



COURT FILE NUMBER 1601-11708  
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 ARRANGEMENT OF  
QUATTRO EXPLORATION AND PRODUCTION LTD.

DOCUMENT **FIFTH REPORT OF MONITOR  
HARDIE & KELLY INC. IN ITS CAPACITY AS MONITOR OF  
QUATTRO EXPLORATION AND PRODUCTION LTD.  
DECEMBER 30, 2016**

ADDRESS FOR SERVICE  
AND CONTACT  
INFORMATION OF PARTY  
FILING THIS DOCUMENT

**MONITOR**  
Hardie & Kelly Inc.  
110, 5800 – 2<sup>nd</sup> Street SW  
Calgary, AB T2H 0H2

Attention: Marc Kelly / Charla Smith  
Telephone: 403-536-8510 / 403-536-8506  
Email: mkelly@insolvency.net / csmith@insolvency.net  
Fax: 403-640-0591

**MONITOR'S COUNSEL**  
Borden Ladner Gervais LLP  
Centennial Place, East Tower  
1900, 520 – 3<sup>rd</sup> Avenue SW  
Calgary, AB T2P 0R3

Attention: Jessica L. Cameron / Josef Kruger  
Telephone: 403-232-9715 / 403-232-9563  
Email: jcameron@blg.com / jkruger@blg.com  
Fax: 403-266-1395

**FIFTH REPORT OF THE MONITOR  
HARDIE & KELLY INC.  
DECEMBER 30, 2016**

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## **INTRODUCTION**

1. On August 10, 2016, Quattro Exploration and Production Ltd. (“Quattro” or the “Company”) commenced restructuring proceedings (the “BIA Proceedings”) by filing a Notice of Intention to Make a Proposal (the “NOI”) pursuant to the *Bankruptcy & Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “BIA”). Hardie & Kelly Inc. (“HKI”) consented to act as proposal trustee.
2. Pursuant to the BIA, the filing of the NOI provided the Company with an automatic 30-day stay of proceedings through to September 9, 2016.
3. On September 6, 2016, HKI filed a report (the “Pre-Filing Report”) with the Court of Queen’s Bench of Alberta (the “Court”) in contemplation of the Company’s September 8, 2016 application pursuant to Section 11.6(a) of the *Companies’ Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the “CCAA”) seeking to, *inter alia*, transfer its restructuring proceedings from the BIA to the CCAA.
4. On September 8, 2016, the Court granted the Company’s application and issued an Order (the “Initial Order”) providing certain relief to the Company, including continuing the BIA Proceedings under the CCAA, extending the stay of proceedings originally established under the BIA Proceedings through to October 8, 2016 and appointing HKI as monitor (the “Monitor”).
5. On September 30, 2016, the Monitor prepared a report for this Honourable Court (the “First Report”) in advance of the Company’s application for an extension of the stay of proceedings provided for in the Initial Order (the “Stay of Proceedings”).
6. On October 7, 2016, Quattro made an application to the Court for an extension of the Stay of Proceedings through to November 30, 2016.
7. On October 7, 2016, this Honourable Court granted an order extending the Stay of Proceedings through to November 30, 2016 and directing the Monitor to provide an interim report to the Court on the status of the restructuring proceedings by November 4, 2016.
8. On November 4, 2016, the Monitor filed a report for this Honourable Court (the “Second Report”) updating the Court on Quattro’s cash flow and restructuring efforts.

9. On November 17, 2016, the Monitor prepared a report for this Honourable Court (the “Third Report”) in advance of the Company’s application for a further extension of the Stay of Proceedings and for the establishment of a formal claims process.
10. Upon the application of the Company, on November 23, 2016, the Court granted three orders as follows:
  - a) An Order extending the Stay of Proceedings through to December 16, 2016;
  - b) An Order establishing a formal claims process (the “Claims Procedure Order”); and
  - c) An Order (the “Interim Financing Amendment Order”) approving amendments to the interim financing facility (the “Interim Facility”) between the Company and its principal lender, Business Development Bank of Canada (“BDC”).
11. On December 12, 2016, the Monitor prepared a report for this Honourable Court (the “Fourth Report”) in advance of the Company’s application for a further extension of the Stay of Proceedings and seeking the Court’s approval of the proposed sale of a non-core asset.
12. Upon the application of the Company, on December 14, 2016, the Court granted two orders as follows:
  - a) An Order extending the Stay of Proceedings through to January 4, 2017; and
  - b) An Approval and Vesting Order approving of the sale of a non-core asset to ARC Resources Ltd. (“ARC”).

