

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 **PRE-FILING REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS PROPOSED MONITOR OF QUICKSILVER RESOURCES CANADA INC., 0942065 B.C. LTD., and 0942069 B.C. LTD.**

March 8, 2016

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

1. FTI Consulting Canada Inc. ("FTI Consulting" or the "Proposed Monitor") has been advised that Quicksilver Resources Canada Inc. ("QRCI"), 0942065 B.C. Ltd. ("LNG Co"), and 0942069 B.C. Ltd. ("LNG Subco") (collectively the "Applicants") intend to make an application under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA") for an initial order (the "Initial Order") granting, inter alia, a stay of proceedings against the Applicants for a period not to exceed 30 days, (the "Initial Stay Period") and appointing FTI Consulting as the monitor. The proceedings to be commenced by the Applicant under the CCAA will be referred to herein as the "CCAA Proceedings".
2. FTI Consulting is a trustee within the meaning of section 2 of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI Consulting has provided its consent to act as Monitor in these CCAA Proceedings a copy of which is attached to the affidavit of Mr. J. David Rushford dated March 8, 2016 (the "Rushford Initial Application Affidavit").

PURPOSE

3. The purpose of this report is to provide this Honourable Court with the Proposed Monitor's comments with respect to:
 - (a) the Applicant's 13 week cash flow forecast for the period from March 7, 2015 to June 3, 2015 and the reasonableness thereof, in accordance with s. 23(1)(b) of the CCAA;
 - (a) the proposed key employee retention plan ("KERP");

- (b) the proposed court-ordered charges as follows:
 - (i). the administrative charge (the "Administrative Charge");
 - (ii). the charge securing the inter-company interim loan from QRCI to LNG Co and LNG Subco (the "LNG Interim Lender's Charge");
 - (iii). the directors & officers' charge (the "Directors' Charge");
 - (iv). the charge securing the KERP (the "KERP Charge");
- (c) The KERP Charge, Administrative Charge and Directors' Charge are collectively referred to as the "Court Ordered Charges"; and
- (d) the Applicants' request for authorization to pay certain amounts to critical suppliers.

TERMS OF REFERENCE

- 4. In preparing this report, the Proposed 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 Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Proposed 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.
- 5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

6. This report should be read in conjunction with the Rushford Initial Application Affidavit filed in support of the Applicant’s application for relief under the CCAA.

CASH FLOW STATEMENT

7. The Applicants have prepared a 13 weekly cash flow projection (the “Cash Flow Statement”) for the period March 7, 2016 to June 3, 2016 (“Forecast Period”). A copy of the signed Cash Flow Statement, notes is attached to the Rushford Initial Application Affidavit; the prescribed representations of QRCI regarding the preparation of the Cash Flow Statement are attached hereto as Appendix “A”. The following table summarizes the Cash Flow Forecast.

\$ CAD	Total Forecast Period
Opening Cash	19,791,141
Cash Receipts	
Gas Sales	7,540,026
Joint Venture Receivable	1,252,218
Other	425,000
Total - Operating Receipts	9,217,243
Cash Disbursements	
Royalty Expense	331,761
Operating Expense	7,118,096
LNG Co. Operating Expense	260,000
Capital Expenditure	45,000
Transportation	537,151
Payroll	2,535,000
G&A	895,000
Professional Fees	1,225,000
Interest/Fees/Debt repayment	2,063,835
Tax/Other	6,640,000
Total - Operating Disbursements	21,650,843
Net Change in Cash from Operations	(12,433,599)
Ending cash	7,357,542

8. As shown in the Cash Flow Statement, it is estimated that for the Forecast Period, QRCI will have approximately:
 - (a) opening cash of \$19.8 million;
 - (b) total cash receipts of \$9.2 million;
 - (c) total cash disbursements of \$21.7 million;
 - (d) total disbursements relating to the professional fees and restructuring costs of \$1.2 million; and
 - (e) ending cash of \$7.4 million.

9. The Cash Flow Statement indicates that during the Initial Stay Period, QRCI will not require any additional form of financing to fund its operations or restructuring initiatives.

