

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

**THIRD 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.**

April 15, 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 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.
3. On March 29, 2016, the Applicants were granted a sale approval and vesting order which, among other things, approved the sale of all of its oil and gas assets located in Alberta, referred to as the Horseshoe Canyon assets. The sale approval and vesting order also allowed QRCI’s right, title and interest in and to the Horseshoe Canyon Assets to vest in the purchaser, free and clear of all interests, liens, charges and encumbrances, other than permitted encumbrances.
4. At the March 29, 2016 application, the Applicants advised that they along with their selling agent, Houlihan Lokey Capital, Inc. (“Houlihan”) were continuing efforts to sell the Horn River assets (“Horn River Assets”) and the Discovery LNG facility (“Discovery LNG”) collectively referred to as the (“BC Assets”).

5. On April 5, 2016, the Applicants were granted an order that extended the stay of proceedings until and including June 2, 2016 (“Extended Stay Period”) and authorized QRCI to, after closing the, distribute the net proceeds from the sale of the Horseshoe Canyon Assets to QRCI’s secured creditor (the “Secured Creditor”).

PURPOSE

3. The purpose of this third report of the Monitor (“Monitor’s Third Report”) is to provide this Honourable Court with the Monitor’s comments with respect to:
 - (a) The proposed sale of the Horn River Assets by QRCI to Rockyview Resources Inc. (the “HRB Purchaser”) and the Applicants’ request for a sale approval and vesting order for the sale of the Horn River Assets;
 - (b) The proposed sale by LNG Co. (as seller) and LNG Subco (as nominee) of the Discovery LNG facility (“Discovery LNG”) to 1069130 B.C. Ltd. the (“Discovery LNG Purchaser”) and the Applicants’ request for a sale approval and vesting order for the sale of the Discovery LNG;
 - (c) Authorization of the repayment of the amounts owed to the Applicants’ Secured Lenders from the net proceeds of the proposed sale of the Horn River Assets and Discover LNG; and
 - (d) Sealing the Monitor’s confidential supplement to the Monitor’s Third Report.
4. Further background and information regarding the Applicants and these CCAA proceedings can be found on the Monitor’s website at <http://cfcanda.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 second affidavit of Adam Dunayer (the "Second Dunayer Affidavit") sworn on April 14, 2016 and filed in support of the application scheduled to be heard April 22, 2016.
8. Capitalized terms not otherwise defined herein have the meaning given to them in the Second Dunayer Affidavit, the Initial Order and the Monitor's previous reports to this Honourable Court.

PROPOSED SALE OF THE BC ASSETS

The QRCI Sale Process

9. Further background information regarding the QRCI Sale Process is provided in the Dunayer affidavit, filed in support of the sale of Horseshoe Canyon assets and the Second Dunayer Affidavit, filed in support of the proposed sale of the BC Assets. Both affidavits have been posted on the Monitor's website.
10. As previously summarized, on or around September 15, 2015, QRI (parent company of QRCI) and the Applicants, with the assistance of Houlihan, commenced two formal sale processes to sell their respective shares or assets. The U.S. sale process was run as part of the Chapter 11 Debtor's bankruptcy proceedings. The QRCI Sale Process ran parallel to, but separate from, the U.S. sale process and solicited bids exclusively for any or all of the Applicants' assets.
11. The Monitor has provided its comments with respect to the QRCI Sale Process in its First Report dated March 21, 2016 which were that the assets of QRCI were sufficiently exposed to the marketplace and the length of process was more than sufficient to allow interested parties entry into the bidding process.
12. With respect to the QRCI Sale Process and specifically, the BC Assets, the Monitor understands that four indications of interest ("IOI's") were received prior to December 8, 2015. Following additional diligence completed by the four bidders, only one final bid was received and it only related to the Discovery LNG. No final bids were received on Horn River.

