

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 **SIXTH REPORT OF MONITOR  
HARDIE & KELLY INC. IN ITS CAPACITY AS MONITOR OF  
QUATTRO EXPLORATION AND PRODUCTION LTD.**

**February 1, 2017**

ADDRESS FOR SERVICE  
AND CONTACT  
INFORMATION OF PARTY  
FILING THIS DOCUMENT

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**SIXTH REPORT OF THE MONITOR  
HARDIE & KELLY INC.  
FEBRUARY 1, 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 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”).
13. On December 30, 2016, the Monitor prepared a report (the “Fifth Report”) in advance of the Company’s January 3, 2017 application for a further extension of the Stay of Proceedings through to February 4, 2017. This application was opposed by the Company’s principal lender, the Business Development Bank of Canada (“BDC”), who brought an application to appoint a receiver over the Company. On January 3, 2017, the Court adjourned BDC’s receivership application to January 5, 2017 and extended the Company’s stay of proceedings through to and including January 5, 2017.

14. On January 4, 2017, the Monitor prepared a supplement to its Fifth report (the “Supplemental Report”) to provide comments in respect of certain statements contained in supplemental affidavit material filed with respect to the Company’s stay extension application and BDC’s receivership application.
15. On January 5, 2017, the Company, the Monitor and BDC attended before the Court to speak to the Company’s stay extension application and BDC’s receivership application; however, BDC’s receivership application did not proceed as a result of a consensual further interim financing agreement reached between the Company and BDC. The Court approved the terms of the amended interim financing agreement pursuant to an Order on January 5, 2017 and extended the Stay through to and including February 17, 2017.

### **PURPOSE**

16. The purpose of this report (the “Sixth Report”) is to provide this Honourable Court with:
  - a) An update as to the status of the Interim Facility and the Company’s restructuring activities;
  - b) The Monitor’s comments regarding the financial position of the Company; and
  - c) The Monitor’s position with respect to BDC’s renewed application for the appointment of a Receiver.

### **TERMS OF REFERENCE**

17. In preparing this Sixth 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 Sixth 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.

18. Some of the information referred to in this Sixth 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.
19. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.
20. Capitalized terms which are not defined within this Sixth Report shall have the meaning ascribed to them in the First Report, the Second Report, the Third Report, the Fourth Report, the Fifth Report or the Supplemental Report.
21. This Sixth Report should be read in conjunction with the Monitor's prior reports and the Proposed Monitor's Report.

#### **INTERIM FINANCING & RESTRUCTURING ACTIVITIES**

22. As set out in the First Report, the Initial Order authorized Quattro to enter into the Interim Facility with BDC.
23. The Company later executed a formal amendment to the Interim Facility which was approved by the Interim Financing Amendment Order.
24. 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:
  - a) Quattro had 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 was exercising its rights to terminate the Interim Facility; and
  - c) BDC would be proceeding with an application to appoint a Receiver.
25. Quattro and BDC then agreed to enter into an amended and restated interim financing agreement (the "Amended and Restated Interim Financing Agreement").

26. The Amended and Restated Interim Financing Agreement contemplated two additional available tranches of funding as follows:
- a) \$440,000 which was made available and subsequently utilized by the Company upon execution of the formal Amended and Restated Interim Financing Agreement (“Disbursement 1”); and
  - b) \$210,000 to be made available upon the Company satisfying certain conditions (“Disbursement 2”).
27. Disbursement 1 to be made available to the Company as a result of the Amended and Restated Interim Financing Agreement temporarily addressed the Monitor’s ongoing concerns in respect of the quantum of the outstanding post-filing obligations of the Company.
28. In order for the Company to be eligible to receive Disbursement 2, the Company was required to satisfy two principal conditions (the “Disbursement 2 Conditions”) as follows:
- a) Obtain the cash portion of the purchase price (the “Wellstar Purchase Price”) payable pursuant to the executed Asset Purchase Agreement between Wellstar Energy Corp. (“Wellstar”) and Quattro (the “Wellstar APA”), in escrow subject to the conditions of closing thereunder by (subject to Court availability) no later than January 30, 2017, but in no event by no later than February 3, 2017; and
  - b) Deliver to BDC by no later than January 30, 2017 (the “Binding Offer Deadline”), a binding commitment (the “Binding Commitment”) from one or more of Bidder B (as referenced in the Monitor’s Fifth Report), a further party Quattro was pursuing with respect to a refinancing opportunity (“Bidder C”), or any other third party that in the discretion of the Monitor, acting reasonably, would be able to satisfy certain preconditions identified below (the “Preconditions”) by no later than the Binding Offer Deadline, which would, alone or in combination with the transaction contemplated by the Wellstar APA or any other binding transaction between Quattro and a third party, result in the payment in full of all amounts owing by the Company to BDC.

