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JUDICIAL CENTRE OF CALGARY

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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	**SECOND REPORT OF MONITOR HARDIE & KELLY INC. IN ITS CAPACITY AS MONITOR OF QUATTRO EXPLORATION AND PRODUCTION LTD.** **NOVEMBER 4, 2016**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** Hardie & Kelly Inc. 110, 5800 – 2nd 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 – 3rd Avenue SW Calgary, AB T2P 0R3 Attention: Lisa Hiebert / Jessica L. Cameron Telephone: 604-632-3425 / 403-323-9715 Email: lhiebert@blg.com / jcameron@blg.com Fax: 403-266-1395

SECOND REPORT OF THE MONITOR
HARDIE & KELLY INC.
NOVEMBER 4, 2016

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APPENDIX

INTRODUCTION

1. On August 10, 2016, (the "NOI Filing Date"), 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*, continuing 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 its 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

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 (the "Stay Extension 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.

PURPOSE

8. The purpose of this report (the "Second Report") is to provide the Court with an update on the restructuring proceedings as provided for by the Stay Extension Order. This Second Report addresses the following areas:

   a) Operational update;

   b) The financial performance of the Company since the date of the First Report;

   c) The Company's cash flow outlook through to December 11, 2016;

   d) The status of the interim financing; and

   e) The Company's restructuring activities.

TERMS OF REFERENCE

9. In preparing this Second 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") and the Company's two financial advisors. Except as described in this Second 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.

10. Some of the information referred to in this Second 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.

11. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

OPERATIONAL UPDATE

12. In the First Report, the Monitor advised that the Company had experienced average daily production levels of approximately 1,400 BOE including both operated and non-operated properties. Management advises that as of October 23, 2016 production levels were again approximately 1,400 BOE per day. However, during the interim period since the date of the First Report, Management advises that production has fluctuated, with daily production over the period averaging approximately 1,090 BOE per day as the Company experienced challenges relating to unusually wet fall weather which have caused access issues for some of its wells in Saskatchewan resulting in wells being shut in and tank inventory build-ups.

FINANCIAL PERFORMANCE

13. Attached as Exhibit "A" to the Supplemental Affidavit of Mr. Leonard Van Betuw sworn on September 29, 2016 filed in these proceedings was a revised cash flow forecast (the "September 29th Forecast") encompassing the period September 26 to December 11, 2016.

14. A variance analysis of the Company's actual receipts and disbursements over the period September 26 to October 30, 2016 (the "Interim Period") versus the corresponding period in the September 29th Forecast is set out in the following table.

	September 26 - October 30, 2016			
	Actual	**Forecast**	**Variance**	**Notes**
Receipts				
Production revenues	972,355	1,251,232	(278,877)	a)
Miscellaneous	47,590	47,600	(10)	
	1,019,945	**1,298,832**	**(278,887)**	
Disbursements				
Royalties	(24,053)	(28,000)	3,947	
Production and operating	(444,283)	(727,785)	283,502	b)
Transportation	-	(97,818)	97,818	
General and administration	(206,258)	(230,000)	23,742	c)
Restructuring	(39,486)	(75,000)	35,514	d)
	(714,080)	**(1,158,603)**	**444,523**	
Investing		-	-	
Interim financing	180,000	480,000	(300,000)	e)
Capital expenditures	(12,600)	(87,500)	74,900	f)
Sale of assets	-	-	-	
	167,400	**392,500**	**(225,100)**	
Financing				
Interest payments	(54,390)	(64,798)	10,408	g)
	(54,390)	**(64,798)**	**10,408**	
Increase in cash	**418,874**	**467,931**	**(49,056)**	
Cash - beginning	173,868	173,868	-	
Cash - closing	**592,742**	**641,799**	**(49,056)**	

15. The Company experienced an overall positive cash flow of approximately \$419,000 over the Interim Period, which represented a negative variance of approximately \$49,000 compared to the corresponding period of the September 29th Forecast. The Monitor offers the following comments with respect to certain individual variances:

a) Oil and gas revenues received during the Interim Period relate to August and September production. As the August revenues were known at the date of the September 29th Forecast, the negative variance of approximately \$279,000 related to September revenues received in October.

According to Management, a portion of this variance can be attributed to a temporary timing difference caused by weather related access issues which made it impossible to deliver some of its produced oil to a sales point by September 30, 2016, but that those delayed volumes were sold in October with sales proceeds to be received in November. The Company has provided the Monitor with information, including municipal road ban notices, supporting that 627 m3 of oil (the "Delayed Inventory") that was produced in September could not be trucked to a sales point until early October. The Monitor has estimated the value of the Delayed Inventory to be approximately $130,000 based on the average pricing the Company received in the relevant area in September.