PROPOSED MONITOR'S REPORT ON THE REASONABLENESS OF THE CASH FLOW STATEMENT

10. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain members of the management and employees of the Applicants. Since hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by management of the Applicants for the probable assumptions and the preparation and presentation of the Cash Flow Statement.
11. Based on the Proposed Monitor's review, nothing has come to its attention that causes the Proposed Monitor to believe that, in all respects:¹
- (a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
 - (b) As at the date of this report, the Probable Assumptions developed by management are not Suitably Supported and consistent with the plans of QRCI or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
 - (c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

¹ All terms used but not defined in this section of the report have the meanings ascribed to them in the Canadian Association of Insolvency and Restructuring Professionals ("CAIRP") Standard of Practice No. 09-1, Cash-Flow Statement, approved, ratified and confirmed by CAIRP members on August 21, 2009.

12. Since the Cash Flow Statement is based upon assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by it in preparing this report.
13. The Cash Flow Statement has been prepared solely for the purposes of determining the liquidity requirements for the Applicants during the CCAA Proceedings, using Probable and Hypothetical Assumptions, and readers are cautioned that it may not be appropriate for other purposes.
14. The Proposed Monitor is of the view that the assumptions and projections which underlie the Applicants' Cash Flow Statement are reasonable and that the current cash on hand should be sufficient to fund the Applicant's operations to the end of the Initial Stay Period and throughout the Forecast Period.

PROPOSED KERP

15. The Applicants are seeking the approval of a KERP as well as the granting of the KERP Charge. If approved, certain of QRCI's employees (the "KERP Employees"), will participate in the KERP.
16. The key elements of the KERP are:
 - (a) Participation by 70 non-executive eligible participants ("Non-executive KERP Payments") with the payments under the KERP to be paid 50% upon the successful closing of the Horseshoe Canyon asset purchase agreement ("Horseshoe Canyon APA") and 50% upon the sale by QRCI of all its remaining assets.

- (b) The Monitor notes that \$471,939 has been paid prior to these CCAA Proceedings to Non-executives that was earned, in accordance with the bonus plan, upon signing of the Horseshoe Canyon APA.
- (c) 5 Executive employees will be eligible for two payments. One payment contingent upon the sale of QRCI's Horn River Assets as described in the Rushford Initial Application Affidavit ("Executive Horn River Asset Sale Payment") and a second payment contingent on the sale of all of QRCI's assets ("Executive All Asset Sale Payment").
- (d) the Executive Horn River Asset Sale Payment component of the KERP is a bonus retention payment plan for the executive employees. This plan has been in place for 3 of the executives of QRCI since 2013 and has recently been expanded to include two other executives in anticipation of these proceedings, given the need to retain and incentivize the entire executive.
- (e) the maximum aggregate amount of cash payments under the KERP including the Non-executive KERP Payments, the Executive Horn River Asset Sale Payment and the Executive All Asset Sale Payment is \$1,851,567 (of which \$471,939 has already been paid in relation to Milestone 1 as described above), resulting in a KERP Charge of \$1,379,628.

The Proposed Monitor's comments and recommendation with respect to the proposed KERP

17. The Proposed Monitor has reviewed information available in respect of other similar CCAA cases where employee retention plans have been approved and compared these retention plans to the Proposed KERP.

18. The Proposed Monitor agrees with the Applicants' assessment that the departure of the KERP Employees may be detrimental to its business and operations, especially given the proposed timing of attempting to complete the assets sales in the current marketplace. The approval of the KERP should provide incentive for the employees to remain in their employment for the duration of the CCAA Proceedings or until they are no longer required by the Applicants.
19. The Proposed Monitor notes that the proposed KERP was approved by QRCI's board of directors as a bonus/retention plan on February 22, 2016. The Monitor understands that the KERP being implemented by QRCI was put in place to essentially mirror the retention plan used by QRCI's parent company, QRI, and was approved in the Chapter 11 proceedings.
20. The Monitor notes that the Executive Horn River Asset Sale Payment for 3 of the executives was approved by the compensation committee of the board of directors on July 15, 2013. Therefore these payments are essentially honouring the pre-existing deal between the 3 executives and QRCI. Prior to entering CCAA QRCI decided it was necessary to include the other 2 executives in the Executive Horn River Asset Sale Payment as they would be critical in closing a sale of the Horn River Assets. The Monitor concurs that the full executive team will be critical to maximizing value through the sale of the Applicants' assets in the CCAA Proceedings.
21. From its review of prior court-approved retention plans, the Proposed Monitor is satisfied that the KERP is consistent with current practice for retention plans in the context of a CCAA proceeding and that the quantum of the proposed payments under the KERP are reasonable in the circumstances.

