

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 **SECOND 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 29, 2016

ADDRESS FOR SERVICE AND
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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”).

PURPOSE

3. The purpose of this report is to provide this Honourable Court with the Monitor’s comments with respect to:
 - (a) The activities of the Monitor since its first report to Court dated March 21, 2016;
 - (b) The Monitor’s counsel’s review of the security held by J.P. Morgan Chase Bank, N.A. Toronto Branch as Canadian Administrative Agent for and on behalf of the lenders under and pursuant to the Amended and Restated Credit Agreement dated as of December 22, 2011 between QRCI as borrower and the lenders thereunder, (“JP Morgan” or the “Secured Creditor”) and the distribution of funds to repay the amounts owed to the Secured Creditor;

- (c) Authorization of the repayment of the amounts owed to the Secured Lenders from the Applicants' surplus cash and the net sale proceeds expected from the closing of the Horseshoe Canyon Assets as contemplated in the Horseshoe Canyon APA returnable on March 29, 2016;
 - (d) 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**"); and
 - (e) the Applicants' request for an extension to the Stay Period.
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 March 28, 2016 (the “McGregor March 28th Affidavit”).
8. Capitalized terms not otherwise defined herein have the meaning given to them in the First Report of the Monitor and the Initial Order.

COUNSEL REVIEW OF SECURITY

9. The JP Morgan Security has been reviewed by the Monitor’s counsel who has opined that, subject to the assumptions, qualifications and limitations contained in the opinion, that the security creates a valid and enforceable security interest in favour of JP Morgan in the right, title and interest of the Applicants in its real and personal property.
10. The Monitor’s counsel has reviewed searches related to the various crown and freehold mineral assets comprising the Horseshoe Canyon Assets. The review by the Monitor’s counsel confirmed that (a) there were no builders’ liens registered against any of the Horseshoe Canyon Assets and (b) with the exception of registrations made by J.P. Morgan Chase Bank N.A., Toronto Branch, there are no security notices or mortgages registered against the Company’s interests in the Horseshoe Canyon Assets.
11. The Monitor has been advised by the Company that it is current with and continues to make payment to trade creditors in the ordinary course who provide materials or services to the Horseshoe Canyon Assets, including joint venture partners related to the Horseshoe Canyon Assets. The Monitor is supportive of the Proposed JP Morgan Distribution (as proposed herein).

REPAYMENT OF THE SECURED LENDERS

12. As described above, the security review by counsel confirms the validity of the JP Morgan Security.
13. In consultation with the Monitor's counsel, based upon the foregoing security review and a review of the Personal Property Registry searches respecting the Applicants, the Monitor is seeking court approval to make the interim distribution ("Proposed JP Morgan Distribution") of the net proceeds from the sale of the Horseshoe Canyon Assets to JP Morgan. The Proposed JP Morgan Distribution shall not exceed the total debt owed to JP Morgan.
14. The Monitor is not aware of any creditors that would rank in priority to the Secured Lenders, as discussed above.
15. The Monitor further advises this Honourable Court that the Applicants will retain sufficient surplus cash after the Proposed JP Morgan Distribution which will allow its remaining operations to continue in the normal course beyond the extended Stay Period of June 2, 2016.

THE APPLICANTS' EFFORTS TO COMPLETE THE SALE OF ITS BC ASSETS

16. Since the Initial Order the Applicant has continued its efforts to complete a sale of the BC Assets.
17. Since the last report, the Applicants and Houlihan continued their effort towards finalizing a sale of its BC Assets and the Monitor understands that a binding asset purchase agreement has recently been executed, which will be reported to this Honourable Court in a future application.

CASH FLOW BUDGET TO ACTUAL VARIANCE

18. The table below provides a summary of the Applicants' actual receipts and disbursements for March 8, 2016 to March 18, 2016 ("Reporting Period") as compared to the cash flow projection previously provided to this Honourable Court in the Proposed Monitor's Report.

<i>(CND)</i>			
<i>March 8, 2016 to March 18, 2016</i>	Forecast	Actual	Variance
Cash - Beginning of Reporting Period	\$ 19,791,141	\$ 19,791,141	\$ -
Receipts			
Gas Sales	-	-	-
Joint Venture Receivable	141,773	215,056	73,283
Other	225,000	292,208	67,208
Receipts	\$ 366,773	\$ 507,263	\$ 140,491
Disbursements			
Royalty Expense	-	83,351	83,351
Operating Expense	1,311,948	1,136,022	(175,925)
LNG Co. Operating Expense	40,000	29,450	(10,550)
Capital Expenditure	20,000	20,000	-
Transportation	-	-	-
Payroll	435,000	464,278	29,278
G&A	75,000	44,012	(30,988)
Professional Fees	-	-	-
Interest/Fees/Debt repayment	-	-	-
Tax/Other	-	-	-
Total Disbursements	\$ 1,881,948	\$ 1,777,113	\$ (104,834)
Net Incoming/Outgoing	(1,515,175)	(1,269,850)	245,325
Redeem / Reinvest	-	-	-
Cash - End of Reporting Period	\$ 18,275,966	\$ 18,521,291	\$ 245,325
Ending Cash - Investment Balance			
Total Ending Cash Balance	\$ 18,275,966	\$ 18,521,291	\$ 245,325