Reports provided to the Monitor by the Company indicate that at the end of September, substantially all Saskatchewan production was temporarily shut in due to weather issues. Therefore, the remainder of the variance is likely a permanent reduction due to reduced volumes.

b) The figure of $444,283 representing actual production and operating costs paid also includes transportation expenses which had been forecasted as a separate line item. Combined payments for production and operating expenses and transportation expenses were approximately $380,000 (or 46%) lower than forecast; however, this variance appears to have arisen principally from the fact that the Company has been able to extend payments of post-filing expenses to suppliers where possible. As at October 30, 2016, the Company had issued approximately $200,000 in cheques payable principally to post-filing suppliers that had not yet cleared the bank (the "Un-cleared Cheques") that are not accounted for in the above analysis. When taking into account the Un-cleared Cheques, the variance would otherwise be approximately $180,000.

The extension of payments to suppliers has resulted in a build-up of post-filing accounts payable which is discussed in greater detail later in this Second Report.

c) Actual general and administrative expenses in the Interim Period were approximately $24,000 (or 10%) lower than forecast. Management advises this variance is a result of the reduction of its staff by three individuals.

d) The positive variance of approximately $35,000 in respect of restructuring expenses is the result of a timing difference. The Monitor is aware of approximately $160,000 of outstanding invoices and unbilled work-in-progress for services rendered by the four professional firms involved with the restructuring proceedings; however, the September 29th Forecast contemplates $100,000 of payments being made the week of October 31, 2016.

e) The Company borrowed $300,000 less during the Interim Period than had been forecast; however, we note that the Company requested $400,000 under its interim lending facility (the "Interim Facility") with Business Development Bank of Canada ("BDC") on October 28, 2016 and received the requested funds on October 31, 2016.

f) Actual capital expenditures were $75,000 lower than forecast. Management advises that the anticipated capital projects were not executed during the Interim Period.

g) The Company's interest expenses have been approximately $10,000 lower than forecast as a result of delays in drawing the remaining available interim financing.

16. As discussed in the First Report and in oral submissions made by the Monitor's legal counsel at the Company's extension application on October 7, 2016, the Company often pays certain critical operating and administrative expenses by way of Mr. Van Betuw's credit cards in order to expedite the supply of goods and services out in the field. The Company makes periodic lump sum payments as against the balances on Mr. Van Betuw's credit cards and then on an approximately monthly basis reconciles those payments against invoices related to each of the specific charges made on the credit cards.

17. The Monitor has previously updated the Court that it has reviewed the reconciliations prepared by Management in relation to payments made on Mr. Van Betuw's credit cards after the NOI filing date and did not identify any concerns with the related charges.

FURTURE CASH FLOW ANALYSIS

18. Attached as Appendix "A" is a schedule prepared by the Monitor showing the remaining weeks of the September 29th Forecast (the period October 31 – December 11, 2016) with the opening cash balance adjusted to reflect the actual bank balance as at October 30, 2016 less the Un-Cleared Cheques. The Monitor has not otherwise made any other adjustments of figures or assumptions to the figures as set out in the September 29th Forecast.

19. Based on the above, we note that it appears the Company would otherwise experience cash shortages at various points in time culminating with an estimated shortfall of approximately $96,000 by December 11, 2016. We reviewed this analysis with the Company and Management advised that they anticipate the Company will be able to continue to successfully manage its cash flow by:

    a) Continuing to communicate with post-filing trade suppliers to manage payment of post-filing obligations; and

    b) Utilizing the remaining availability under the Interim Facility as evidenced by the request of funds received on October 31, 2016.

20. Notwithstanding Management's above comments, the Monitor has reviewed the following potential risks with Management that may impact the Company's ability to successfully manage its cash flow through to December 11, 2016 which could potentially lead to a need for additional funding in order to complete its restructuring efforts:

    a) The probability that November revenue receipts will be lower than forecasted as a result of the previously mentioned production difficulties experienced in October; and

b) As mentioned earlier in the Second Report, the Company has experienced positive variances in its disbursements as compared to forecast due principally to the fact that many of its suppliers have been willing to extend or continue honouring previous payment terms. According to a report provided by the Company on November 2, 2016, the post-filing accounts payable balance has grown to approximately $652,000, which represents approximately one month's forecasted operating expenses and more than offsets any positive variances in disbursements to date. However, Management advises that the amount outstanding is consistent with previous operational activities. Although neither the Monitor, nor Management, are aware of any outstanding issues related to the extension of payments to post-filing suppliers, the Monitor notes that in the event a significant number of post-filing suppliers demand payment at the same time or begin requiring significant upfront payments, the Company may find itself unable to effectively source required services and supplies absent additional funding.

