

District of Alberta
Division No. 2
Court No. 25-2241372
Estate No. 25-2241372

**IN THE MATTER OF THE BANKRUPTCY OF
QUATTRO EXPLORATION AND PRODUCTION LTD.
OF THE CITY OF CALGARY, IN THE PROVINCE OF ALBERTA**

TRUSTEE'S PRELIMINARY REPORT

Trustee: HARDIE & KELLY INC.

SECTION A

Background

Quattro Exploration and Production Ltd. ("Quattro" or the "Company") is a public oil and gas exploration and production company based in Calgary, Alberta.

Quattro was originally incorporated under the Alberta *Business Corporations Act* as Sparling Capital Corporation. The Company eventually changed its name to Quattro in 2011. Quattro is extra-provincially registered in Saskatchewan and British Columbia.

The Alberta Securities Commission recently issued a Cease Trade Order in respect of Quattro for the failure to comply with periodic filing and disclosure requirements.

History of Restructuring and Insolvency Proceedings

On August 10, 2016, Quattro commenced restructuring proceedings (the "BIA Proceedings") by filing a Notice of Intention to Make a Proposal (the "NOI") pursuant to the *Bankruptcy & Insolvency Act* (the "BIA"). Hardie & Kelly Inc. ("H&K") consented to act as Proposal Trustee.

On September 8, 2016, the Company made an application to the Court of Queen's Bench of Alberta (the "Court") pursuant to the *Companies' Creditors Arrangement Act* (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 (the "CCAA Proceedings"). H&K was appointed as monitor (the "Monitor") of the CCAA proceedings.

Over the course of the next several months, the Court granted a number of extensions of the stay of proceedings to allow the Company time to pursue a sales process from which Quattro's management believed would form the basis of a restructuring plan to present to the Company's creditors. During this time, a claims procedure was commenced in contemplation of a restructuring plan; however, that claims process was eventually suspended.

The Company's principal secured creditor, Business Development Bank of Canada ("BDC"), arranged to provide Quattro with an interim financing facility (the "Interim Facility") to allow the Company the opportunity to attempt to formulate a restructuring plan.

During the course of the CCAA proceedings, the Company regularly failed to meet its cash flow projections and the quantum of Quattro's post-filing obligations to suppliers continued to grow. In January 2017, Quattro ultimately defaulted on the terms of agreed upon amendments to the Interim Facility and the Monitor had determined that the formulation of a viable plan of arrangement or compromise under the CCAA was unlikely.

As a result of the above, BDC made an application to the Court for the appointment of a receiver and manager (the "Receiver") over Quattro's current and future assets, undertakings and properties of every kind whatsoever and wherever situate. On February 2, 2017 (the "Date of Receivership"), the Court granted an Order appointing H&K as the Receiver (the "Receivership Order"). The Receivership Order empowered H&K, in its capacity as Receiver of Quattro, to bring an application to the Court to obtain a bankruptcy order against Quattro where it was proper and in the best interests of the estate to do so.

On April 12, 2017 (the "Date of Bankruptcy"), the Court of Queen's Bench of Alberta (the Court") granted a Bankruptcy Order adjudging Quattro a bankrupt. H&K was appointed as trustee of the bankrupt estate (the "Trustee") pending affirmation by the Company's creditors.

Assets

A preliminary statement of affairs (the "Preliminary Statement of Affairs") was prepared by the Trustee based on the most recent financial information available to the Trustee so as to unnecessarily avoid delays in the administration of the bankrupt estate. Given the incomplete status of the CCAA claims process, amounts owed to creditors were not fully updated.

Class I - Stocks of Merchandise

The Company has a small amount of miscellaneous parts, tools and field supplies which are under the control of the Receiver.

Class II - Plant, Machinery, and Equipment

Office Furniture

The Company has a minimal amount of office furniture which is under the control of the Receiver.

Oil and Gas Assets and Interests

Quattro has various oil and gas assets and interests located across Alberta, Saskatchewan and British Columbia which are under the control of the Receiver. The Receiver anticipates launching a public sales process of Quattro's oil and gas assets next week.

Class III - Buildings and Real Estate

Not applicable.

Class IV - Books and Records

The books and records of the Company are under the custody and control of the Receiver. The Trustee may access the books and records as required.

Class V - Other Assets

Cash

The Receiver secured approximately \$447,000 of cash from the Company's bank accounts.

