processing Partnership; and
 - (b) The commencing a claims process to identify claims against the Applicants and its officers and directors.
38. 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, August 5, 2016.

CONCLUSIONS AND RECOMMENDATIONS

39. The Monitor respectfully recommends that this Honourable Court:
- (a) approval of the Claims Procedures as set out in the Claims Procedures Order; and
 - (b) approve the Applicants' request for an extension to the Stay Period.

All of which is respectfully submitted this 20th day of May, 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.

Appendix A

Cash Flow Forecast

Quicksilver Resources Canada Inc.
12 Week Cash Flow Forecast
May 16 to August 5, 2016

\$ CAD

Week Ending	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	TOTAL	Note
	20-May	27-May	3-Jun	10-Jun	17-Jun	24-Jun	1-Jul	8-Jul	15-Jul	22-Jul	29-Jul	5-Aug	Forecast	
Opening Cash	20,075,696	19,519,171	19,675,171	19,267,171	18,902,171	18,802,171	19,339,171	18,849,171	18,781,171	18,606,171	18,548,171	16,716,171	20,075,696	1
Cash Receipts														
Gas Sales	-	1,400,000	-	-	-	1,400,000	-	-	-	-	-	-	2,800,000	2
Joint Venture Receivable	-	175,000	-	50,000	-	150,000	-	50,000	-	-	-	-	425,000	3
Other	-	-	-	-	500,000	-	50,000	-	-	-	-	-	550,000	4
Total - Operating Receipts	-	1,575,000	-	50,000	500,000	1,550,000	50,000	50,000	-	-	-	-	3,775,000	
Cash Disbursements														
Royalty Expense	-	-	-	65,000	-	-	-	-	-	-	-	-	65,000	5
Operating Expense	493,525	517,000	200,000	300,000	300,000	350,000	100,000	50,000	25,000	-	-	-	2,335,525	6
LNG Co. Operating Expense	20,000	17,000	-	-	-	-	-	-	-	-	-	-	37,000	7
Capital Expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-	8
Transportation	-	165,000	-	-	-	165,000	-	-	-	-	-	-	330,000	9
Payroll	18,000	250,000	18,000	-	250,000	18,000	250,000	18,000	100,000	8,000	100,000	150,000	1,180,000	10
G&A	25,000	-	190,000	50,000	50,000	10,000	190,000	50,000	50,000	50,000	12,000	50,000	727,000	11
Professional Fees	-	400,000	-	-	-	400,000	-	-	-	-	400,000	-	1,200,000	12
Interest/Fees/Debt repayment	-	-	-	-	-	-	-	-	-	-	-	-	-	13
Tax/Other	-	70,000	-	-	-	70,000	-	-	-	-	1,320,000	-	1,460,000	14
Total - Operating Disbursements	556,525	1,419,000	408,000	415,000	600,000	1,013,000	540,000	118,000	175,000	58,000	1,832,000	200,000	7,334,525	
Net Change in Cash from Operations	(556,525)	156,000	(408,000)	(365,000)	(100,000)	537,000	(490,000)	(68,000)	(175,000)	(58,000)	(1,832,000)	(200,000)	(3,559,525)	
Total Net Cash Flow	(556,525)	156,000	(408,000)	(365,000)	(100,000)	537,000	(490,000)	(68,000)	(175,000)	(58,000)	(1,832,000)	(200,000)	(3,559,525)	
Ending cash	19,519,171	19,675,171	19,267,171	18,902,171	18,802,171	19,339,171	18,849,171	18,781,171	18,606,171	18,548,171	16,716,171	16,516,171	16,516,171	

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 - 14. Consequently, actual results will likely vary from performance projected and such variations may be material

- 1 - Opening Canadian dollar cash as at May 16, 2016, U.S. cash has been converted at 0.7624 CAD:1USD
- 2 - Gas sales relates to proceeds from the sale of natural gas production from Horseshoe Canyon. QRCI continues to market and sell natural gas on behalf of CPC in accordance with the transition services agreement. CPC is not yet set-up to take over the marketing function. It is assumed the gas sales marketed by QRCI on behalf of CPC for the April and May gas sales will be received by QRCI and then will be allocated to CPC on the final statement of adjustment.
- 3 - Joint Venture Receivables relates to expected receipts from non-operated joint venture partner billings and are based on historical trends and forecasted estimates between gross costs and our net costs, the difference to be received from the non - op partner. As many of the partners have not paid in a timely fashion our assumptions are based on a very conservative basis of receiving payment in a timely fashion
- 4 - Other receipts relates to receiving deposits back from various vendors and Government regulatory bodies.
- 5 - Royalties relate to royalties paid to feehold land owners and the crown. Rates are based off of historical averages. Last payment in June is for April production royalties which will be adjusted for on the final statement of adjustments and received from CPC
- 6 - Operating expenses are combination of QRCI operating costs prior to the closing of the transactions, costs surrounding the Fortune Creek Compressor system that we are liable to pay under the gathering agreement prior to repudiating it and costs incurred in the field after CPC took ownership of the Horseshoe Canyon assets but were unable to operate until late May. These amounts will be adjusted for in the final statement of adjustments with CPC.
- 7 - Estimated operating costs for the Elk Fall property incurred prior to the sale and effective date.
- 8 - No capital spending contemplated as QRCI no longer has any operating assets.
- 9 - Transportation costs relate to transporting natural gas production from Horseshoe Canyon paid on behalf of CPC. Costs will be recouped on final statement of adjustments with CPC.
- 10 - 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
- 11 - G&A includes costs associated with running the Company's head office and includes IT costs, regulatory costs, office lease costs. QRCI anticipates exiting its main office lease at the end of June 2016 and operating thereafter from a smaller office
- 12 - Professional/legal fees include fee estimates provided by the Monitor, the Monitor's counsel and QRCI's counsel.
- 13 - No further interest and fees as QRCI's bank debt has been repaid.
- 14 - Taxes/Other relates to payments for GST and Carbon taxes. Also includes payment for final statement of adjustments expected to be paid to the CPC related to the Horseshoe Canyon sale. QRCI collected revenue from sale of gas longer than anticipated due to delay in CPC taking over marketing function.