22. The Applicants have also sought to have KERP charge approved to rank in third priority behind the Administration Charge and the Directors Charge, in the amount of \$1.38 million (“KERP Charge”) which is the maximum that will become payable under the KERP. The proposed Monitor believes the KERP Charge is reasonable in the circumstances.
23. The Proposed Monitor further advises that the secured lender is in agreement with the proposed KERP.

AMOUNT AND PRIORITY OF COURT ORDERED CHARGES

24. Certain Court-Ordered charges are contemplated in the Initial Order with the following proposed priority ranking:
 - (a) Administration Charge;
 - (b) Directors’ Charge;
 - (c) KERP Charge (discussed above); and
 - (d) LNG Interim Lender’s Charge.

Administration Charge

25. The proposed Initial Order provides for an Administration Charge in an amount not to exceed \$2,500,000, charging the assets of the Applicants to secure the fees and disbursements incurred in connection with services rendered to the Applicants both before and after the commencement of the CCAA Proceedings by counsel to the Applicants, the Financial Advisor/selling agent of the Applicants, the Proposed Monitor, the Proposed Monitor's counsel and the secured lenders counsel.

26. The Proposed Monitor believes it is appropriate that the proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceedings. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants have based the quantum of the proposed Administration Charge, the complexities of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge and is of the view that the proposed quantum of the Administration Charge is reasonable and appropriate in the circumstances.

Directors Charge

27. The Initial Order provides for a Directors Charge over the property of the Applicant in favour of the directors and officers of the Applicants and Argent Energy Ltd. as security for the indemnity contained in the Initial Order in respect of specified obligations and liabilities that they may incur after the commencement of the CCAA Proceeding. The Directors Charge will not exceed an aggregate amount of \$450,000 and will rank immediately subsequent to the Administration Charge.
28. As described in the Rushford Initial Order Affidavit, the Applicants maintain certain insurance coverage for the directors and officers, but the deductibles and exclusions from the policies mean that the insurance may not fully cover the potential statutory liabilities of the beneficiaries of the Directors Charge. The Proposed Monitor notes that the directors and officers will only be entitled to the benefit of the Directors Charge to the extent that they do not have coverage under any existing insurance policy, or to the extent that such coverage is insufficient to pay amounts for which the directors and officers are entitled to be indemnified pursuant to the provisions of the Proposed Initial Order.

29. It is the Proposed Monitor's view that the continued support and service of the directors and officers during the CCAA Proceedings would be beneficial to the Applicants' efforts to preserve value and maximize recoveries for stakeholders through completion of CCAA Proceedings as they have specific knowledge and expertise with respect to the Applicants operations and relationships with various stakeholders. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants have based the estimate of the potential liability in respect of directors' statutory obligations and is of the view that the Directors Charge is reasonable in relation to the quantum of the estimated potential liability and appropriate in the circumstances.

LNG Interim Lender's Charge

30. As describe in the Rushford Initial Application Affidavit, LNG Co and LNG Subco (collectively "LNG") have no source of revenue. Historically all expenses related to LNG's operations have been funded by way of unsecured inter-company advances from QRCI. LNG's major expenses relate to maintaining/monitoring their assets, property taxes and water lot leases. QRCI is proposing to continue to fund these expenses throughout the CCAA Proceedings however are seeking to have the advances secured. The Proposed Initial Order contemplates that QRCI be granted a Court-ordered charge on the assets, property and undertakings of LNG Co and LNG Subco by way of the LNG Co Interim Lender' Charge, in the amount not to exceed \$750,000.
31. The Proposed Monitor understands that this interim credit facility is intended to be on terms and conditions agreed upon by LNG Co and QRCI and subject to approval by the Monitor.

32. The Proposed Monitor understands that the Applicants intend to seek a buyer for LNG's assets during the CCAA Proceedings, as described more fully in the Rushford Initial Application Affidavit. Therefore, continuing the pay expenses related to LNG's assets will be required throughout the CCAA Proceedings. The Proposed Monitor agrees with the Applicants that continuing to pay LNG's expenses will maintain optionality in an effort to maximize value for LNG's assets.
33. Accordingly, the Proposed Monitor is of the view that the LNG Co Commitment Letter the Applicants' request for the LNG Co Interim Lender' Charge is reasonable and appropriate in the circumstances.

