



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 **SEVENTH REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
JANUARY 15, 2018**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

Borden Ladner Gervais LLP
1900, 520 - 3rd Ave. SW
Calgary, AB T2P 0R3

Attention: Lisa Hiebert
Telephone: 604-632-3425
Facsimile: 604-622-5815
Email: lhiebert@blg.com

**SEVENTH REPORT OF THE RECEIVER
HARDIE & KELLY INC.
JANUIARY 15, 2018**

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INTRODUCTION

1. On February 2, 2017, Business Development Bank of Canada (“**BDC**”) made an application to the Court of Queen’s Bench of Alberta (the “**Court**”) for the appointment of a receiver and manager (the “**Receiver**”) of the current and future assets, undertakings and property of Quattro Exploration and Production Ltd. (“**Quattro**” or the “**Company**”).
2. The Court granted an Order (the “**Receivership Order**”) on February 2, 2017, appointing Hardie & Kelly Inc. as the Receiver of Quattro.
3. Throughout the proceedings, the Receiver has prepared and filed several reports with the Court (collectively referred to as the “**Prior Receiver’s Reports**”) as follows:
 - First Report of the Receiver - April 3, 2017;
 - Second Report of the Receiver - May 1, 2017;
 - Supplement to the Second Report of the Receiver - May 2, 2017;
 - Third Report of the Receiver - August 3, 2017;
 - Fourth Report of the Receiver - September 5, 2017;
 - Fifth Report of the Receiver - October 6, 2017; and
 - Sixth Report of the Receiver - November 17, 2017 (the “**Sixth Report**”).
4. Background information and details leading up to the appointment of the Receiver, the administration of the proceedings and the Court approved sales process (the “**Sales Procedure**”) are set out in the Prior Receiver’s Reports.
5. On August 14, 2017, the Court granted Sale Approval and Vesting Orders in respect of six sales transactions.
6. On September 14, 2017, the the Court granted Sale Approval and Vesting Orders in respect of three additional sales transactions.

7. On October 16, 2017, the the Court granted Sale Approval and Vesting Orders in respect of a further three sales transactions.
8. Most recently, on November 28, 2017, the Court granted Sale Approval and Vesting Orders in respect of two further Asset Purchase Agreements entered into between the Receiver and the following parties (collectively referred to as the “**November Sales**”):
 - Sitka Exploration Ltd. (“**Sitka**”); and
 - Supreme Energy Inc. (“**Supreme**”).
9. The purpose of this report (the “**Seventh Report**”) is to provide the Court with:
 - An update as to the status of the November Sales;
 - Background information leading up to two additional proposed sales transactions and the Receiver’s recommendations thereon; and
 - An update as to the overall status of the administration of the proceedings.

TERMS OF REFERENCE

10. In preparing this Seventh Report, the Receiver has relied upon unaudited financial information, information provided by the Receiver’s operational consultants, Veracity Energy Services Ltd. (“**Veracity**”), and 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.

STATUS OF NOVEMBER SALES

11. The Receiver can advise that the sales transactions with Sitka and Supreme have now closed subject to the accounting for post-closing final adjustments in due course.

ASSET PURCHASE AGREEMENTS

12. In the Sixth Report, we advised that the Receiver was continuing to pursue expressions of interest in respect of certain of Quattro's freehold mineral interests and Quattro's interests in the Donalda area in Alberta. The Receiver has now entered into one additional Asset Purchase Agreement ("APA") and anticipates finalizing another APA imminently as discussed further below.

Avila Investments Ltd.

13. The Receiver has entered into an Asset Purchase Agreement with Avila Investments Ltd. (the "**Avila APA**") in respect of the sale of certain Quattro interests in the Donalda area which is subject to the approval of this Honourable Court. We note that the former President of Quattro, Mr. Leonard Van Betuw, is a principal of Avila.
14. A copy of the Avila APA and a summary of the significant terms of the proposed transaction are included in the Confidential Supplement to the Receiver's Seventh Report dated January 15, 2018 (the "**Confidential Supplement**"). In addition, a redacted copy of the Avila APA will be made available on the Receiver's website.
15. The Receiver is not aware of any rights of first refusal ("**ROFR**") associated with the contemplated transaction with Avila.
16. There are pre and post receivership property taxes outstanding to the County of Stettler (the "**County**") associated with certain of the assets included in the Avila APA. The County, Avila and the Receiver have entered into an agreement (the "**Settlement Agreement**") providing that upon the closing of the sale to Avila a set amount will be paid to the County from the sales proceeds in satisfaction of all Quattro related obligations through to 2017. Absent this agreement, a transaction would have otherwise been uneconomical for the Receiver and Avila to pursue, the respective assets would be disclaimed by the Receiver and there would be no funds available for the County. A copy of the Settlement Agreement will be included as part of the Confidential Supplement.

17. The Vesta APA contains no material conditions other than approval of the transaction by this Honourable Court.

Vesta Energy Ltd.

