

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 **PRE-FILING REPORT OF HARDIE & KELLY INC. IN ITS  
CAPACITY AS PROPOSED MONITOR OF QUATTRO  
EXPLORATION AND PRODUCTION LTD.**

**SEPTEMBER 6, 2016**

ADDRESS FOR SERVICE  
AND CONTACT  
INFORMATION OF PARTY  
FILING THIS DOCUMENT

**PROPOSED MONITOR**

Hardie & Kelly Inc.  
110, 5800 – 2<sup>nd</sup> Street SW  
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Attention: Marc Kelly  
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**PROPOSED MONITOR'S COUNSEL**

Borden Ladner Gervais LLP  
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**PRE-FILING REPORT OF THE PROPOSED MONITOR  
HARDIE & KELLY INC.  
SEPTEMBER 6, 2016**

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## INTRODUCTION

1. On August 10, 2016, (the “NOI Filing Date”), Quattro Exploration and Production Ltd. (“Quattro” or the “Company”) filed 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 trustee (the “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. Pursuant to Section 11.6(a) of the *Companies Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the “CCAA”), the Company intends to make an application to the Court of Queen’s Bench of Alberta (the “Court”) under the CCAA for an initial order (the “Initial Order”) granting, *inter alia*, the continuation of a stay of proceedings against the Company and the appointment of HKI (the “Proposed Monitor”) as Monitor. The proceedings to be commenced by the Company under the CCAA shall be referred to herein as “the CCAA Proceedings”.

## PURPOSE

4. The purpose of this report (the “Pre-Filing Report”) is to provide information to this Honourable Court with respect to:
  - a. HKI’s qualification to act as Monitor;
  - b. An overview of Quattro and its business;
  - c. An overview of Quattro’s cash flow forecast; and
  - d. Details surrounding Quattro’s application for approval from the Court of:
    - i. Interim financing;
    - ii. The establishment of certain Court ordered charges;
    - iii. The establishment of a sale and investor solicitation process; and
    - iv. The establishment of a claims process.

## **TERMS OF REFERENCE**

5. In preparing this Pre-Filing Report, the Proposed 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 Pre-Filing Report, the Proposed 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 Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of such information.
6. Some of the information referred to in this Pre-Filing Report consists of forecasts and projections. An examination or review of any financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.
7. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

## **HARDIE & KELLY INC.'S QUALIFICATIONS TO ACT AS MONITOR**

8. HKI is a trustee within the meaning of section 2(1) of the BIA 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. HKI has provided its consent to act as Monitor in these CCAA Proceedings, a copy of which is attached as Exhibit "R" to the Affidavit of Mr. Leonard Van Betuw sworn on September 2, 2016 (the "Initial Van Betuw Affidavit") and filed in these proceedings.

## **OVERVIEW OF BUSINESS**

9. Quattro is a publicly traded exploration and production company based in Calgary, Alberta whose common shares are traded on the TSX Venture Exchange under the symbol "TSXV:QXP". The Proposed Monitor understands that Quattro currently has 25 employees and 10 contractors.
10. The Company holds oil and gas assets and interests in Alberta, British Columbia and Saskatchewan. As further described in the Initial Van Betuw Affidavit, Quattro has current production of approximately 1,590 boe/d and operates 85 (net) wells.

11. Quattro's current Liability Management Ratings, which consists of a comparison of Quattro's deemed assets to its deemed liabilities, in each of Alberta, Saskatchewan and British Columbia exceed 1.0, as determined by the respective provincial regulators and as more particularly set forth in the Initial Van Betuw Affidavit.

**CASH FLOW FORECAST**

12. In accordance with section 10(2) of the CCAA, Quattro has prepared a cash flow forecast (the "Initial Forecast") for the period August 29 – November 27, 2016 (the "Initial Forecast Period") a copy of which is appended as Exhibit "S" to the Initial Van Betuw Affidavit.
13. The Initial Forecast, the accompanying notes and assumptions, and a letter containing the prescribed representations of Quattro regarding the preparation of the Initial Forecast are collectively attached as Appendix "A" to this Pre-Filing Report. A summary of the Initial Forecast, together with a brief description of the material components is provided below.

