

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 **SEVENTH 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.**

September 21, 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 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.
9. On August 15, 2016 this Honourable Court extended the Stay Period until September 30, 2016.

PURPOSE

10. The purpose of this report (the “Seventh 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 Sixth Report dated August 11, 2016, including its budget to actual cash receipts and disbursements for the period August 6, 2016 to September 16, 2016;
 - (b) the Applicant’s revised cash flow forecast for the period September 17, 2016 to November 30, 2016; and
 - (c) the Applicants’ request for an extension of the stay of proceedings against the Applicants until and including November 30, 2016 (the “Fourth Stay Extension”).
11. 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

12. 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.
13. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
14. This report should be read in conjunction with the affidavit of Mr. Bob McGregor sworn on September 20, 2016 (the "McGregor September 20th Affidavit") and the Applicants' Application filed concurrently with the McGregor September 20th Affidavit.
15. Capitalized terms not otherwise defined herein have the meaning given to them in the previous reports of the Monitor.

ACTIVITIES OF THE APPLICANTS

16. Since the date of the Sixth 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) communicating with the Applicants' primary creditors and stakeholders and their advisors regarding a Plan of Compromise and Arrangement (a "Plan") that will allow for the most efficient method of monetizing the assets of the Applicants, determining claims against the Applicants and their directors and officers, and distributing proceeds to creditors;
- (b) finalizing the Claims Procedure approved by the Court on May 26, 2016;
- (c) the Monitor, in consultation with the Applicants and respective counsel, have held various production discussions with Miles Davison LLP as representative counsel ("Representative Counsel") for the Represented Employees, and MNP Ltd. on behalf of Fortune Creek Partnership (the "Partnership"), to seek to resolve the contested claims of the Represented Employees and the Partnership;
- (d) With respect to the Represented Employees' claim, the Applicants in consultation with the Monitor, have reached an agreement in principle with the Represented Employees, which is currently in the process of being finalized and which is intended to result in all 32 of the Represented Employees supporting the Plan;
- (e) With respect to the Partnership claim the Applicants in consultation and the Monitor responded to MNP Ltd.'s initial claim submitted on behalf of the Partnership with a notice of revision ("Revised Partnership Claim"). After various additional discussions and further analysis, MNP Ltd. advised the Monitor that it would not be disputing the Revised Partnership Claim;

- (f) 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. The Monitor understands that there are disputes around allocation of general and administration expenses within the final statement of adjustments presented to the purchaser by QRCI. In an attempt to resolve this dispute the two parties have engaged an independent accounting expert to assist in resolving the dispute. The discussions are ongoing and the Monitor will report further to this Honourable Court with respect to this matter once the discussions have advanced and/or the dispute has been resolved;

- (g) assisting the Applicants in continuing to operate and manage their business as required and continue to take steps to wind-down operations.

CASH FLOW BUDGET TO ACTUAL

17. The table below provides a summary of the Applicants' actual receipts and disbursements for the period of August 6, 2016 to September 16, 2016 (the "Reporting Period") as compared to the cash flow projection previously provided to this Honourable Court in the Proposed Monitor's Report.

August 6 to September 16, 2016				
CAD\$	Forecast	Actual	Variance	Notes
Cash - Beginning of Reporting Period	20,191,551	20,191,551	-	
Receipts				
Joint Venture Receivable	333,650	153,694	(179,956)	a
Other	1,300,000	1,045	(1,298,955)	b
Total Receipts	1,633,650	154,739	(1,478,911)	
Disbursements				
Operating Expense	532,383	379,246	(153,137)	c
Payroll	325,000	226,009	(98,991)	d
G&A	135,000	59,992	(75,008)	e
Professional Fees	100,000	-	(100,000)	f
Tax/Other	-	254,324	254,324	g
Total Disbursements	1,092,383	919,571	(172,812)	
Change in Cash	541,267	(764,832)	(1,306,099)	
Cash - End of Reporting Period	20,732,818	19,426,719	(1,306,099)	h

18. The Applicants' forecast cash receipts during the Reporting Period totaled approximately \$1.6 million, as compared to actual receipts of \$154,739.

- (a) Joint venture receivables were \$179,956 under budget primarily due to timing as the related receivables were not collected as anticipated, the Applicant is still working to collect the remaining receivables; and

- (b) “Other” receipts were \$1.3 million below the forecast due to the payment from Canada Revenue Agency for expected GST ITC refund not being received; payment is now expected to be received in November.
19. The Applicants’ actual cash disbursements during the Reporting Period totaled approximately \$919,571, as compared to the forecast of \$1.1 million. The cash disbursements variance relates to lower than expected cash disbursements mainly resulting from timing:
- (c) Operating expenses were \$153,137 lower than forecast primarily due to timing of payments outstanding to joint venture partners and an over estimation of incoming field expenses;
 - (d) Payroll was \$98,991 less than forecast due to continued reduction of payroll expenses;
 - (e) General and administrative expenses were \$75,008 less than forecast due to continued reduction in G&A costs included in the forecast;
 - (f) Professional fees were \$100,000 lower than forecast mainly due to timing and professionals drawing from their retainers;
 - (g) Taxes and other items were \$254,324 higher than forecasted due to a payment made to Canada Revenue Agency for outstanding GST from a previous audit that the Applicant is in the process of appealing. The CRA required payment upfront before they will consider the appeal, the Applicant expects to have this payment refunded back with the GST ITC credit in November; and

- (h) Actual ending cash as at September 16, 2016 was \$19.4 million as compared to the forecast ending cash balance of \$20.7 million, due to the variances discussed above.