18. The Receiver is also in the process of finalizing a further Asset Purchase Agreement with Vesta Energy Ltd. (the “**Vesta APA**”) in respect of the sale of certain fee title interests held by Quattro in the Central Alberta/Joffre area which would also be subject to the approval of this Honourable Court. Although the Vesta APA has not yet been finalized, the Receiver expects it to be finalized on or about January 16, 2018. If the Vesta APA is concluded, the Receiver will attach it to a further confidential supplemental report, with the intention of seeking approval of the transaction on January 23, 2018. The Receiver is of the view that this would be in the best interests of Quattro’s stakeholders by reducing the number of hearings required.
19. The Receiver notes that, at this time, the proposed Vesta APA is not subject to any material conditions, other than the approval of the transaction and its documents by this Honourable Court.
20. In the Sixth Report, we advised that throughout the Receivership proceedings, the Receiver, through its legal counsel, has exchanged numerous correspondence with counsel representing certain freehold mineral lessors, being Dorthea Holdings Ltd., 1348321 Alberta Ltd. and Louis or Ida Bell (collectively the “**Mineral Lessors**”).
21. Counsel for the Mineral Lessors made submissions at the Receiver’s prior Court Applications for approval of sale transactions on each of August 14, 2017, September 14, 2017 and October 16, 2017 and was in attendance by telephone at the most recent November 28, 2017 application. In each instance, the respective sales transactions did not contemplate any assets in which the Mineral Lessors hold an interest.
22. The Receiver is advised by Veracity that neither the Avila APA, nor the pending Vesta APA, include any lands upon which the Mineral Lessors hold an interest.

23. The Receiver also notes that on September 14, 2017, the Court granted an Order (the “**Preservation of Rights Order**”) confirming that the terms of the three Sale Approval and Vesting Orders granted by the Court on that day, would not prejudice or negatively affect the position of the Mineral Lessors with respect to any vesting order that may be sought in relation to the Mineral Lessors’ interests, or on any priority or distribution application subsequently brought in these proceedings.
24. The Receiver is concerned that in the event the pending sales to Avila or Vesta do not close for any reason, the disclosure of the respective details of the transactions may affect the Receiver’s ability to remarket the assets if deemed appropriate to do so. Consequently, the Receiver will be seeking the Court’s approval to have the Confidential Supplement sealed for a period of 90 days after the Receiver’s discharge.

RECEIVER’S ANALYSIS OF APPROVAL OF TRANSACTIONS

25. As discussed above, details with respect to the Avila APA will be provided in the Confidential Supplement and details with respect to the pending Vesta APA are intended to be included in a subsequent confidential supplemental report. The Receiver believes that the two proposed transactions are in the best interest of all stakeholders for the following reasons:
 - The proposed transactions were ultimately generated as a result of the Court approved Sales Procedure administered by the Receiver’s sales advisor, Sayer Energy Advisors (“**Sayer**”);
 - Sayer is regarded as a well respected sales advisor in the marketplace and has executed many engagements on behalf of Receivers;
 - The assets were previously widely advertised during the Sales Procedure;
 - Quattro’s assets were also already previously exposed to the market place during the sale and investor solicitation process administered during Quattro’s previous proceedings under the *Companies’ Creditors Arrangement Act*;

- The proposed transactions are not subject to any material conditions other than Court approval;
- The Receiver believes that the two proposed transactions were negotiated in good faith and are commercially reasonable;
- BDC, Quattro's principal lender, is supportive of the two proposed transactions; and
- The County is supportive of the transaction with Avila.

ADMINISTRATIVE STATUS UPDATE

26. In the Sixth Report, the Receiver advised that it was also pursuing an expression of interest in respect of certain of Quattro's interests in British Columbia. The interested party continues to have discussions with the Receiver; however, at this time the Receiver is unable to advise as to whether a transaction will be consummated.
27. As set out in the Prior Reports, certain of Quattro's assets will not be sold and the Receiver, in conjunction with its legal counsel and Veracity, is continuing the process of issuing notices of renunciation of its interest in such properties to the applicable interested parties, including the applicable energy regulators and shutting in any remaining and unsold properties.
28. The Receiver is no longer operating any producing properties. All of Quattro's properties that were producing as at the date of receivership have now either been sold or shut-in.
29. Veracity continues to process and review all post-receivership operated and non-operated joint venture billings with a view to finalizing the respective accounts as well as prepare the respective interim and final statements of adjustments with respect to sales transactions.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

30. Attached as **Appendix "A"** is a copy of the Receiver's Statement of Receipts and Disbursements as at December 31, 2017 indicating the Receiver maintains approximately \$945,000 in its operational trust account as at that date; however, this balance will diminish as invoices with respect to operational expenses and professional fees incurred during the months of November and December are rendered and paid. It is also important to highlight that the balance includes \$390,000 advanced by BDC pursuant to Receiver Certificates.
31. The Receiver intends to make a distribution and discharge 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 Charge and the Receiver's Borrowing Charge provided for in the Receivership Order, the Receiver intends to utilize available cash and a portion of the net sales proceeds to fund repayment of any future borrowings and/or operating deficits in the first instance and then repay the currently outstanding borrowings issued by way of Receiver Certificates in the event sufficient funds are available to do so.

RECOMMENDATIONS

32. For the reasons noted above, the Receiver will be seeking and recommends to this Honourable Court the approval of the Avila APA and the pending Vesta APA.
33. The Receiver also recommends that the Confidential Supplement be ordered sealed for a period of 90 days following the discharge of the Receiver.

All of which is respectfully submitted this 15th day of January 2018

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"

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

Receipts

Oil and gas revenue	\$ 3,799,044.39	
Sales proceeds	2,034,101.00	
Cash on hand	447,377.56	
Receiver Certificates	390,000.00	
Accounts receivable collections	123,013.31	
Miscellaneous/refunds/interest	42,789.94	
	<u>6,836,326.20</u>	6,836,326.20

Disbursements

Operating costs	2,612,825.13	
Operational consultants	865,741.96	
Legal fees	585,462.03	
Royalties	338,639.43	
General and administrative	459,667.97	
Receiver's fees	256,506.20	
CCAA Administration Charge	204,747.12	
Pre-receivership critical suppliers	124,314.00	
Capital projects	108,387.75	
Property taxes and regulator payments	198,844.51	
Net GST	81,038.76	
	<u>5,836,174.86</u>	5,836,174.86
		<u>1,000,151.34</u>

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

Balance \$ 945,294.66