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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

**FIRST 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.**

**March 21, 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”).
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”.

## PURPOSE

3. The purpose of this report is to provide this Honourable Court with the Monitor’s comments with respect to:
  - (a) activities of the Monitor since granting of the Initial Order;
  - (b) QRCI’s proposed sale of its Horseshoe Canyon Assets to CPC Resources ULC (the “**Purchaser**”) and its request for an approval and vesting order regarding the sale; and
  - (c) the Applicants’ ongoing efforts to complete a sale of the Horn River assets (“**Horn River Assets**”) and its LNG facility (“**LNG Facility**”) (collectively the “**BC Assets**”).

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 Adam Dunayer sworn on March 14, 2016 (the "**Houlihan Affidavit**") filed in support of the Applicant's application for relief under the CCAA.
8. Capitalized terms not otherwise defined herein have the meaning given to them in the Dunayer Proposed APA Affidavit and the Initial Order.

## ACTIVITIES OF THE MONITOR SINCE THE GRANTING OF THE INITIAL ORDER

9. Pursuant to the Initial Order, the Monitor:
  - (a) arranged for a notice containing the information prescribed in the CCAA to be published in the Calgary Herald on March 15, 2016 and March 22, 2016;
  - (b) arranged for an advertisement advising of the CCAA Proceedings in the Daily Oil Bulletin on March 14, 2016;
  - (c) made a copy of the Initial Order and the application materials available on the Monitor's website;
  - (d) sent, in a prescribed manner, a notice to every known creditor who has a claim against the Applicants of more than \$1,000; and
  - (e) prepared a list of those creditors and the estimated amounts of those claims, and made such list publicly available on the Monitor's website.
10. In addition, the Monitor has provided all employees with responses to 'frequently asked questions' directed at answering potential questions in connection with the CCAA Proceedings. Furthermore, the Monitor has established a toll free number and email inbox to address any questions from creditors or other stakeholders.

## QRI Chapter 11 Filing

11. The Applicants' parent Quicksilver Resources Inc ("**QRI**") and all of its U.S. affiliates (collectively, the "**Chapter 11 Debtors**"<sup>1</sup>) filed voluntary reorganization cases under chapter 11 of title 11 of the *United States Code*, 11 U.S.C. §§ 101-1532 in the United in the United States Bankruptcy Court for the District of Delaware ("**US Court**"). The Applicants were not included in the Chapter 11 filing.
12. On or around September 17, 2015 QRI 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 Canadian sale process (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.
13. Further background information regarding the Initial Sale Process is provided in the Houlihan Affidavit, filed in support of the Monitor's First Report which has been posted on the Monitor's website.

## QRCI Sale Process

14. The marketing efforts during the QRCI Sale Process progressed through the following stages:
  - (a) Pre-Market Preparation;

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<sup>1</sup> The Chapter 11 Debtors are: Quicksilver Resources Inc. (QRI), Barnett Shale Operating LLC, Cowtown Drilling, Inc., Cowtown Gas Processing L.P., Cowtown Pipeline Funding, Inc., Cowtown Pipeline L.P., Cowtown Pipeline Management, Inc., Makarios Resources International Holdings LLC, Makarios Resources International Inc., QPP Holdings LLC, QPP Parent LLC, Quicksilver Production Partners GP LLC, Quicksilver Production Partners LP, and Silver Stream Pipeline Company LLC.

- (b) Marketing Round 1;
  - (c) Marketing Round 2; and
  - (d) Final Negotiation, Documentation and Closing.
15. To follow the same time line as the U.S. sale process, the original deadline for the QRCI Sale Process was extended. The amended timeline is as follows:
- (a) December 8, 2015 – Indications of Interest (“**IOI**”) Due;
  - (b) January 11, 2016 – Final Bids Due; and
  - (c) As soon as possible after receipt of Final Bids – completion of Documentation / Closing.
16. In the Pre-Market Preparation stage, Houlihan Lokey Capital, Inc. (“**Houlihan**”) prepared marketing materials, an asset overview, and a virtual data room was populated with information that would be pertinent to a potential purchaser (the “**Virtual Data Room**”).
17. Houlihan then distributed the marketing materials to both potential strategic and financial purchasers and began to facilitate initial due diligence. During Marketing Round 1 of the QRCI Sale Process 354 parties were contacted, of which 244 were potential strategic purchasers and 110 were potential financial purchasers. Of those 354 parties contacted, 43 (25 strategic and 18 financial purchasers) executed a non-disclosure agreement, and 11 (6 strategic and 5 financial purchasers) submitted an IOI.
18. The IOI’s were reviewed by QRCI and, in consultation with Houlihan, QRCI selected bidders to participate in the second round of due diligence.

