



COURT FILE NUMBER 1701-00143

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF BUSINESS DEVELOPMENT BANK OF CANADA

DEFENDENT QUATTRO EXPLORATION AND PRODUCTION LTD.

IN THE MATTER OF THE RECEIVERSHIP OF
QUATTRO EXPLORATION AND PRODUCTION LTD.

DOCUMENT **THIRD REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
AUGUST 3, 2017**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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**THIRD REPORT OF THE RECEIVER
HARDIE & KELLY INC.
AUGUST 3, 2017**

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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 8, 2016, the Company made an application to the Court of Queen’s Bench of Alberta (the “**Court**”) 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. The Court granted the Company’s application and issued an 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**”).
4. Over the course of the following months, the Court granted several Orders that provided for, *inter alia*, the following:
 - a. Extending the stay of proceedings on four occasions, the last of which was granted through to February 17, 2017;
 - b. Establishing a sale and investor solicitation Process (the “**CCAA SISP**”), which Quattro’s management (“**Management**”) anticipated would form the basis for the Company’s restructuring plan. The basis of the CCAA SISP was to seek a transaction (or multiple transactions) culminating in a sale of certain assets and/or financial restructuring alternatives;

- c. Approving of the establishment of, and subsequently amendments to, the interim financing facility (the “**Interim Facility**”) between Quattro and its principal lender, Business Development Bank of Canada (“**BDC**”);
 - d. Approving of the sale of a non-core asset for \$215,000 pursuant to the SISP (the “**Non-Core Sale**”); and
 - e. Establishing a formal claims process which was ultimately suspended.
5. During the CCAA SISP, parties were to provide non-binding indications of interest for some or all of Quattro’s assets by October 31, 2016 (the “**Phase I Bid Deadline**”).
6. At the Phase I Bid Deadline, Quattro selected three parties to continue with Phase II of the CCAA SISP (the “**Qualified Phase II Participants**”). The Qualified Phase II Participants were to deliver Qualified Bids (as defined in the CCAA SISP) by November 28, 2016 (the “**Phase II Bid Deadline**”).
7. As at the Phase II Bid Deadline, only the proposed transaction associated with the Non-Core Sale constituted a Qualified Bid pursuant to the CCAA SISP to enable the Company to seek the Court’s approval of and close the proposed transaction. At that time, the Monitor understood that the Company was continuing to pursue two other potential transactions which Management believed would form the basis of the Company’s restructuring plan (the “**Pending Transactions**”). For the reasons set forth below, neither of the Pending Transactions ultimately came to fruition.
8. Over the course of Quattro’s restructuring proceedings, the Monitor had expressed its concerns that:
 - a. The Company was regularly failing to meet its cash flow projections;
 - b. The quantum of Quattro’s post-filing accounts payable obligations was continuing to grow; and
 - c. Based on feedback received directly from creditors, the amounts reflected in the Company’s books and records appeared to be lower than the actual amounts being claimed by numerous of Quattro’s creditors.

9. By mid-December 2016, Quattro had exhausted all funding available pursuant to the Interim Facility and on December 28, 2016, BDC provided Quattro with written notice that: i) Quattro had committed events of default under the Interim Facility, as a result of, *inter alia*, failing to obtain binding offers under the CCAA SISP; ii) BDC was terminating the Interim Facility; and iii) BDC was bringing an application to appoint a receiver over Quattro.
10. In one last effort to attempt to allow Quattro the opportunity to continue to pursue the Pending Transactions, with a view to enabling Management to formulate a restructuring plan, BDC and Quattro entered into a further amended and restated interim financing agreement in early January 2017 (the “**Amended Interim Financing Agreement**”).
11. The Amended Interim Financing Agreement provided that BDC would make available to Quattro two additional tranches of funding. The first tranche was available upon execution of the Amended Interim Financing Agreement and the second tranche was available upon Quattro satisfying certain conditions.
12. In order for Quattro to be eligible to receive the second tranche of funding, Quattro had to satisfy the following two principal conditions (the “**Disbursement Conditions**”):
 - a. Obtain the cash portion of the purchase price payable pursuant to the executed Asset Purchase and Sale Agreement between Wellstar Energy Corp. (“**Wellstar**”) and Quattro (the “**Wellstar APA**”) (one of the Pending Transactions) in escrow no later than January 30, 2017, but in any event no later than February 3, 2017; and
 - b. No later than January 30, 2017, deliver a binding commitment which alone, or in combination with the transaction contemplated by the Wellstar APA, would be able to satisfy the indebtedness owed to BDC, and which would satisfy the “Preconditions” established pursuant to the Amended Interim Financing Agreement, as determined solely by the Monitor.