REVISED CASH FLOW FORECAST

20. The Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow forecast (the “Cash Flow Forecast”) for the period September 17, 2016 to November 30, 2016 covering the requested Fourth 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.
21. A summary of the Cash Flow Forecast is presented in the table below.

<i>September 17 to November 30, 2016</i> <i>CAD\$</i>	TOTAL
	Forecast
Opening Cash	19,426,719
Cash Receipts	
Joint Venture Receivable	45,000
Other	3,000,000
Total - Operating Receipts	3,045,000
Cash Disbursements	
Operating Expense	200,000
Payroll	315,000
G&A	575,380
Professional Fees	250,000
Tax/Other	289,000
Total - Operating Disbursements	1,629,380
Total Net Cash Flow	1,415,620
Ending cash	20,842,339

22. The Cash Flow Statement indicates the following for the Fourth Stay Extension:
- (a) total cash receipts of \$3.0 million; “other” receipts is inclusive of \$1.6 million forecasted for the receipt of an investment tax credit and non-resident tax refund, plus \$1.4 million for the expected payment from the final statement of adjustments for the sale of Alberta assets;
 - (b) total cash disbursements of \$1.6 million; and
 - (c) disbursements relating to the professional fees and restructuring costs of \$250,000, which are included in the above total cash disbursements.
23. The Monitor notes that the Cash Flow Statement indicates the Applicants will have sufficient funds available to fund its operations during the requested Fourth Stay Extension.
24. 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

25. 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 November 30, 2016.
26. An extension of the stay period is necessary for the Applicants to allow for:
- (a) resolving consensually (if possible) any remaining disputed claims with the Applicants' creditors;

- (b) seeking this Court's approval of the agreement with the Represented Employees;
 - (c) finalizing the Plan;
 - (d) seeking an Order from this Honourable Court authorizing the Applicants to hold a meeting of their creditors to vote on the Plan; and
 - (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.
27. 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, November 30, 2016.

CONCLUSIONS AND RECOMMENDATIONS

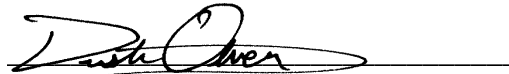
28. The Monitor respectfully recommends that this Honourable Court approve the Applicants' request for an extension of the stay period until and including November 30, 2016.

All of which is respectfully submitted this 21st day of September, 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 & Assumptions

Quicksilver Resources Canada Inc.
10 Week Cash Flow Forecast
September 17 to November 30, 2016

Week Ending	Week 1 23-Sep	Week 2 30-Sep	Week 3 7-Oct	Week 4 14-Oct	Week 5 21-Oct	Week 6 28-Oct	Week 7 4-Nov	Week 8 11-Nov	Week 9 18-Nov	Week 10 25-Nov	TOTAL	Note
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
Opening Cash	19,426,719	19,426,339	19,151,339	18,797,339	18,747,339	18,722,339	18,382,339	19,877,339	19,787,339	21,017,339	19,426,719	
Cash Receipts												
Joint Venture Receivable		10,000		25,000		10,000			-	-	45,000	1
Other							1,600,000		1,400,000	-	3,000,000	2
Total - Operating Receipts	-	10,000	-	25,000	-	10,000	1,600,000	-	1,400,000	-	3,045,000	
Cash Disbursements												
Operating Expense	-	125,000	50,000	-	15,000	-	10,000	-	-	-	200,000	3
Payroll	-	55,000	-	25,000	-	25,000	80,000	35,000	70,000	25,000	315,000	4
G&A	380	-	15,000	-	10,000	325,000	15,000	10,000	50,000	150,000	575,380	5
Professional Fees	-	105,000	-	50,000	-	-	-	45,000	50,000	-	250,000	6
Tax/Other	-	-	289,000	-	-	-	-	-	-	-	289,000	7
Total - Operating Disbursements	380	285,000	354,000	75,000	25,000	350,000	105,000	90,000	170,000	175,000	1,629,380	
Total Net Cash Flow	(380)	(275,000)	(354,000)	(50,000)	(25,000)	(340,000)	1,495,000	(90,000)	1,230,000	(175,000)	1,415,620	
Ending cash	19,426,339	19,151,339	18,797,339	18,747,339	18,722,339	18,382,339	19,877,339	19,787,339	21,017,339	20,842,339	20,842,339	

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 - Joint Venture Receivables relates to expected receipts from non-operated joint venture partner billings.
- 2 - Expect to receive ITC refund and Non resident tax refund (\$1.6mm), receive final payment from final statement of adjustments for sale of Alberta assets (\$1.4mm)
- 3 - Expected costs to resolve Joint Venture partner invoices for pre May costs and late invoices by 3rd party vendors for post March work.
- 4 - 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, incentives to collect money
- 5 - G&A includes costs associated with running the Company's head office and includes It costs, regulatory costs, office lease costs, settlement with employee group, future offsite storage and retention for records.
- 6 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel and QRCI's counsel.
- 7 - Estimated amount owing for final statement of adjustments related to BC asset sale.