13. QRCI concluded, for a number of reasons, that disposition of Horn River was a priority given QRCI's process of winding down its Canadian business operations and its goal to maximize recoveries for its creditors and eliminate any potential environmental claims. Following the sale of Horseshoe Canyon, the BC Assets are the only remaining operating assets of QRCI, although their production been shut-in for over one year.
14. Accordingly, Houlihan re-visited discussions with parties who had previously expressed an interest in the BC Assets, but who ultimately did not submit a bid in the QRCI Sale Process, thus providing a final attempt/opportunity for a bidder to acquire the remaining assets, including the assumption of any remaining environmental liability.
15. Houlihan's follow up discussions resulted in several parties expressing renewed interested in the BC Assets. In January and February 2016, potential bidders completed additional diligence on the BC Assets that resulted in two parties submitting IOI's. Houlihan continued negotiations with the two parties in an attempt to reach a final, binding agreement.
16. On March 26, 2016, QRCI executed an asset purchase agreement with 1069130 B.C. Ltd. with respect to both Horn River Assets (the "Horn River APA") and the Discovery LNG (the "Discover LNG APA").
17. The terms of the Horn River APA and Discover LNG APA are set out the Second Dunayer Affidavit, however, the Monitor notes the following material terms:
 - (a) A material non-refundable deposit has been received for both transactions;
 - (b) The purchase is being completed on an 'as is, where is' basis; and

- (c) Closing the Horn River APA and the Discovery LNG APA is subject to typical conditions precedent; the only material condition is obtaining an approval and vesting order from this Honourable Court. Closing is to occur three business days after an approval and vesting order is granted. Closing the Horn River APA and the Discovery LNG APA is mutually conditional and is to occur concurrently. Absent mutual agreement, subject to a proviso, either party can terminate the agreement if closing has not occurred by May 31, 2016.
18. The Horn River APA was subsequently assigned from 1069130 B.C. Ltd. to Rockyview Resources Inc. The Monitor notes the assignment has no impact on the terms of the transaction.
19. The purchase price deposit amounts and relevant terms have been set out in the Confidential Supplemental to this Third Report of the Monitor.

The Monitor's Comments with respect to the QRCI Sale Process

20. The Monitor is of the view that the BC Assets have been sufficiently exposed to the market through the two separate sales processes run by Houlihan. The length of the QRCI Sale Process was more than sufficient to allow interested parties entry into the bidding process.
21. The Monitor has reviewed the marketing materials used in the QRCI Sale Process and is of the opinion that they provide a detailed overview of the assets for the purposes of engaging interested parties.

22. The Monitor is of the opinion that the approval of the Horn River APA and the Discovery LNG APA is in the best interest of the Applicants' stakeholders as it was for the highest dollar value and addressed QRCI's goal of selling all its remaining assets, including the assumptions of potential remaining environmental liability. The Monitor is of the opinion that the proposed sale of the BC Assets is more beneficial to creditors than a sale under bankruptcy.

Distribution of proceeds from the BC Assets

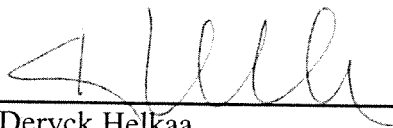
23. The Monitor's counsel has reviewed the security of the Secured Lenders as more fully set out in its Second Report dated March 29, 2016 and has opined that the security creates a valid and enforceable security interest in favour of the Secured Lenders in the right, title and interest of the Applicants in its real and personal property.
24. The Applicants are seeking court approval to make an interim distribution to the Secured Lenders of the net proceeds from the sale of Horn River Asset and Discover LNG.
25. The Monitor is not aware of any creditors that would rank in priority to the Secured Lenders.
26. The Monitor estimates that following the closing of Horn River, Discovery LNG and Horseshoe Canyon, sufficient cash will be available to fully repay the amounts owed to the Secured Lenders and provide sufficient funds to allow QRCI to operate in the normal course beyond the extended Stay Period of June 2, 2016.

CONCLUSIONS AND RECOMMENDATIONS

27. The Monitor is of the view that QRCI Sale Process was of sufficient length, was a full and open process, was completed by a reputable marking agent and that the Horn River APA and Discovery LNG represents the best value for the Applicants' stakeholders.
28. The Monitor respectfully recommends that this Honourable Court:
- (a) approve the Horn River APA;
 - (b) approve the Discovery LNG APA;
 - (c) grant a Sealing Order for the Confidential Supplement until the completion of the Horn River APA and Discover LNG APA; and
 - (d) approve the distribution of the net proceeds from the Horn River APA and Discover LNG APA to QRCI's Secured Lenders up to the amounts owing to the Secured Lenders.

All of which is respectfully submitted this 15th day of April, 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.