13. On January 20, 2017, the Monitor advised Quattro and BDC that it had growing concerns regarding Quattro's ability to meet the Disbursement Conditions as, amongst other things, Wellstar had failed to deliver the deposit in accordance with the Wellstar APA. On January 23, 2017, Quattro advised the Monitor that Wellstar remained committed to completing a revised transaction and that Quattro anticipated receipt of the Wellstar deposit shortly.
14. As at January 30, 2017, the status of the Pending Transactions was as follows:
 - a. Wellstar had failed to satisfy the deposit requirement associated with its offer; and
 - b. The other party had directly advised the Monitor that it was no longer pursuing a transaction with Quattro.
15. On the evening of January 30, 2017, the Company delivered to the Monitor three new proposed transactions: i) an executed financing proposal from a previously undisclosed party dated January 30, 2017, respecting a secured revolving credit facility and secured term loan (the "**Term Sheet**"); ii) an asset purchase and sale agreement between Quattro and Brentwood Energy Corp. ("**Brentwood**") dated January 19, 2017 (the "**Brentwood APA**"); and iii) a letter of intent between Brentwood and Quattro dated January 30, 2017 (the "**Brentwood LOI**" and together with the Brentwood APA the "**Brentwood Agreements**"). The Brentwood Agreements are discussed in further detail below.
16. On January 31, 2017, the Monitor advised Quattro and BDC that the Disbursement Conditions of the Amended Interim Financing Agreement had not been satisfied.
17. On February 1, 2017, the Monitor filed a report with the Court advising that the Monitor was of the opinion that the formulation of a viable plan of arrangement or compromise under the CCAA was unlikely for the following reasons:
 - a. The Company no longer had access to necessary interim funding as BDC had advised that it was not prepared to advance Quattro any further funds; and

- b. A firm road map for the formulation of a plan of arrangement or compromise had still not been presented, notwithstanding that the Company had had been in the midst of its restructuring proceedings for approximately six months.
18. On February 1, 2017, the Monitor also filed a confidential supplemental report with the Court which included copies of the Brentwood Agreements.
19. On February 2, 2017, BDC made an application to the Court for the appointment of a receiver and manager (the “**Receiver**”) of the current and future assets, undertakings and property of Quattro.
20. The Court granted an Order (the “**Receivership Order**”) on February 2, 2017 (the “**Receivership Date**”), appointing HKI as the Receiver of Quattro.
21. On April 3, 2017, the Receiver filed a report (the “**First Report**”) in support of the Receiver’s application seeking:
 - a. The establishment of a sales process (the “**Sales Procedure**”);
 - b. Approval of the Receiver’s engagement of Sayer Energy Advisors (“**Sayer**”) as the Receiver’s sales advisor in respect of the administration of the Sales Procedure; and
 - c. The granting of a Bankruptcy Order adjudging Quattro a bankrupt.
22. On April 12, 2017, the Court granted two Orders as follows:
 - a. An Order approving the establishment of the Sales Procedure and the Receiver’s engagement of Sayer (the “**Sales Procedure Order**”); and
 - b. An Order adjudging Quattro a bankrupt (the “**Bankruptcy Order**”).
23. HKI was appointed as Trustee of the bankrupt estate pursuant to the Bankruptcy Order.
24. On May 1, 2017, the Receiver prepared a report (the “**Second Report**”) in support of the Receiver’s application to:

- a. Declare that the Brentwood Agreements were not enforceable as against the Receiver and that the Receiver did not owe any obligations to Brentwood to bring forward an application to this Court seeking approval thereof;
 - b. Declare that a purported right of first refusal (the “**ROFR**”) claimed by Lifeview Petroleum Inc. (“**Lifeview**”) in respect of certain of Quattro’s interest in Saskatchewan was null and void and unenforceable as against the Receiver and that the Receiver did not have any obligations to Lifeview with respect to the purported ROFR; and
 - c. Direct and authorize the Receiver to continue to implement the Sales Procedure, free and clear of any claim by Brentwood with respect to the Brentwood Agreements or the purported ROFR asserted by Lifeview.
25. On May 2, 2017, the Receiver filed a Supplement to the Second Report of the Receiver providing additional documentation with respect to the purported ROFR.
 26. On May 9, 2017, the Court granted an Order declaring that the Receiver has no obligations to Brentwood in respect of the Brentwood Agreements and could continue the Sales Procedure free and clear of any rights, claims or encumbrances of Brentwood arising from the Brentwood Agreements.
 27. On May 24, 2017, the Court granted an Order declaring that Lifeview does not have a valid ROFR in respect of Quattro’s interest in the facility, lands or petroleum and natural gas interests located in the Kerrobert and Edam areas (but that it could not make a determination, based on the evidence presented, whether Lifeview had a valid ROFR in surplus equipment in Kerrobert and Edam areas) and that the Receiver could otherwise continue the Sales Procedure free and clear of any rights and claims of Lifeview. To date, the Receiver has been unable to resolve the ROFR dispute with Lifeview and has proceeded to obtain a proposed sale in respect of the facility, lands and petroleum and natural gas interests, together with the surplus equipment, located in the Kerrobert and Edam areas. The proposed sale, together with the Receiver’s intended treatment of the ROFR is more particularly set out below.