	<b>August 29 - November 27, 2016</b>
<b>Receipts</b>	
Production revenues	2,270,860
Miscellaneous	47,600
	<b>2,318,460</b>
<b>Disbursements</b>	
Royalties	(82,000)
Production and operating	(1,800,267)
Transportation	(267,098)
General and administration	(690,000)
Restructuring	(175,000)
	<b>(3,014,365)</b>
<b>Investing</b>	
Interim financing - net	980,000
Capital expenditures	(150,000)
Sale of assets	8,000,000
	<b>8,830,000</b>
<b>Financing</b>	
Interest payments	(194,393)
	<b>(194,393)</b>
Increase in cash	<b>7,939,702</b>
Cash - beginning	637,487
Cash - closing	<b>8,577,189</b>

14. In our capacity as the Proposed Monitor of Quattro, we have reviewed the reasonableness of the Initial Forecast in accordance with section 23(1)(b) of the CCAA and can offer the following comments:
  - a. The Company's ability to fund its operations though the Initial Forecast Period is dependent on Quattro securing \$1 Million of interim financing.
  - b. The contemplated receipt of \$8 Million, forecasted to be received at the end of October 2016, assumes the closing of a sale of certain of the Company's Alberta based oil and gas interests as contemplated by the recent signing of that was the subject of a press release issued by Quattro on August 2, 2016; and
  - c. Based on the Initial Forecast and accompanying assumptions, including the receipt of proposed interim financing (as described below), the Proposed Monitor considers that Quattro's liquidity appears sufficient for the Initial Forecast Period.
15. Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by Management. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Initial Forecast. We have also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the Initial Forecast.
16. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:
  - a. The hypothetical assumptions are not consistent with the purpose of the Initial Forecast;
  - b. As at the date of this Pre-Filing Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of Quattro or do not provide a reasonable basis for the Initial Forecast, given the hypothetical assumptions; or
  - c. The Initial Forecast does not reflect the probable and hypothetical assumptions.

17. The Initial Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that it might not be appropriate for other uses. As the Initial Forecast is based on assumptions regarding future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and such variations may be material. Accordingly, we express no assurance or representations as to whether the Initial Forecast will be met. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Pre-Filing Report.

### INTERIM FINANCING

18. As identified in the Initial Forecast, Quattro requires additional funding to finance its post-filing operational obligations in advance of being in a position to be able to formulate a Plan of Arrangement and Compromise for its creditors' consideration.
19. As a result, Quattro sought and obtained an interim financing agreement (the "Interim Financing") with its principal lender, Business Development Bank of Canada ("BDC"), which includes the following significant terms:
- a. Aggregate facility of \$1,250,000 comprised of:
    - i. Tranche 1 - \$1,000,000 – towards operations, and
    - ii. Tranche 2 - \$250,000 – towards a sale and investor solicitation process ("SISP");
  - b. Interest rate of 12% per annum based on current BDC floating rate base of 4.7% plus an interest rate variance of 7.3%;
  - c. Initial loan processing fee of \$20,000;
  - d. Tranche 1 available in \$50,000 increments;
  - e. Tranche 1 funding availability subject to the Company not accumulating an aggregate cash balance in excess of \$300,000;
  - f. The Interim Financing is subject to the establishment of a SISP as discussed further below;
  - g. Actual cash receipts and disbursements subject to variance limits of 15% from Initial Forecast over rolling four week period; and

- h. The Interim Financing is subject to the Initial Order granting BDC a first charge over the Company's property, assets and undertaking (the "Interim Lender's Charge") subject only to the Administration Charge as discussed below; and
20. The Proposed Monitor believes that the Interim Financing is necessary to allow the Company an opportunity to attempt to restructure, that the terms of the Interim Financing are reasonable and that it is appropriate to grant the Interim Lender's Charge.

#### ADMINISTRATION CHARGE

21. Prior to the NOI Filing Date, Quattro had advanced limited retainers of \$15,000 and \$30,000 respectively to its legal counsel and the Proposal Trustee.
22. The proposed Initial Order provides for a charge in favour of the Monitor, counsel to the Monitor and counsel to the Company as security for the professional fees and disbursements incurred both before and after the granting of the proposed Initial Order (the "Administration Charge") in the amount of \$250,000. The Administration Charge is proposed to rank in priority to the Interim Lender's Charge.
23. The Proposed Monitor believes that the Administration Charge in the amount of \$250,000 is reasonable and appropriate in the circumstances after considering, among other factors, the limited retainers previously advanced by Quattro, together with the amount of similar Court approved charges in comparable proceedings.

#### DIRECTORS' CHARGE

24. The Proposed Initial Order provides for a charge in favour of Quattro's Directors and Officers (the "Directors' Charge") in the amount of \$250,000 ranking behind the Administration Charge and the Interim Lender's Charge. Quattro asserts that its successful restructuring will only be possible with the continued participation of its directors and officers, as these individuals have specialized expertise and relationships with Quattro's stakeholders. In addition, they also have significant knowledge regarding Quattro's business and operations which cannot be easily replicated or replaced.
25. The quantum of the Directors' Charge was calculated to provide sufficient coverage for employee wages and source deduction and GST remittance requirements over the course of approximately one month.