29. The Preconditions referenced above provide that the Binding Commitment:
- a) Must not be subject to any material further due diligence;
  - b) Must provide for a closing date and the payment of funds to BDC of no later than March 20, 2017 (the “Terminal Date”);
  - c) Must not contain any material conditions save and except for Court approval; and
  - d) Must not provide any other material risks to closing, including but not limited to a lack of creditworthiness or ability to fund on the part of the purchaser/lender.
30. The Amended and Restated Interim Financing Agreement also provided that the Monitor is entitled, at any time in its sole and absolute discretion, to declare that a material adverse event had occurred, the result of which is that the Company would be unlikely to satisfy the Disbursement 2 Conditions and the Terminal Date (the “MAC Declaration”).
31. As a result of the requirement that the Monitor confirm the satisfaction of the Preconditions prior to Quattro’s delivery of a Binding Commitment to BDC, the Monitor, through its counsel, put on the record at the January 5, 2017 Court application that it would require a reasonable period of time within which to confirm that the Preconditions had in fact been satisfied. The Monitor’s position in this respect was confirmed to the Company on January 6, 2017. A copy of this correspondence is attached hereto as **Appendix “A”**.
32. On January 20, 2017, the Monitor advised the Company and BDC that the Monitor had growing concerns regarding Quattro’s ability to successfully meet the milestones established pursuant to the Amended and Restated Interim Financing Agreement. These concerns included:
- a) Wellstar’s failure to deliver the deposit due under the Wellstar APA;
  - b) The fact that the Monitor had not yet been provided with any refinancing term sheets;

- c) The fact that the AER had rejected the Company's application for a Regulator Directed Transfer for the acquisition of certain licenses from a bankrupt working interest participant; and
  - d) The fact that the Company had only presented the Monitor with what the Monitor viewed as a speculative restructuring plan.
33. On January 23, 2017, the Monitor was advised by the Company that Wellstar remained committed to completing a revised transaction and that the Company anticipated receipt of the deposit due under the Wellstar APA shortly. The Company also advised the Monitor of additional transactions which the Company was pursuing at that time, which together were to result in the equivalent cash consideration payable pursuant to the Wellstar APA. A copy of the correspondence between the Monitor and the Company regarding these additional transactions is attached as **Appendix "A"** to the Confidential Supplement to the Sixth Report of the Monitor, dated February 1, 2017 (the "Confidential Report").
34. On the evening of January 30, 2017, Quattro delivered to the Monitor the following documentation purportedly in satisfaction of the Disbursement 2 Conditions:
- a) An executed financing proposal from a previously undisclosed party (the "New Offeror") dated January 30, 2017 respecting a secured revolving credit facility and secured term loan in the amount as specified therein (the "Term Sheet");
  - b) An executed Asset Purchase and Sale Agreement between Quattro and a previously undisclosed third party ("Bidder D") dated January 30, 2017 (the "First APA") for the sale of certain non-core assets; and
  - c) An executed Offer to Purchase between Bidder D and Quattro, dated January 30, 2017 (the "Offer to Purchase") regarding Quattro's interests in the Donalda area of Alberta.

A copy of the Company's correspondence and transactions noted above is attached as **Appendix "B"** to the Confidential Report.

35. Quattro confirmed to the Monitor that by January 30, 2017, the Wellstar Purchase Price had not been obtained in escrow, that Quattro was in fact no longer pursuing the Wellstar transaction at all, and that no further funds were held in trust as deposits, or other payment, with respect to the transactions noted above.
36. Based upon the Monitor's review of the Term Sheet and its independent investigations, it is of the opinion that the Preconditions have not been satisfied for the following reasons:
- a) The Term Sheet is contingent upon the finalization of legal and financial due diligence;
  - b) The Term Sheet is contingent upon the receipt of confirmatory fixed asset and equipment appraisals;
  - c) The Term Sheet is contingent upon the review of other documentation and information as reasonably requested by the New Offeror;
  - d) It is a requirement of the Term Sheet that documents be prepared satisfactory to the New Offeror which contain "usual and customary representations, covenants and conditions for a transaction of this type"; and
  - e) The Term Sheet on its face does not appear to contemplate an oil and gas financing, which when coupled with the substantial outstanding due diligence requirements, causes the Monitor concern that there are material risks to closing.
37. In light of the foregoing, on January 31, 2017, the Monitor notified the Company and BDC that the Disbursement 2 Conditions have not been satisfied in accordance with the Amended Interim Financing Agreement, and further, or in the alternative, that a material adverse event had occurred pursuant to the Amended Interim Financing Agreement, the result of which is that Quattro is unable to satisfy the Disbursement 2 Conditions. A copy of the Monitor's correspondence is attached to the Confidential Report as **Appendix "C"**.