19. The Applicants' forecast cash receipts during the Reporting Period totaled approximately \$366,000, as compared to actual receipts of \$507,000, with a favourable variance of \$140,491.

20. The Applicants' actual cash disbursements during the Reporting Period totaled approximately \$1.78 million which was in line with the forecast disbursements of \$1.88 million.
21. Forecast ending cash was \$18.3 million as compared to actual ending cash of \$18.5 million.
22. No variances that occurred during the Reporting Period are expected to have a material impact on the liquidity needs of the Applicants.

CASH FLOW PROJECTION

23. The Applicants, in consultation with the Monitor, have prepared a revised weekly cash flow forecast (the "Cash Flow Forecast") for the period March 19, 2016 to June 10, 2016 (the "Stay Extension Period"). A copy of the Cash Flow Forecast is provided at Appendix A.

24. A summary of the Cash Flow Forecast for the Stay Extension Period is summarized in the table below.

\$ CAD	TOTAL
Cash Flow Forecast (March 19 to June 10, 2016)	
	Forecast
Opening Cash	18,521,291
Cash Receipts	
Gas Sales	5,146,832
Joint Venture Receivable	542,258
Other	200,000
Total - Operating Receipts	5,889,089
Cash Disbursements	
Royalty Expense	116,551
Operating Expense	3,405,180
LNG Co. Operating Expense	240,000
Capital Expenditure	25,000
Transportation	359,877
Payroll	2,125,000
G&A	870,000
Professional Fees	1,225,000
Interest/Fees/Debt repayment	1,381,445
Tax/Other	140,000
Total - Operating Disbursements	9,888,053
Net Change in Cash from Operations	(3,998,964)
Total Net Cash Flow	(3,998,964)
Ending cash	14,522,327

25. The Cash Flow Statement indicates the following for the Stay Extension Period:
- (a) total cash receipts of \$5.9 million comprising anticipated collections of revenues from the Horseshoe Canyon Assets up until the expected closing that is expected to occur no later than April 30, 2016;

- (b) total cash disbursements of \$9.9 million;
 - (c) The Cash Flow Forecast excludes the estimated cash receipts from the closing of the Horseshoe Canyon Assets and the Proposed JP Morgan Distribution; and
 - (d) Total disbursements relating to the professional fees and restructuring costs of \$1.2 million.
26. Significant assumptions made by the Applicants are set out at Appendix A to this Report.
27. The Monitor notes that the Cash Flow Forecast indicates sufficient funds available to provide the Applicants with adequate funding to operate through the Stay Extension Period.
28. The Monitor has reviewed the assumptions supporting the Cash Flow Forecast and is of the view that the assumptions are reasonable.

THE APPLICANTS REQUEST FOR AN EXTENSION TO THE STAY PERIOD

29. Pursuant to the Initial Order, the stay of proceedings expires at midnight on April 7, 2016. The Applicants are seeking an extension of the Stay Period until June 2, 2016.
30. An extension of the Stay Period is necessary for the Applicants to allow for:
- (a) the Applicants to continue operations until the Closing of the Horseshoe Canyon APA and the distribution of the net proceeds to the Secured Lenders;

- (b) The continued discussions and negotiations with QRCI's main stakeholder groups (as further discussed in the McGregor March 28th Affidavit) with respect to a Plan of Compromise and Arrangement, including commencing a claims process to identify claims against the Applicants; and
- (c) the continuation of discussions relating to the sale of the Applicants' BC Assets in order to finalize a sale.

31. 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, June 2, 2016.

CONCLUSIONS AND RECOMMENDATIONS

32. The Monitor respectfully recommends that this Honourable Court:

- (a) approval of the Proposed JP Morgan Distribution; and
- (b) approve the Applicants' request for an extension to the Stay Period.

All of which is respectfully submitted this 29th 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.