26. The Directors' Charge would not apply in the event that any such obligation or liability of the Directors or Officers is incurred due to such Directors' or Officers' gross negligence or wilful misconduct or to the extent that the Directors have coverage under any director's and officers' insurance policies.
27. The Proposed Monitor agrees that the directors and officers will add value to the restructuring process. Further, the Proposed Monitor is of the view that the creation of the Directors' Charge in the amount of \$250,000 is reasonable and appropriate in the circumstances.

#### **SALE AND INVESTOR SOLICITATION PROCESS**

28. The Company will be seeking the establishment of a SISP the results from which Management anticipates will form the basis for the Company's restructuring. As mentioned above, the Interim Financing is conditional upon the establishment of a SISP.
29. The Company, BDC and the Proposed Monitor are currently negotiating the final terms of the SISP; however, a high-level summary of the SISP, with certain dates and activities subject to further negotiations, is as follows:
  - a. Quattro shall engage a financial advisor to assist with the SISP and preparation of a confidential information memorandum detailing the sale and/or investment opportunity;
  - b. The SISP shall be conducted in two phases, with non-binding indications of interest being due by October 31, 2016 (the "Phase I Bid Deadline");
  - c. Within two days of the Phase I Bid Deadline, Quattro, in consultation with the Monitor, will then assess any non-binding indications of interest received to determine whether there is a reasonable prospect of obtaining a "Qualified Bid";
  - d. In the event obtaining a Qualified Bid appears possible, the SISP shall continue and each bidder who submitted a non-binding indication of interest determined to be capable of consummation, shall become a "Qualified Phase II Participant";
  - e. The deadline for each Qualified Phase II Participant to then deliver a Qualified Bid shall be November 28, 2016 (the "Phase II Bid Deadline");
  - f. The deadline for finalizing a definitive agreement(s) with a successful bidder(s), subject only to Court approval, shall be December 19, 2016; and

- g. The target date for Court approval of any transaction(s) shall be no later than January 20, 2017.
30. The Proposed Monitor supports the establishment of a SISP and generally agrees with the procedures and timelines proposed by the Company.

#### **CLAIMS PROCESS**

31. Quattro is seeking the establishment of a claims process to identify and determine the claims against the Company.
32. Since the NOI Filing Date, HKI in its capacity as the Proposal Trustee has been contacted by numerous creditors indicating that the respective amounts reflected on the Company's listing of creditors included as part of the prescribed NOI documentation are lower than the actual amounts claimed by these creditors. In some cases the variances are significant.
33. Consequently, the Proposed Monitor is of the view that the establishment of a claims process at the outset of these CCAA Proceedings is appropriate in the circumstances, as it will assist the Company with the identification of all of its creditors and their respective claims. Additionally, the Proposed Monitor is of the view that the proposed procedures provide reasonable timelines for the claims of creditors to be submitted and considered.

#### **TRANSFER OF PROCEEDINGS**

34. The Proposed Monitor is of the view that the transfer of the restructuring proceedings from the BIA to the CCAA is appropriate for several reasons including:
- a. Offering the Company greater flexibility with respect to its restructuring timelines given the strict timing deadlines prescribed by the BIA, including the length of any single extension of the stay of proceedings and the requirement to file a proposal within six months of the NOI Filing Date;
  - b. Offering the Company greater flexibility with respect to the sale of certain assets including the establishment of a SISP within the CCAA Proceedings as Management anticipates such sale(s) will form the basis of any restructuring plan; and
  - c. The immediate establishment of a claims process.

35. The Proposed Monitor is of the view that upon the granting of the Initial Order, the proceedings commenced pursuant to the filing of the NOI should have no further application and that the Proposal Trustee should be discharged.

All of which is respectfully submitted this 6<sup>th</sup> day of September, 2016

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

Per:

  
Marc Kelly, CA, CIRP  
Senior Vice President

# APPENDIX "A"

**QUATTRO**  
EXPLORATION AND PRODUCTION

Mr. Marc Kelly, CA, CIRP  
Hardie & Kelly Inc.  
110, 5800 – 2nd Street SW  
Calgary, AB T2H 0H2

Attention: Mr. Marc Kelly

August 31, 2016

**Re: Proceedings under the Companies' Creditors Arrangements Act ("CCAA")**

Mr. Kelly,

In connection with the application by QUATTRO EXPLORATION AND PRODUCTION LTD. (the "Company") for the commencement of proceedings under the CCAA, the management of the Company ("Management") has prepared the attached Cash Flow Statement (the "Forecast") and underlying assumptions upon which the Forecast is based.

