Estate No: 24-2180230/24-2180231
Court No:

PRELIMINARY REPORT OF TRUSTEE
IN THE MATTER OF THE PROPOSAL OF

QUINTERA DRILLING LIMITED PARTNERSHIP AND
QUINTERA DRILLING 2010 INC.
(collectively referred to as "Quintera" or the "Debtor")

TRUSTEE: Ernst & Young Inc.

A. BACKGROUND

On October 24, 2016, both Quintera Drilling Limited Partnership and Quintera Drilling 2010 Inc. filed assignments into bankruptcy. On this same date, further to an application made by Quintera, the Court granted an Order that, amongst other things, authorized the consolidation of the bankruptcies and authorized Quintera to file a joint Proposal by October 26, 2016. On October 26, 2016, in accordance with the Order noted above, the Trustee filed a copy of the Proposal with the Office of the Superintendent of Bankruptcy.

Quintera's primary line of business was providing drilling contractor services within the Western Canadian Sedimentary Basin. As at the date of this report, Quintera has a fleet of 10 efficient moving drilling rigs with depth capacities ranging from 2200 to 4500 metres. Although Quintera continues to operate and look for new contracts to put its assets to work, the Trustee understands that some of these 10 rigs are no longer operative, and could be considered scrap as at the date of this report.

B. SUMMARY OF PROPOSAL

- Payments to Unsecured Creditors as follows:
  - Payment in full of all proven unsecured creditors who file a claim with the Trustee prior to the time and date of the First Meeting of Creditors (Claims Bar Date) to consider the Proposal. For clarity, the Superintendent's levy of 5% will be paid in addition to the payment in full of proven unsecured creditor claims (ie: total 105% will be paid to the Trustee to cover the full claims of unsecured creditors and the levy as required).
  - Related Creditor claims will be deferred, and are not included as claims compromised by the Proposal.
- Arrangements with Secured Creditor
  - Only one secured creditor's claim will be compromised with this Proposal: Alberta Treasury Branches ("ATB"). Under the terms of this Proposal, any indebtedness to ATB greater than $3,750,000 will be reduced and forgiven.
  - Any agreement regarding the payments between Quintera Drilling Limited Partnership and ATB for the payment of the compromised amount noted above does not form part of the Proposal.

C. FINANCIAL POSITION AND CAUSES OF DIFFICULTIES

From review of the Affidavit sworn by Rick Kuzyk on (date), the cause of Quintera's financial difficulties was the rapid decrease in the price of oil beginning in the summer of 2014 and the subsequent decrease in rig activity thereby negatively impacting Quintera's revenue and cash flow in a significant manner.

D. INTERIM RECEIVER

None appointed.

E. IDENTIFICATION AND EVALUATION OF ASSETS

As noted on the Statement of Affairs filed in connection with these Proposal proceedings. Please note, that a formal appraisal of the Debtor's assets has not been obtained by the Trustee; however, based on discussions with the Debtor and ATB, as well as based on the Trustee's own experience in dealing with assets of this nature, the Trustee is comfortable that although some difference in value may exist, the total aggregate value of the Debtor's assets will not exceed the value of ATB's secured claim. Given this situation, and given ATB's involvement in these proceedings, the Trustee has not commissioned a formal appraisal of the Debtor's assets.

F. CONDUCT OF DEBTOR

The Trustee's preliminary review has not shown any preferential payments, settlements, or reviewable transactions.

G. CREDITORS' CLAIMS

No significant changes from the Statement of Affairs are anticipated.

H. PREVIOUS BUSINESS DEALINGS WITH DEBTOR

Ernst & Young LLP ("EY LLP") has been in discussions with the director of the Debtor in relation to tax matters and concerns that may pertain to the Debtor in these circumstances. This being the case, EY LLP has not been the auditor or accountant of the Debtor at any time prior to these proceedings.

I. INFORMAL MEETINGS WITH MAJOR CREDITORS

The Trustee understands that the Debtor has consulted with ATB in relation to these proceedings; however, the finalization of any agreement or compromise has not been completed prior to the date of the Proposal and this report.

J. REMUNERATION OF TRUSTEE

The Trustee's services will be based on the time spent by the Trustee and the various members of its staff at their respective regular billing rates plus any direct out-of-pocket expenses incurred. The Trustee's fees and disbursements will be taxed by the Court.

The Trustee's fees will be paid in addition to the amounts proposed to be paid by the Debtor in paragraph B.

K. OTHER

None

L. STATEMENT OF ESTIMATED REALIZATION

The Debtor is proposing to pay to the Trustee 100% of the amount of proven unsecured claims pursuant to the terms of the Proposal. As noted above, the Superintendent's levy payable of 5% on such claims will be paid in addition to the amount of proven claims.

M. RECOMMENDATIONS

It is the Trustee's opinion that the Proposal is fair and reasonable to the Debtor and the creditors and that the Debtor will be able to perform it.

In the Proposal, the unsecured creditors as proven in accordance with the terms of the Proposal can expect to receive 100 cents on the dollar on account of their claim; whereas, if the Debtor remains in bankruptcy the secured lender will suffer a significant shortfall and there will be no dividends available to the unsecured creditors.

DATED AT the City of Edmonton, in the Province of Alberta this 26th day of October 2016.

Ernst & Young Inc.

Per: _____

Matt McCulloch, CA, CPA, CIRP, LIT
Senior Vice President