28. The purpose of this report (the “**Third Report**”) is to provide the Court with:
- a. An update as to the status of the Sales Procedure;
 - b. An overview of the proposed sales transactions the Receiver is pursuing arising from the execution of the Sales Procedure;
 - c. The Receiver’s analysis of the proposed sales transactions and the Receiver’s recommendations thereto;
 - d. An update as to the status of operations; and
 - e. An update as to the Receiver’s Statement of Receipts and Disbursements.

TERMS OF REFERENCE

29. In preparing this Third Report, the Receiver has relied upon unaudited financial information, available books and records of the Company (collectively referred to as the “**Information**”). The Receiver has not performed an audit, review or otherwise attempted to verify the accuracy or completeness of the Information.

EXECUTION OF THE SALES PROCEDURE

30. As a result of the positions advanced by Brentwood and Lifeview, as discussed above, the Receiver delayed the launch of the Sales Procedure pending resolution of the respective matters as it was determined that it would be best to attempt to avoid uncertainty for prospective interested parties as to which Quattro assets may have claims against them as such uncertainty could potentially impact a sale.
31. The Sales Procedure was formally launched on May 24, 2017 and the deadline to submit offers was correspondingly moved back to June 29, 2017 (the “**Bid Deadline**”). As part of the amendments made to the Sales Procedure timeline, the Receiver had initially contemplated seeking Court approval of a transaction(s) the week of July 24, 2017; however, as discussed further below, given the significant number of individual transactions the Receiver is pursuing, the Court approval application was moved to August 14, 2017 in order to allow sufficient time to

attempt to finalize Asset Purchase Agreements with each of the respective parties (the “APAs”).

32. A summary of the marketing undertaken by Sayer and the Receiver in accordance with the Sales Procedure is as follows:
- a. A copy of the information brochure (the “**Sales Brochure**”) prepared by Sayer along with corresponding maps and summary information for each area was placed on the Sayer website. Sayer advises that throughout the marketing process, the Sales Brochure was downloaded a total of 408 times and that this is a high number of downloads for an offering of this nature;
 - b. Approximately 2,000 additional parties from a separate Sayer distribution list received an electronic copy of the Sales Brochure by email;
 - c. An advertisement announcing the divestiture was placed in Sayer’s *Canadian Oil Industry Asset Sale Listing* throughout the entire marketing period;
 - d. An advertisement was placed in the *Daily Oil Bulletin* (the “**DOB**”) announcing the divestiture. Sayer advises that statistics from the DOB show that the ad was viewed a total of 377 times;
 - e. An advertisement was placed in the *BOE Report*. Sayer advises that statistics from BOE Report show that the ad was viewed a total of 2,212 times;
 - f. An advertisement was placed in the *Calgary Herald*;
 - g. The opportunity was posted on the Receiver’s website;
 - h. Advertisements relating to the opportunity were placed in *A&D Watch* and *PLS Inc.*, in an attempt to reach new parties not currently on Sayer’s mail or email distribution lists in Canada and the United States;
 - i. 68 parties executed Confidentiality Agreements (“**CA**”) which Sayer advises is a high number for a divestiture of this nature;

