

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 **EIGHTH REPORT OF THE RECEIVER,  
HARDIE & KELLY INC.  
APRIL 12, 2018**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT  
Borden Ladner Gervais LLP  
1900, 520 - 3<sup>rd</sup> Ave. SW  
Calgary, AB T2P 0R3  
Attention: Lisa Hiebert  
Telephone: 604-632-3425  
Facsimile: 604-622-5815  
Email: [lhiebert@blg.com](mailto:lhiebert@blg.com)

**EIGHTH REPORT OF THE RECEIVER  
HARDIE & KELLY INC.  
APRIL 12, 2018**

**I N D E X**

INTRODUCTION .....	1
TERMS OF REFERENCE .....	2
STATUS OF JANUARY SALES .....	2
ASSET PURCHASE AGREEMENT .....	3
RECEIVER'S ASSESSMENT OF TRANSACTION.....	4
COMMUNICATION FROM CERTAIN MINERAL LESSORS.....	4
ADMINISTRATIVE STATUS UPDATE .....	6
STATEMENT OF RECEIPTS AND DISBURSEMENTS.....	6
POST-RECEIVERSHIP ROYALTY PAYMENTS.....	7
RECOMMENDATIONS .....	8

## **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, 1017;
  - Third Report of the Receiver - August 3, 2017;
  - Fourth Report of the Receiver - September 5, 2017;
  - Fifth Report of the Receiver - October 6, 2017;
  - Sixth Report of the Receiver - November 17, 2017 (the “**Sixth Report**”);  
and
  - Seventh Report of the Receiver - January 15, 2018 (the “**Seventh 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. On November 28, 2017, the Court granted Sale Approval and Vesting Orders in respect of two more transactions.
9. Most recently, on January 23, 2018, 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 “**January Sales**”):
  - Avila Exploration and Development Canada Ltd. (“**Avila**”); and
  - Vesta Energy Ltd. (“**Vesta**”).
10. The purpose of this report (the “**Eighth Report**”) is to provide the Court with:
  - An update as to the status of the January Sales;
  - Background information leading up to one final proposed sale transaction with respect to certain of Quattro’s interest in British Columbia and Alberta and the Receiver’s recommendations thereon; and
  - An update as to the overall status of the administration of the proceedings.

#### **TERMS OF REFERENCE**

11. In preparing this Eighth 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 JANUARY SALES**

12. The Receiver can advise that the sales transactions with Avila and Vesta have now closed subject to accounting and settlement of post-closing final adjustments in due course.

**ASSET PURCHASE AGREEMENT**

13. In the Sixth Report and the Seventh Report, we advised that the Receiver was continuing to pursue expressions of interest in respect of Quattro's assets in British Columbia. The Receiver has now entered into one additional Asset Purchase Agreement (the "**Tallahassee APA**") with Tallahassee Exploration Inc. ("**Tallahassee**") encompassing certain of Quattro's interests in British Columbia and Alberta.
14. A copy of the Tallahassee APA and a summary of the significant terms of the proposed transaction are included in the Confidential Supplement to the Receiver's Eighth Report dated April 12, 2018 (the "**Confidential Supplement**"). In addition, a redacted copy of the Tallahassee APA will be made available on the Receiver's website.
15. There are two known rights of first refusal (the "**ROFR's**") associated with the contemplated transaction with Tallahassee for which the Receiver has issued the requisite notices to the respective interested parties. As of the date of this Eighth Report, the Receiver has not yet received an election from either of the interested parties with respect to the ROFR's. The outside date for providing notice of the intention to elect to exercise the ROFR's is May 5, 2018.
16. The Tallahassee APA contains no material conditions other than approval of the transaction by this Honourable Court.
17. The Receiver is concerned that in the event the pending sale to Tallahassee does 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 ASSESSMENT OF TRANSACTION

18. As discussed above, details with respect to the Tallahassee APA will be provided in the Confidential Supplement. The Receiver believes that the proposed transaction is in the best interest of all stakeholders for the following reasons:

- The proposed transaction was 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 transaction is not subject to any material conditions other than Court approval;
- The Receiver believes that the proposed transaction was negotiated in good faith and is commercially reasonable;
- The BC Oil & Gas Commission has advised the Receiver that it does not object to the proposed transaction with Tallahassee; and
- BDC, Quattro's principal lender, is supportive of the proposed transaction.

### COMMUNICATIONS FROM CERTAIN MINERAL LESSORS

19. In the Sixth Report and the Seventh Report, we advised that throughout the Receivership proceedings, the Receiver, through its legal counsel, has exchanged numerous communications with counsel representing certain freehold mineral lessors, being Dorthea Holdings Ltd., 1348321 Alberta Ltd. and Louis or Ida Bell (collectively the "**Mineral Lessors**").

20. Counsel for the Mineral Lessors made submissions at the Receiver's prior Court Applications for approval of sales transactions on each of August 14, 2017, September 14, 2017 and October 16, 2017 and was in attendance by telephone at the November 28, 2017 and January 23, 2018 applications. In each instance, the respective sales transactions did not contemplate any assets in which the Mineral Lessors hold an interest.
21. The Receiver is advised by Veracity that the Tallahassee APA does not include any lands upon which the Mineral Lessors hold an interest.
22. 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.
23. In March 2018, counsel for the Mineral Lessors contacted the Receiver with various information requests. The Receiver considered the requests, but was of the view that the request for specific and additional reporting to the Mineral Lessors was not necessary or productive in the circumstances. Accordingly, the Receiver's counsel advised counsel for the Mineral Lessors that the additional reporting would not be provided since doing so would represent an unnecessary expense to the estate. Counsel for the Receiver further advised that, in the circumstances, to the extent the Mineral Lessors requested or required reporting for their benefit alone, the Receiver would require that the Mineral Lessors cover the costs of such reporting. As noted below, the funds generated in the course of these proceedings will be insufficient to allow for distributions to creditors.