Appendix A

Cash Flow Forecast

Quicksilver Resources Canada Inc.
Cash Flow Forecast
March 19, 2016 to June 10, 2016

\$ CAD	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
Cash Flow Forecast (March 19 to June 10, 2016)	25-Mar	1-Apr	8-Apr	15-Apr	22-Apr	29-Apr	6-May	13-May	20-May	27-May	3-Jun	10-Jun		
Opening Cash	Forecast 18,521,291	Forecast 20,588,163	Forecast 18,302,287	Forecast 17,793,760	Forecast 16,473,566	Forecast 15,888,797	Forecast 16,757,402	Forecast 16,382,377	Forecast 15,857,352	Forecast 15,717,327	Forecast 15,252,327	Forecast 14,637,327	Forecast 18,521,291	1
Cash Receipts														
Gas Sales	2,648,885	-	-	-	-	2,497,947	-	-	-	-	-	-	5,146,832	2
Joint Venture Receivable	91,773	91,773	91,773	88,980	88,980	88,980	-	-	-	-	-	-	542,258	3
Other	-	-	-	-	200,000	-	-	-	-	-	-	-	200,000	4
Total - Operating Receipts	2,740,658	91,773	91,773	88,980	288,980	2,586,927	-	-	-	-	-	-	5,889,089	
Cash Disbursements														
Royalty Expense	-	-	116,551	-	-	-	-	-	-	-	-	-	116,551	5
Operating Expense	628,786	318,749	318,749	954,174	518,749	395,899	70,025	70,025	70,025	20,000	20,000	20,000	3,405,180	6
LNG Co. Operating Expense	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000	7
Capital Expenditure	-	-	25,000	-	-	-	-	-	-	-	-	-	25,000	8
Transportation	-	174,844	-	-	-	185,033	-	-	-	-	-	-	359,877	9
Payroll	-	435,000	25,000	385,000	25,000	385,000	25,000	385,000	25,000	25,000	385,000	25,000	2,125,000	10
G&A	25,000	190,000	25,000	50,000	25,000	50,000	190,000	50,000	25,000	-	190,000	50,000	870,000	11
Professional Fees	-	540,000	-	-	285,000	-	-	-	-	400,000	-	-	1,225,000	12
Interest/Fees/Debt repayment	-	699,056	-	-	-	682,389	-	-	-	-	-	-	1,381,445	13
Tax/Other	-	-	70,000	-	-	-	70,000	-	-	-	-	-	140,000	14
Total - Operating Disbursements	673,786	2,377,649	600,300	1,409,174	873,749	1,718,321	375,025	525,025	140,025	465,000	615,000	115,000	9,888,053	
Net Change in Cash from Operations	2,066,871	(2,285,876)	(508,527)	(1,320,194)	(584,769)	868,605	(375,025)	(525,025)	(140,025)	(465,000)	(615,000)	(115,000)	(3,998,964)	
Total Net Cash Flow	2,066,871	(2,285,876)	(508,527)	(1,320,194)	(584,769)	868,605	(375,025)	(525,025)	(140,025)	(465,000)	(615,000)	(115,000)	(3,998,964)	
Ending cash	20,588,163	18,302,287	17,793,760	16,473,566	15,888,797	16,757,402	16,382,377	15,857,352	15,717,327	15,252,327	14,637,327	14,522,327	14,522,327	

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 March 21, 2016, U.S. cash has been converted at 0.75CAD:1USD
- 2 - Gas sales relates to proceeds from the sale QRCI's natural gas production. Production forecast based on current production adjusted for natural production decline and planned downtime. The forecast sales price is based on third party forecasts at AECO.
- 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.
- 4 - Other receipts relates to mainly LNG Co. salvage proceeds. Could also include other minor amounts from QRCI items, and adjusted proceeds from sale of HSC proceeds in USD converted at .77
- 5 - Royalties relate to royalties paid to feehold land owners and the crown. Rates are based off of historical averages.
- 6 - Operating expenses are based off of the Company's annual operating cost budget and relates to the costs to operate the Company's wells and facilities.
- 7 - Interim Loan to fund LNG Co expenses on behalf of QRCI
- 8 - Capital expenditures are based on planned capital maintenance projects.
- 9 - Transportation costs relate to transporting QRCI's natural gas production from well head to market and is based on projected production volume multiplied by current transportation rates.
- 10 - Payroll relates to salaries for QRCI's employees and regular contractors in head office.
- 11 - G&A includes costs associated with running the Company's head office and includes It costs, regulatory costs, office lease costs, etc and are based on historical averages
- 12 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel and QRCI's counsel and the first secured Lender's counsel.
- 13 - Interest in fees relates to interest on QRCI's Canadian dollar and US dollar denominated debt.
- 14 - Taxes/Other relates to payments for GST, Carbon taxes,