Management confirms that:

- The Forecast and underlying assumptions are the responsibility of the Company;
- All material information relevant to the Forecast and the underlying assumptions have been made available to Hardie & Kelly Inc. in its capacity as the proposed Monitor;
- Management has taken all actions that it considers necessary to ensure that:
  - The individual assumptions underlying the Forecast are appropriate in the circumstances;
  - That the underlying assumptions, taken as a whole, are appropriate in the circumstances; and
  - All relevant assumptions have been properly presented in the notes to the Forecast.

Management understands and agrees that the determination of what constitutes a material adverse change from the Forecast, or with the financial circumstances of the Company, is ultimately at the discretion of the Monitor notwithstanding that Management may disagree with such determination.

Yours very truly,

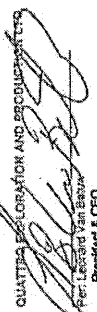
QUATTRO EXPLORATION AND PRODUCTION LTD.



Per: Leonard Van Betuw  
President & CEO

Quattro Exploration and Production Ltd  
 Cash Flow forecast  
 Prepared August 26th, 2016 For the 18 weeks ended November 26th, 2016  
 (Unaudited - prepared by management)

	Week of 29-Aug-16	Week of 5-Sep-16	Week of 12-Sep-16	Week of 19-Sep-16	Week of 26-Sep-16	Week of 3-Oct-16	Week of 10-Oct-16	Week of 17-Oct-16	Week of 24-Oct-16	Week of 31-Oct-16	Week of 7-Nov-16	Week of 14-Nov-16	Week of 21-Nov-16	Total (forecast)
Receipts	-	-	-	663,473	-	-	-	-	-	768,438	-	-	818,892	2,270,869
Production revenues	-	-	47,600	-	-	-	-	-	-	768,438	-	-	818,892	2,270,869
Miscellaneous	-	-	47,600	663,473	-	-	-	-	-	768,438	-	-	818,892	2,270,869
Disbursements														
Royalties	(25,200)	(139,722)	(139,722)	(139,722)	(139,722)	(147,015)	(28,000)	(147,015)	(147,015)	(147,015)	(147,015)	(28,800)	(122,194)	(1,800,287)
OPEX	(18,258)	(18,258)	(18,258)	(18,258)	(18,258)	(19,890)	(19,890)	(19,890)	(19,890)	(19,890)	(19,890)	(25,452)	(25,452)	(207,089)
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	(680,000)
G&A	-	-	-	-	-	-	-	-	-	-	-	-	-	(175,000)
Restructuring	(967,880)	(157,895)	(183,160)	(157,895)	(462,950)	(158,300)	(194,300)	(158,300)	(158,300)	(158,300)	(147,845)	(135,458)	(147,845)	(3,314,355)
Investing	-	(20,000)	150,000	150,000	150,000	150,000	250,000	300,000	300,000	-	-	-	-	980,000
DIP Financing	-	-	-	(150,000)	-	-	-	-	-	-	-	-	-	(150,000)
Capital expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	8,000,000
Sale of assets	-	(20,000)	150,000	150,000	150,000	150,000	250,000	300,000	300,000	-	-	-	-	8,830,000
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	(194,300)
Inferred payments	-	-	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(64,793)	(194,300)
Cash - beginning	637,487	249,597	71,626	34,189	53,654	63,654	86,754	57,555	57,555	190,148	751,679	8,294,773	8,447,127	3,905,884
Cash - closing	249,597	71,626	21,150	356,644	41,664	66,358	57,055	181,148	181,148	751,679	8,294,773	7,505,884	8,277,188	4,577,189

QUATRO EXPLORATION AND PRODUCTION LTD  
 Per:   
 President & CEO

August 31, 2016  
 Calgary, Alberta

**ASSUMPTIONS AND NOTES**  
 - Revenue is derived principally from the production and sale of oil and gas products and assumes the continuation of recent pricing and volume levels while also incorporating the benefits from scheduled workovers.  
 - Miscellaneous receipts include the release of garnished funds held in Court.  
 - Production and operating expenses include but are not limited to transportation, utilities, field operators, trucking and property taxes and are based on recent expenditure levels.  
 - General and administrative expenses include but are not limited to salaries, benefits, consultants, insurance, telephone and rent.  
 - Restructuring costs relate to fees and expenses of the company's legal counsel, provincial lender's legal counsel, the Monitor and the Monitor's legal counsel.  
 - It is assumed that the company will secure interim financing from its principal lender.  
 - Capital expenditures relate to capital maintenance projects designed to maintain and increase current oil and gas production levels.  
 - It is assumed that the recently announced sale contemplated by the signing of the Letter of Intent will close as originally contemplated by the end of October.  
 - Interest payments to the company's secured lender will continue to be made in the ordinary course.