**PURPOSE**

13. The purpose of this report (the “Fifth Report”) is to provide this Honourable Court with:
  - a) An update as to the Company’s restructuring activities;
  - b) An update as to the status of the Interim Facility;
  - c) The Monitor’s assessment of the Company’s most recent revised cash flow forecast;

- d) An update as to the status of the Court directed claims process; and
- e) The Monitor's position with respect to the Company's upcoming application to seek an extension of the stay of proceedings through to February 4, 2017.

### **TERMS OF REFERENCE**

- 14. In preparing this Fifth Report, the Monitor has been provided with, and has relied upon unaudited financial information, books and records of the Company, and discussions with the Company's management ("Management"). Except as described in this Fifth Report, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such financial information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("GAAS") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of such information.
- 15. Some of the information referred to in this Fifth Report consists of forecasts and projections or references thereto. An examination or review of any financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.
- 16. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.
- 17. Capitalized terms which are not defined within this Fifth Report shall have the meaning ascribed to them in the First Report, the Second Report, Third Report or the Fourth Report.

### **RESTRUCTURING ACTIVITIES**

- 18. The Initial Order directed the establishment of a two staged SISP which Management anticipated would form the basis of the Company's restructuring plan.

19. A summary of the non-binding indications of interest received by the October 31, 2016 Phase I Bid Deadline and copies of the three non-binding indications of interest submitted by the parties selected to continue on with Phase II of the SISP (the “Qualified Phase II Participants”) were included in the Confidential Supplemental Affidavit of Mr. Leonard Van Betuw sworn on November 15, 2016.
20. The deadline for Qualified Phase II Participants to deliver Qualified Bids was November 28, 2016 (the “Phase II Bid Deadline”). By that time, ARC was the only one of the three Qualified Phase II Participants to submit a binding bid which was for one of Quattro’s non-core assets, being a 50% interest in a single crown lease in respect of undeveloped lands in British Columbia.
21. A sale agreement between ARC and the Company was negotiated and approved by Order of this Court on December 14, 2016 (the “ARC Sale and Approval Vesting Order”). The sale has now closed and the net proceeds of \$201,455 were distributed to BDC to be applied against the outstanding indebtedness in respect of the Interim Facility, in accordance with the ARC Sale and Approval Vesting Order.
22. In the Fourth Report we advised that the other two Qualified Phase II Participants submitted formal requests for extensions of the Phase II Bid Deadline to December 9, 2016 (“Bidder A”) and December 23, 2016 (“Bidder B”) respectively, in order to complete due diligence and finalize binding bids. At the time the extension requests were received, the Monitor was supportive of the Company granting the requested extensions.
23. Bidder A, Wellstar Energy Corp. (“Wellstar”), submitted an offer to the Company by December 9, 2016 and an asset purchase and sale agreement with Wellstar was negotiated (the “Wellstar APA”). A redacted copy of the Wellstar APA is included as Exhibit “A” of the the Affidavit of Leonard B. Van Betuw sworn on December 23, 2016 (the “December 23<sup>rd</sup> Van Betuw Affidavit”) and a non-redacted copy of the Wellstar APA was provided to the Court as Confidential Exhibit "B" of the December 23<sup>rd</sup> Van Betuw Affidavit. The Wellstar APA is subject to this Court’s approval as well as the approval of applicable governmental authorities.

24. As the proposed transaction with Wellstar involves a sale of oil and gas properties and licenses located in Alberta, such governmental approval will include that of the Alberta Energy Regulator (“the AER”). The Wellstar APA contemplates the acquisition by the Company of certain AER licenses, some of which Quattro is seeking permission from the AER to acquire through a Regulator Directed Transfer from a bankrupt working interest participant (“WIP”) of Quattro. The Company advises that it has submitted the application in this regard to the AER for its approval; however, the Monitor is not aware of the anticipated timing for a response from the AER.
25. Part of the Company’s application to the AER for a Regulator Directed Transfer includes a proposed *Alberta Corporate Program* outlining the steps that Quattro proposes to undertake in order to move its Liability Management Rating (“LMR”) to the AER’s threshold of 2.0. As of December 3, 2016, Quattro’s LMR with the AER is 0.96. Quattro would need to secure approximately \$4 Million in order to provide the Company with the necessary capital contemplated by its *Alberta Corporate Program* to improve its LMR.
26. Bidder B did not submit a form of binding offer by the agreed December 23, 2016 extension deadline.
27. On December 27, 2016, the Monitor participated in a conference call with a representative of Bidder B, Mr. Van Betuw, Quattro’s legal counsel and the Monitor’s legal counsel at which time the representative of Bidder B:
  - a) Confirmed that a binding offer had not been submitted by the agreed upon extension date of December 23, 2016;
  - b) Advised that certain due diligence requirements still had to be satisfied prior to Bidder B being in a position to submit a binding offer;
  - c) Advised that as a result of the due diligence undertaken to date, in the event a binding offer is ultimately presented, it would be less than the non-binding offer previously submitted by the October 31, 2016 Phase I Bid Deadline; and