Accounts Receivable

The Preliminary Statement of Affairs sets out a total of approximately \$6.3 Million of accounts receivable due to Quattro which the Receiver is assessing and attempting to collect; however, the Receiver anticipates that a significant portion of this amount will prove to be uncollectible.

Investments in Subsidiaries

Quattro Innovations Inc.

As at the Date of Receivership, Quattro held a 100% interest in Quattro Innovations Inc. ("Innovations"), which is a Calgary based wireless technology company focused on the collection of real-time seismic imaging for exploration, reservoir engineering and micro-seismic monitoring and the analysis of hydraulic fracking, including all contracts, licensing revenues, patents, technology, and ongoing research.

The Receiver reviewed Innovations' financial position and business operations and was advised by Innovations' management that Innovations was continuing to work towards fully developing its intellectual property and that its principal assets are intellectual property in the way of several patents that have been granted and pending patent applications associated with wireless technology.

Based on the Receiver's review of Innovations, the Receiver determined that:

- It was not prepared to advance any funds to Innovations in respect of Innovations' operations; and
- Although the Receiver would consider any unsolicited offers for the shares of Innovations, the Receiver would not incur the costs of a public sales process to realize upon the shares of Innovations.

The Receiver has recently discovered that Quattro's shareholding in Innovations has been reduced to 4% as a result of the issuance of additional shares. The Receiver is attempting to gather information to gain an understanding of the circumstances and details behind the dilution of Quattro's interest in Innovations.

Quattro Guatemala S.A.

The Receiver has been attempting to obtain information regarding any oil and gas interests Quattro may hold in Guatemala. Quattro's publicly filed information indicates that Quattro Guatemala is a 100% owned subsidiary of Quattro. Based upon the Receiver's review of the available books and records and of Quattro's publicly filed documents, during the course of Quattro's CCAA proceedings, Quattro apparently acquired, unbeknownst to the Monitor, a 100% interest in what is referred to as the "El Cedro License" in the Peten Basin in Guatemala (the "Guatemalan Acquisition").

Although the Receiver understands that Quattro does not have any active operations in Guatemala, because of the lack of available information regarding the Guatemalan Acquisition, or any other direct or indirect interests Quattro may hold in Guatemala, and the lack of responses received to the Receiver's numerous requests to obtain information regarding the Guatemalan Acquisition, the Receiver is uncertain what assets or interests, if any, Quattro may have in Guatemala, or elsewhere outside of Canada.

SECTION B

1. Conservatory and Protective Measures

The Receiver has taken appropriate security measures to safeguard the assets and arranged for continuation of adequate insurance coverage.

2. Carrying on Business

The Receiver with the assistance of its operational consultants, Veracity Energy Services Ltd., is operating Quattro's oil and gas interests.

SECTION C - Legal Proceedings

The Trustee is not aware of any ongoing legal proceedings previously initiated by the Company.

SECTION D - Provable Claims

The Trustee continues to review the multitude of proofs of claim being advanced by Quattro's creditors and has not at this time completed an adjudication of the claims filed to date.

SECTION E - Secured Creditors

BDC, Quattro's principal secured creditor, is owed approximately \$11.4 Million.

Mr. Leonard Van Betuw, the former President of Quattro, has advanced a secured claim for approximately \$837,000.

The Trustee is also aware of numerous secured claims likely to be advanced by various municipalities in respect of municipal and property taxes that have yet to be fully quantified.

The Trustee's legal counsel will be reviewing the validity, enforceability and priority status of the various secured claims advanced in due course.

SECTION F - Anticipated Realization and Projected Distribution

Given the current uncertainty with respect to the status of recoveries associated with the receivership proceedings, the Trustee is not in a position to provide an estimate as to the extent of funds, if any, which may ultimately be available for distribution from the bankrupt estate.

SECTION G - Reviewable Transactions and Preference Payments

The Trustee will report any findings to the Estate Inspectors for further consideration in due course.

SECTION H - Other Matters

BDC has provided the Trustee with a limited guarantee in the amount of \$10,000 in respect of the Trustee's costs.

Dated at Calgary, Alberta, this 17th day of May.

Hardie & Kelly Inc., in its capacity as
Trustee of the Estate of Quattro Exploration Ltd.
and not in its personal capacity

Per



Marc Kelly
Senior Vice President