38. On January 31, 2017, BDC advised Quattro that in light of the Monitor's position, Disbursement 2 would not be available to Quattro and that BDC would be pursuing an application for the appointment of a receiver over the Company, as provided for by the Amended and Restated Interim Financing Agreement. A copy of BDC's correspondence is attached to the Confidential Report as **Appendix "D"**.
39. Notwithstanding the Monitor's position that the Disbursement 2 Conditions had not been met, on the morning of February 1, 2017, the Monitor and its counsel participated in a conference call with a representative of the New Offeror, the Company's counsel, and BDC and its counsel. During this call the representative of the New Offeror advised as follows:
- a) The New Offeror learned of the Quattro refinancing opportunity on January 28, 2017;
  - b) During the course of January 28<sup>th</sup> and 29<sup>th</sup>, 2017, the New Offeror had brief discussions with the Company regarding the refinancing, has briefly reviewed financial statements provided by the Company from September 2016, and as of the date of this report received an updated cash flow forecast from the Company;
  - c) While information has been provided by the Company to a drop-box file, the New Offeror has yet to commence its due diligence, but could begin to do so as soon as February 7, 2017. The New Offeror advised it intended to fly to Calgary at that time and offered to meet with the Monitor;
  - d) The New Offeror estimates it will require 30 to 45 days to complete its due diligence; and
  - e) The New Offeror confirmed that it has some experience financing oil and gas operations; and
  - f) While the New Offeror advised it has the funds necessary to complete the proposed refinancing, the Monitor has not been provided with any further information to enable the Monitor to ascertain the creditworthiness of the New Offeror.

40. The Company confirmed the above in email correspondence to the parties on February 1, 2017, a copy of which is attached as **Appendix “E”** to the Confidential Report.

### **CASH FLOW**

41. The Monitor advises that after accounting for all currently outstanding cheques, the Company has approximately \$280,000 currently available to it, in its bank account.
42. Based on the cash flow forecast included as Exhibit “A” to the January 5, 2017 sworn Supplemental Affidavit of Leonard Van Betuw, the Company forecasted payments in respect of post-filing operations of approximately \$360,000 over the course of the weeks of February 6<sup>th</sup> and 13<sup>th</sup>, with no revenue anticipated to be received during that time. These figures do not contemplate the payment of any professional fees associated with the engagement, nor any further reduction of the Company’s post-filing accounts payable balance. We can advise that as of January 31, 2017, the outstanding accounts and WIP of the Monitor and its legal counsel total approximately \$115,000.
43. Therefore, it appears that, without further interim financing, the Company will be unable to meet its obligations with respect to payment of professional fees and ongoing operating expenses over the next two weeks, resulting in an expected increase in its post-filing accounts payable balance of approximately \$165,000 between the date of this report and the expiry of the current stay extension.
44. The most recent post-filing accounts payable report provided to the Monitor by Quattro on January 25, 2017, indicated that the balance had risen to approximately \$1.33 Million. The Company has indicated that the balance is offset by approximately \$410,000 in accounts receivable from some of the parties included in the accounts payable listing, which would reduce the balance to approximately \$920,000.

45. The Monitor notes that, included in the Company's post-filing accounts payable balance are a number of amounts owing to rural land owners, including surface lease rental payments and three month's arrears of post-filing royalty payments. In connection with the Claims Procedure which the Monitor has been administering during the period since the Monitor's Fifth Report, the Monitor has become aware of a number of creditors who have expressed concern that they have not been receiving payments which became owing to them after the Filing Date. As a result, the Monitor is concerned that Quattro may find itself under pressure from surface and royalty lessors to reduce the accrued post-filing accounts payable balance and pay further post-filing obligations on a cash on demand basis, which the Company appears unable to do without a significant cash injection.
46. On the afternoon of the date of this report, Quattro provided the Monitor with a new cash flow forecast without any notes regarding the assumptions underlying the forecast. As it appears the forecast contains sensitive information, particularly in relation to proposed asset sales, the Monitor has not attached it as an exhibit to this report, and it is currently attempting to review the forecast and its underlying assumptions with the Company.

## **CONCLUSION**

47. 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) The Disbursement 2 Conditions under the Amended and Restated Interim Financing Agreement with BDC have not been satisfied, and BDC has advised it will not be advancing further funds;
  - b) In any event, given the fact that the New Offeror has yet to commence its due diligence with respect to the proposed refinancing, there is a great degree of closing risk associated with the Term Sheet; and
  - c) Notwithstanding the above, a firm road map for the formulation of a viable plan of arrangement or compromise has not been presented.

48. The Monitor is further of the opinion that the Company has already had a significant amount of time to attempt to formulate a viable plan of arrangement with no meaningful progress having been made as evidenced by three new potential transactions being brought forward for the first time on January 30, 2017.
49. As a result, the Monitor is supportive of BDC's application to appoint a Receiver.

All of which is respectfully submitted this 1<sup>st</sup> day of February 2017.

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