INTERIM FINANCING

21. As previously set out in the First Report, the Initial Order authorized Quattro to enter into the Interim Facility with its principal lender, BDC.

22. The Interim Facility of $1,250,000 is comprised of:

- Tranche 1 - $1,000,000 – towards operations, and
- Tranche 2 - $250,000 – towards a Sale and Investor Solicitation Process (the "SISP").

23. Including the $400,000 advance received under Tranche 1 this week, to date, the Company has borrowed $750,000 under Tranche 1 and $150,000 under Tranche 2.

24. BDC has formally notified Quattro that it has identified certain events of default or potential events of default in respect of the Interim Facility. Although BDC has advanced further funds under the Interim Facility, BDC has not waived any of the defaults and is reserving its rights in that regard.

RESTRUCTURING ACTIVITIES

Sale and Investor Solicitation Process

25. The Initial Order directed the establishment of the SISP, which Management anticipates will form the basis for the Company's restructuring plan. The basis of the SISP is to seek a transaction (or multiple transactions) culminating in a sale of certain assets and/or financial restructuring alternatives.

26. In the First Report, we advised that the Company engaged two financial advisors with distinct roles as follows:

- NRG Divestitures Inc. ("NRG") – in respect of the solicitation of offers for the sale of some or all of the Company's assets; and
- Durham Capital Canada ("Durham") – in respect of the solicitation of investment and or financing restructuring alternatives.

27. The SISP is being conducted in two distinct bid phases as follows:

- Non-binding indications of interest were due by October 31, 2016 (the "Phase I Bid Deadline"); and
- The deadline for Qualified Phase II Participants to then deliver a Qualified Bid shall be November 28, 2016 (the "Phase II Bid Deadline").

28. On November 1, 2016, the Monitor and BDC attended a presentation made by NRG and Durham to review the preliminary results as of the Phase 1 Bid Deadline. As of the date of this Second Report, the Company in conjunction with BDC and the Monitor are continuing to assess the non-binding indications of interest received by the Phase I Bid Deadline to determine which of the respective parties will become Qualified Phase II Participants. It appears likely that the Company may be required to fund certain costs in order to continue to pursue investment related indications of interest.

29. Based on the non-binding indications of interest received, at this time it appears that the Company would be able to formulate a restructuring plan, provided the Company ultimately receives final Qualified Bids by the Phase II Bid Deadline that do not vary significantly from the terms of the non-binding indications of interest that have been received.

Claims Process

30. The Monitor has been advised that the Company will consider seeking an order establishing a claims process at the next application for an extension of the stay of proceedings which we understand is tentatively scheduled for November 21, 2016.

All of which is respectfully submitted this 4th day of November, 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

APPENDIX “A”

Quattro Exploration and Production Ltd.

Projected Cash Flow for the Balance of the forecast period contemplated in the September 29th Forecast **

(Unaudited)

	Week of 31-Oct-16	Week of 7-Nov-16	Week of 14-Nov-16	Week of 21-Nov-16	Week of 28-Nov-16	Week of 5-Dec-16
Receipts						
Revenues	-	-	-	818,952	-	-
Miscellaneous	-	-	-	-	-	-
	-	-	-	818,952	-	-
Disbursements						
Royalties			(28,800)			
OPEX	(147,015)	(122,194)	(122,194)	(122,194)	(122,194)	(122,194)
Transportation	(19,890)	(25,452)	(25,452)	(25,452)	(25,452)	(25,452)
G&A	(230,000)				(230,000)	
Restructuring	(100,000)	-	-	-	(100,000)	-
	(496,906)	(147,647)	(176,446)	(147,647)	(477,647)	(147,646)
Investing						
DIP Financing - Tranche 1	-	150,000	200,000	-	-	-
DIP Financing - Tranche 2						
Capital expenditures	-	-	-	-	-	-
Sale of assets	-	-	-	-	-	-
	-	150,000	200,000	-	-	-
Financing						
Interest payments	-	-	(64,798)	-	-	-
	-	-	(64,798)	-	-	-
Total Cash Flows	**(496,905)**	**2,354**	**(41,244)**	**671,306**	**(477,646)**	**(147,646)**
Cash - beginning	394,086	(102,819)	(100,465)	(141,709)	529,597	51,951
Cash - closing	**(102,819)**	**(100,465)**	**(141,709)**	**529,597**	**51,951**	**(95,695)**

** This schedule has been prepared by the Monitor and reflects the receipts and disbursements as set out in Exhibit "A" of the Supplementary Affidavit of Leonard Van Betuw dated September 29, 2016 for the period October 31 - December 11, 2016 with only the "*Cash - beginning* " figure of $394,086 updated to reflect the cash on hand as at October 30, 2016 less the amount of issued cheques yet to clear the bank resulting in updated estimated "*Cash - closing* " figures.