- j. Those parties executing a CA were provided access to an electronic data room established by Sayer;
 - k. Sayer, the Receiver and the Receiver's operational consultants, Veracity Energy Services Ltd. ("**Veracity**"), had ongoing discussions with various interested parties throughout the Sales Procedure; and
 - l. Field site visits were accommodated as requested by interested parties.
33. All of Quattro's Western Canadian oil and gas assets across Alberta, British Columbia and Saskatchewan were made available for sale through the Sales Procedure.
34. No en bloc offers were received for Quattro's assets, likely as a result of the significant geographical diversity of the assets; however, 28 parties submitted a total of 35 offers for various of Quattro's assets. Sayer advises that the ratio of bids to CAs received (35/68 or 51%) is comparable to other similar divestiture assignments Sayer has recently managed.
35. As mentioned above, the date for the application seeking Court approval was moved from July 24, 2017 to August 14, 2017 in order to allow sufficient time to negotiate and finalize APAs with up to 12 parties. As a result of the quantum of offers received for a variety of assets, it was necessary for Sayer, the Receiver and Veracity to ensure no overlap of assets as between the offers and to clarify the terms of the offers. Further analysis was required by the Receiver and Sayer to ensure that the offers ultimately presented to the Court by the Receiver were commercially reasonable, taking into consideration all relevant factors, including but not limited to maximizing available recoveries for the benefit of stakeholders.
36. As of the date of this Third Report, the Receiver has finalized and executed 5 APAs and anticipates that another 5 APAs which are in the final stages of negotiation will be signed early in the week of August 7, 2017.

37. The APAs and a summary of the significant terms of the offers received will be included in the Receiver's Confidential Supplemental Report (the "**Confidential Supplemental Report**") to be filed the week of August 7, 2017. The Receiver is concerned that in the event any of the pending sales do not close for any reason, the disclosure of the respective details of the various offers may affect the Receiver's efforts to remarket the respective assets. Consequently, the Receiver will be seeking the Court's approval to have the Confidential Supplemental Report sealed for a period of 90 days after the Receiver's discharge.
38. A summary of the parties with whom the Receiver has either executed an APA or is in the final stages of negotiating an APA and the general location of the respective assets subject to sale is as follows:

Alberta

- Altura Energy Inc. – certain interests in Leduc area;
- Brentwood Energy Corp. – certain interests in Michichi area;
- Brentwood Energy Corp. – certain interests in Wetaskiwin area;
- Ember Resources Inc. – certain interests in Ewing Lake, Fenn Big Valley and Malmo areas;
- Pismo Energy Ltd. – certain interests in Bashaw and Bittern Lake areas;
and
- Tamarack Valley Energy Inc. – certain interests in Provost/Halkirk area.

Saskatchewan

- Avila Investments Ltd. ("Avila") – certain interest in Wood Mountain area.
We note that the former President of Quattro, Mr. Leonard Van Betuw, is a principal of Avila;
- Original Oil Inc. – interest in Unity area;
- Proton Technologies Canada Inc. ("**Proton**") – interest in Superb area; and
- Sojourn Energy Inc. – interest in Luseland area.

39. The Receiver continues to pursue one offer in respect of Alberta assets and one in respect of Saskatchewan assets; however, it is unlikely APAs will be executed in time to present them to the Court for approval at the upcoming application on August 14, 2017.
40. The Receiver is also pursuing an offer for a significant portion of Quattro's interests in British Columbia; however, the principal of the offeror had been travelling overseas for the last several weeks such that an APA has not been finalized. Consequently, the Receiver will not be seeking approval of the sale of any assets in British Columbia at the upcoming Court application pending the determination as to whether an APA can be finalized with the offeror.
41. As discussed above, Lifeview previously asserted a ROFR in respect of, among other things, surplus equipment located at the sites which are subject to the proposed transaction with Proton. The Receiver had attempted to resolve the ROFR dispute with Lifeview at the early stages of the Sales Procedure; however, it was unable to do so. The May 24, 2017 order declaring the Lifeview ROFR over the Superb oil and gas interests to be invalid also authorized the parties to return to Court for a full hearing to determine the validity of the ROFR over the surplus equipment in the event no resolution could be reached on the matter. Rather than incur the additional cost of pursuing such application, the Receiver has asked Proton to allocate a value to such equipment and, subject to Court approval of the Proton APA, the Receiver proposes to give Lifeview the opportunity to exercise such ROFR in respect of the assets identified by the Receiver as being surplus equipment.

RECEIVER'S ANALYSIS

42. As discussed above, details with respect to the offers received and the proposed transactions will be provided in the Confidential Supplemental Report. Notwithstanding, the Receiver believes that the above proposed transactions are in the best interest of all stakeholders for the following reasons:
 - a. The proposed transactions were generated from the Court approved Sales Procedure;