- d) Advised that a non-binding offer could not be presented until the middle of the first week of January at the earliest, assuming all due diligence requirements were satisfied in the interim on a timely basis.
28. In the Fourth Report, we advised that although the Monitor was in agreement with granting the requested extensions of the Phase II Bid Deadline at the time such requests were made, the Monitor had since advised the Company of its concerns that delays in finalizing transactions are having an impact on the Company's ability to continue to fund ongoing operations as evidenced by the extent of the post-filing accounts payable balance, which as of the date of this Fifth Report remains in excess of \$1 Million.

### **INTERIM FINANCING**

29. As set out in the First Report, the Initial Order authorized Quattro to enter into the Interim Facility with BDC.
30. The Company later executed a formal amendment to the Interim Facility which was approved by the Interim Financing Amendment Order.
31. Quattro has exhausted all funding available pursuant to the Interim Facility. The Company made a formal request to BDC for additional interim financing in the amount of \$650,000; however, on December 28, 2016, BDC provided Quattro with written notice that:
- a) Quattro has committed events of default under the Interim Facility as a result of, *inter alia*, failing to obtain binding offers under the SISF that would result in the repayment in full of Quattro's indebtedness to BDC;
  - b) BDC is exercising its rights to terminate the Interim Facility; and
  - c) BDC will be proceeding with an application to appoint a Receiver.

### **REVISED CASH FLOW FORECAST**

32. Included as Exhibit "C" of the December 23<sup>rd</sup> Van Betuw Affidavit is a revised cash flow forecast through to March 19, 2017 (the "Revised Forecast"). The Monitor provides the following comments with respect to the Revised Forecast:

- a) Management has advised that revenue received in December was only approximately \$590,000 versus the \$720,000 provided for in the Revised Forecast;
- b) The Revised Forecast contemplates the Company being without funds in February which would be further exacerbated by the lower than anticipated receipt of revenues discussed above; and
- c) The Forecast contemplates no payments being made to post-filing suppliers in 2017 until the last week of January, which the Monitor views as unacceptable in light of the balance of post-filing accounts payable exceeding \$1 Million.

### **CLAIMS PROCESS**

- 33. The deadline established for the filing of claims established by the Claims Procedure Order was December 21, 2016.
- 34. Proofs of Claim are being reviewed by the Monitor and the Company on an ongoing basis. If BDC's application to appoint a receiver over the Company is successful, it is anticipated that the review of Proofs of Claims will be suspended pending further Order of this Court.

### **CONCLUSION**

- 35. The Monitor previously advised that it was of the opinion that Quattro would be able to formulate a restructuring plan if the Company ultimately received final Qualified Bids that did not vary significantly from the initial non-binding indications of interest received. The Monitor is now of the opinion that a viable plan of arrangement or compromise under the CCAA is at this time unlikely for the following reasons:
  - a) Bidder B has failed to submit a binding offer by the extended deadline and also advised the Company and the Monitor that any binding offer would be less than its initial non-binding indication of interest;

- b) There is a level of uncertainty associated with the ability to satisfy the requirements of the AER necessary to enable Quattro to ultimately close the Wellstar Transaction on a timely basis, especially in light of the Regulated Directed Transfer request and the Company's proposed *Alberta Corporate Program*, which contemplates the Company requiring \$4 Million in capital to complete; and
- c) The fact that BDC has terminated the Interim Facility and the Company has not secured additional financing to fund ongoing operations.

36. As a result, the Monitor is unable to support the Company's request for a further extension of the Stay of Proceedings.

All of which is respectfully submitted this 30<sup>th</sup> day of December, 2016

Hardie & Kelly Inc.,  
in its capacity as the Monitor of Quattro Exploration and Production Ltd.  
and not in its personal or corporate capacity

Per:



Marc Kelly, CA, CIRP, LIT  
Senior Vice President



Charla Smith, CGA, CIRP, LIT  
Vice President