**ADMINISTRATIVE STATUS UPDATE**

24. The Receiver previously issued Notices of Renunciation in respect of all of Quattro's unsold interests in Saskatchewan and certain of Quattro's interests in Alberta. The Receiver has determined that Quattro's remaining unsold interests are neither economically viable nor saleable. Consequently, the Receiver has now issued Notices of Renunciation in respect of the balance of Quattro's known remaining unsold interests in Alberta and British Columbia (excluding those subject to the Tallahassee APA) to the applicable interested parties and the applicable energy regulators.
25. The Receiver is no longer operating any producing properties and has not done so for several months. All of Quattro's properties that were producing as at the date of receivership have now either been the subject of a sale or shut-in.
26. 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 the preparation of final statements of adjustments with respect to the pending Tallahassee transaction and previous sales transactions.

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**

27. Attached as **Appendix "A"** is a copy of the Receiver's Statement of Receipts and Disbursements as at March 31, 2018, indicating the Receiver maintains approximately \$876,000 in its operational trust account as at that date; however, this balance will diminish as invoices with respect to operational expenses and professional fees are rendered and paid through to the end of the receivership proceedings. It is also important to highlight that the balance includes \$390,000 advanced by BDC pursuant to Receiver Certificates.
28. At this time, the Receiver is hopeful of making a distribution and discharge application this coming June; however, the timing thereof may yet be impacted by the timing of the closing of the pending transaction with Tallahassee and the settlement of final adjustments thereon as well as the timing of the resolution of the post-receivership joint venture accounts.



29. Even after considering the anticipated net benefit to the estate from the closing of the pending Tallahassee transaction, there will not be sufficient funds available to satisfy in full the entirety of the Receiver's Charge, the Receiver's Borrowing Charge (currently \$390,000 plus interest) and the Interim Lender's Charge (\$1,750,000) established by the terms of the Receivership Order. Consequently, there will be no funds available for distribution to Quattro's creditors.

#### **POST-RECEIVERSHIP ROYALTY PAYMENTS**

30. During the course of the proceedings, the Receiver has issued royalty cheques to royalty holders entitled thereto in respect of post-receivership production. However, some cheques were returned in the mail to the Receiver as undeliverable while others were never cashed (the "**Uncashed Royalty Cheques**").
31. As of the date of this Eighth Report, 399 royalty cheques totaling approximately \$9,700 have not been cashed such that the average amount of these cheques is only \$24.38. 375 of these cheques, totaling approximately \$9,000, were written in 2017 and have now been outstanding for anywhere from 3 to 12 months, while 24 cheques totaling approximately \$600 were written in March 2018 with the last cheque having been written on March 9, 2018. The largest cheque (written back in April 2017) is for \$480 and only 25 cheques are written for more than \$100.
32. In light of the receivership proceedings drawing to a close in the near future, the Receiver requires a mechanism to ultimately dispense with the Uncashed Royalty Cheques. In light of the age of the substantial majority of the cheques and the minimal average size of cheque and taking into account the cost of taking additional steps to attempt to locate the respective parties, the Receiver proposes that the Receiver be authorized to stop payment on any of the Uncashed Royalty Cheques that have not been negotiated by the later of June 9, 2018 or the ultimate discharge of the Receiver with the Receiver having no further liability or obligation in this regard upon Receiver ultimately being discharged.

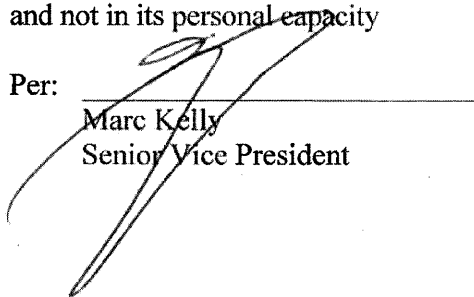
**RECOMMENDATIONS**

33. For the reasons noted above, the Receiver will be seeking and recommends to this Honourable Court the approval of the Tallahassee APA.
34. The Receiver also recommends that the Confidential Supplement be ordered sealed for a period of 90 days following the discharge of the Receiver.
35. The Receiver also recommends that the Uncashed Royalty Cheques be addressed as set out in this Eighth Report.

All of which is respectfully submitted this 12<sup>th</sup> day of April 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 March 31, 2018**

**Receipts**

Oil and gas revenue	\$ 3,805,590.33	
Sales proceeds	2,376,101.00	
Cash on hand	447,377.56	
Receiver Certificates	390,000.00	
Accounts receivable collections	125,357.28	
Miscellaneous/refunds/interest	46,171.96	
	<u>7,190,598.13</u>	7,190,598.13

**Disbursements**

Operating costs	2,743,418.47	
Operational consultants	971,636.46	
Legal fees	674,253.44	
Royalties	350,939.16	
General and administrative	501,846.66	
Receiver's fees	299,137.20	
CCAA Administration Charge	204,747.12	
Property taxes and regulator payments	198,844.51	
Pre-receivership critical suppliers	124,314.00	
Capital projects	108,387.75	
Net GST	81,998.56	
	<u>6,259,523.33</u>	6,259,523.33
		<u>931,074.80</u>

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

Balance \$ 876,218.12