PRE-FILING PAYMENTS

34. The Applicants have identified certain vendors who are considered critical to the ongoing operation of the business. If these vendors were to cease the supply services even for a short period of time, it would have a material negative impact on the Applicants' operations. The proposed Initial Order contemplates authorizing the Applicants, with the consent of the Monitor, the ability, but not the requirement, to make certain payments to a maximum of \$150,000 to these vendors who provide services to the Horn River Assets to satisfy pre-filing obligations.

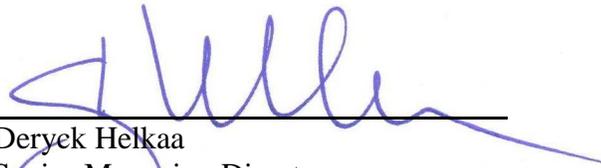
35. The proposed Initial Order also contemplates the continued payment of vendors who have provided services to the Horseshoe Canyon Assets. These payments will include pre-filing obligations. The rationale behind this request relates to requirements under the Horseshoe Canyon APA. The Horseshoe Canyon APA requires that QRCI continue to operate the Horseshoe Canyon assets in normal course and has an effective date of October 1, 2015. Therefore all revenues and expenses incurred in relation to the Horseshoe Canyon Assets after October 1, 2015 will flow to the purchaser by way of a statement of adjustments to the purchase price upon closing. Making these payments is essential to closing the Horseshoe Canyon APA and will eventually be recovered by QRCI upon closing the transaction.
36. The Proposed Monitor is of the view that authorization to pay a limited amount of pre-filing Horn Rover Asset obligations is reasonable in the circumstances. Additionally the proposed Monitor is of the view that making payments related to pre-filing Horseshoe Canyon obligations is essential to closing the proposed Horseshoe Canyon APA

CONCLUSIONS AND RECOMMENDATIONS

37. The Proposed Monitor is of the view that the assumptions and projections underlying the Applicants' Cash Flow Statement are reasonable and that the Applicants' have sufficient cash on hand to fund the their operations to the end of the Initial Stay Period and throughout the Forecast Period.
38. The Proposed Monitor respectfully recommends that this Honourable Court grant the proposed Initial Order, which will, among other things, approve:
- (a) the LNG Co Interim Lender' Charge;
 - (b) the proposed KERP and related KERP Charge;
 - (c) the quantum and ranking of the Administration Charge;

- (d) the quantum and ranking of the Directors Charge; and
- (e) authorization to pay certain pre-filing liabilities to a maximum of \$150,000 and the ability to honour all trade payables relating to the Horseshoe Canyon APA.

FTI Consulting Canada Inc.
in its capacity as the Proposed Monitor of
Quicksilver Resources Canada Inc.



Deryek Helkaa
Senior Managing Director,
FTI Consulting Canada Inc.

Appendix A

Report containing prescribed Cash Flow Statement representations



March 7, 2015

FTI Consulting Canada Inc.
Bankers Hall, West Tower
1000, 888-3rd Street SW
Calgary, AB
T2P 5C5

Attention: Deryck Helkaa, CA-CIRP

Dear Sir:

Re: Proceedings under the Companies' Creditors Arrangement Act ("CCAA")
Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by Quicksilver Resources Canada Inc. ("QRCI") for the commencement of proceedings under the CCAA in respect of QRCI, the management of QRCI ("Management") has prepared the attached Cash Flow Statement and the assumptions on which the Cash Flow Statement is based.

QRCI confirms that:

1. The Cash-Flow Statement and the underlying assumptions are the responsibility of the QRCI;
2. All material information relevant to the Cash Flow Statement and to the underlying assumptions has been made available to FTI Consulting Canada Inc. in its capacity as proposed Monitor; and
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the Cash Flow Statement are appropriate in the circumstances; and
 - b. That the individual assumptions underlying the Cash Flow Statement, taken as a whole, are appropriate in the circumstances.

Yours very truly,

QUICKSILVER RESOURCES CANADA INC.

A handwritten signature in black ink, appearing to read "J. David Rushford".

J. David Rushford
Senior Vice President and COO

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