19. In Marketing Round 2, selected bidders were granted access to further detailed information in the Virtual Data Room, were allowed meetings with the management of QRCI and were provided with a copy of the proposed asset purchase agreement.
20. When final bids were received in mid-January 2016, three parties (the “**Potential Purchasers**”) submitted final bids (the “**Formal Bids**”) for the Horseshoe Canyon assets (“**Horseshoe Canyon Assets**”). This was approximately five months after the QRCI Sale Process commenced. Although bids were received and subsequently negotiated for QRCI’s BC Assets at the date of this report no asset purchase agreement has been finalized.

#### **Sale of Horseshoe Canyon Assets**

21. QRI’s board, its management team and Houlihan has concluded that the bid submitted by CPC Resources ULC was the best overall bid (“**CPC Resources Bid**”) for the Horseshoe Canyon Assets, as it had the highest purchase price (“**Horseshoe Canyon Purchase Price**”) and was determined to have the most certainty with respect to the purchaser’s ability to close the transaction.
22. Following negotiations between CPC Resources ULC and QRCI the Horseshoe Canyon APA was executed on March 1, 2016.
23. The Horseshoe Canyon APA designates the date of closing (“**Closing**”) for the sale of the assets is to take place, on the latest of: (a) April 29, 2016; (b) the fifth business day following the date on which the Approval and Vesting Order is granted; or (c) the fifth business day following the date on which all preferential purchase rights have been exercised or waived by the holders of such rights, or the periods to exercise such rights have expired.

24. The Applicants, through the Monitor, and CPC Resources ULC have agreed upon the terms of the proposed Horseshoe Canyon APA, including the Horseshoe Canyon Purchase Price, with the only condition being approval of this Honourable Court. Given the sensitive nature of the commercial terms of the Horseshoe Canyon APA the Monitor has prepared a confidential supplement to this First Monitor's Report (the "**Confidential Supplement**"). The Confidential Supplement contains the commercial details of the Horseshoe Canyon APA, including the Horseshoe Canyon Purchase Price. The Confidential Supplement also includes a summary of the three Formal Bids received for the Horseshoe Canyon Assets.

#### **The Monitor's Comments and Recommendations with respect to the QRCI Sale Process**

25. The Monitor is of the view that the assets of QRCI have been sufficiently exposed to the market through the sales process run by Houlihan. The length of the QRCI Sale Process, itself, was more than sufficient to allow interested parties entry into the bidding process.
26. 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.
27. It is the Monitor's view that the decision to run separate sales processes for the US and Canadian assets was in the best interest of all stakeholders, given the distinct and separate nature of the assets owned by the Applicants as opposed to those of QRI including in the Chapter 11 Proceedings.



28. The Monitor believes QRCI Sale Process marketing rounds provided sufficient exposure to differing types of purchasers and a sufficient number of parties were contacted. Houlihan is a well-respected and reputable selling agent who has demonstrated the ability to maximize asset value through its previous engagements.
29. The Monitor is of the opinion that the acceptance of the CPC Resources Bid is in the best interest of the Applicants' stakeholders as it was the highest dollar value, with the lowest closing risk, of the Formal Bids received and that the completion of the CPC Resources Bid will be more beneficial to creditors than any sale or disposition under a bankruptcy.

#### **THE APPLICANTS EFFORTS TO COMPLETE THE SALE OF ITS BC ASSETS AND OTHER ITEMS**

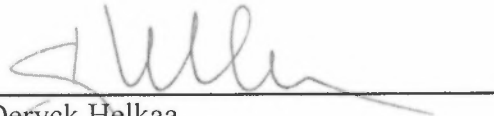
30. Since the Initial Order the Applicant has continued its efforts to complete a sale of QRCI's Horn River Assets and its LNG Facility, collectively the BC Assets.
31. At the date of this report, the Applicants and Houlihan are continuing their effort towards finalizing a sale of its BC Assets.
32. The Monitor further understands that the Applicants intend at a subsequent application to seek a further order from this Honourable Court with respect to the distribution of the net proceeds received from the Horseshoe Canyon Assets. At that time, the Monitor will provide an updated cash flow and distribution analysis.

## CONCLUSIONS AND RECOMMENDATIONS

33. The Proposed 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 Horseshoe Canyon APA represents the best value for the Applicants' stakeholders in relation to the Horseshoe Canyon Assets.
34. The Monitor respectfully recommends that this Honourable Court:
- (a) approve the Horseshoe Canyon APA; and
  - (b) grant a Sealing Order for the Confidential Supplement until the completion of the Horseshoe Canyon APA.

All of which is respectfully submitted this 21 day of March, 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.