- b. Sayer is regarded as a well respected sales advisor in the marketplace and has executed many engagements on behalf of Receivers;
 - c. The assets were widely advertised during the Sales Procedure;
 - d. Quattro's assets were already previously exposed to the market place during the CCAA SISP;
 - e. The proposed transactions are generally not subject to any material conditions other than Court approval;
 - f. The Receiver believes that the proposed transactions with the various parties were negotiated in good faith and are commercially reasonable;
 - g. BDC, Quattro's principal lender, is supportive of the consummation of the proposed transactions; and
 - h. If the proposed transactions were not approved, the likely alternative result would be disclaimers of all of the assets.
43. The Receiver is reviewing the options available to it with respect to Quattro's remaining assets which are not subject to any of the within proposed sale transactions and may be issuing disclaimer notices in the future in the event it is unable to negotiate and finalize sales of these assets.
44. The Receiver intends to make a distribution application in due course pending the determination of the priority of various claims that may be advanced against the net proceeds derived from each of the transactions; however, pursuant to the Receiver's Borrowing Charge provided for in the Receivership Order, the Receiver intends to utilize a portion of the net sales proceeds to repay outstanding borrowings issued by way of Receiver's Certificates in favour of BDC currently totaling \$390,000 and to fund repayment of any future borrowings and/or operating deficits.

OPERATIONAL UPDATE

45. On Tuesday May 23, 2017, Inter Pipeline Ltd. (“**IPL**”) advised Veracity, that IPL would no longer accept Quattro’s substances produced from the Superb operation in Saskatchewan as a result of contamination IPL had discovered in Quattro’s substances. The contaminants were discovered by IPL as a result of a random testing IPL performed, which testing revealed the presence of organic chloride in the substances produced by Quattro at Superb.
46. In order to independently confirm the presence of the contaminated substances, on May 24, 2017 Veracity retained AGAT Laboratories (“**AGAT**”) to test the substances being produced from Superb. On May 31, 2017, AGAT confirmed that the substances produced from Superb were contaminated with organic chloride.
47. As a result of this contamination, and the fact that the storage capacity at Superb was almost exhausted, on June 5, 2017, Veracity recommended to the Receiver that Superb be shut-in. The shut-in of the Superb facilities began and was completed on June 6, 2017. The Saskatchewan regulator is aware of the contamination and the shut-in of the Superb operations.
48. All parties that expressed an interest in the in the Superb assets during the Sales Procedure, including Proton, were advised of the contamination and the shut-in prior to the Bid Deadline.
49. Recent daily production levels from operated properties are as follows:
 - Alberta - 404 boe/day.
 - British Columbia - 14 boe/day. As discussed in the First Report, the Milo operations have been temporarily shut-in as it was determined that it would be uneconomic to continue to produce over the spring/summer months due to the anticipated price of summer gas and the cost of stockpiling operational supplies given access restrictions to the area resulting from the annual decommissioning of an ice bridge accessing the property.

- Saskatchewan - 0 boe/day as a result of the shut-in of the Superb operations as discussed above.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

50. Attached as Appendix "A" is a copy of the Receiver's Statement of Receipts and Disbursements as at July 31, 2017 indicating the Receiver maintains approximately \$252,000 in its operational trust account.

RECOMMENDATIONS

51. For the reasons noted above, the Receiver will be seeking and recommends to this Honourable Court the approval of the proposed APAs that will be included in the Confidential Supplemental Report.
52. The Receiver also recommends that the Confidential Supplemental Report be ordered sealed for a period of 90 days following the discharge of the Receiver.

All of which is respectfully submitted this 3rd day of August 2017.

Hardie & Kelly Inc., in its capacity as
Receiver and Manager of Quattro Exploration and Production Ltd.
and not in its personal capacity



Per: _____
Marc Kelly
Senior Vice President

APPENDIX “A”

**IN THE MATTER OF THE RECEIVERSHIP OF
QUATTRO EXPLORATION AND PRODUCTION**

**STATEMENT OF RECEIPTS AND DISBURSEMENTS
AS AT JULY 31, 2017**

Receipts

Oil and gas revenue	\$3,198,100.27	
Cash on hand	447,377.56	
Receiver's Certificates	390,000.00	
Accounts receivable collections	91,577.31	
Miscellaneous/refunds/interest	34,953.73	
	<u>4,162,008.87</u>	4,162,008.87

Disbursements

Operating costs	1,955,569.87	
Operational consultants	426,832.75	
Legal fees	285,141.76	
Royalties	251,811.57	
CCAA Administration Charge	204,747.12	
General and administrative	195,134.35	
Receiver's fees	166,412.70	
Pre-receivership critical suppliers	124,314.00	
Working interest partners	97,099.75	
Capital projects	95,543.07	
Net GST	52,752.34	
	<u>3,855,359.28</u>	3,855,359.28
		<u>306,649.59</u>

Less: provision for BDC pre-receivership payment claim 54,856.68

Balance \$ 251,792.91