

2010 BCSECCOM 286

May 10, 2010

Headnote

National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – *Securities Act* s. 88 - *Cease to be a reporting issuer in BC* - The issuer's securities are traded only on a market or exchange outside of Canada - Canadian residents own less than 2% of the issuer's securities and represent less than 2% of the issuer's total number of security holders; the issuer does not intend to do a public offering of its securities to Canadian residents, will not be a reporting issuer in any Canadian jurisdiction, is subject to the reporting requirements of foreign securities law, and all shareholders receive the same disclosure

Applicable British Columbia Provisions

Securities Act R.S.B.C. 1996, c. 418, s. 88

In the Matter of
the Securities Legislation of British Columbia and Ontario
(the Jurisdictions)

and

In the Matter of
the Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
Quicksilver Resources Inc.
(the Filer)

Decision

Background

- ¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (the Decision Maker) has received an application (the Application) from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) that the Filer be deemed to have ceased to be a reporting issuer under the Legislation (the Exemptive Relief Sought).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a coordinated review application):

2010 BCSECCOM 286

- (a) the British Columbia Securities Commission (the BCSC) is the principal regulator for this application, and
- (b) the decision is the decision of the principal regulator and evidences the decision of each other Decision Maker.

Interpretation

- ¶ 2 Terms defined in National Instrument 14-101 *Definitions* have the same meaning if used in this decision, unless otherwise defined.

Representations

- ¶ 3 This decision is based on the following facts represented by the Filer:

The Filer

1. the Filer is a Delaware corporation with its head office located at 777 West Rosedale Street, Fort Worth, Texas 76104; the Filer is a natural gas and crude oil producer engaged in the development and acquisition of long-life producing natural gas and crude oil properties;
2. the Filer became a public company in 1999 and its common stock is listed on the New York Stock Exchange under the symbol “KWK”; the Filer had 2009 revenues of approximately US\$832 million and has a current market capitalization of approximately US\$2.64 billion;
3. the Filer is not in default of any filing requirements of the New York Stock Exchange or applicable requirements of United States federal or state securities regulatory authorities;
4. the authorized share capital of the Filer consists of 400 million shares of common stock with a par value per share of one cent (the Shares) and 10 million shares of preferred stock with a par value per share of one cent; as of February 15, 2010, the Filer had issued and outstanding 170,222,678 Shares and no shares of preferred stock;
5. the Filer also had outstanding the following debt securities as of December 31, 2009: (a) \$475 million of senior notes due 2015, which are unsecured, senior obligations of the Filer; (b) \$600 million of senior notes due 2016, which are unsecured, senior obligations of the Filer; (c) \$300 million of senior notes due 2019, which are unsecured, senior obligations of the Filer; (d) \$350 million of senior subordinated notes due 2016, which are unsecured, senior subordinated obligations of the Filer; and (e) \$150 million convertible debentures due

2010 BCSECCOM 286

November 1, 2024 which are contingently convertible into Shares (collectively, the Debt Securities);

The Discovery of Reporting Issuer Status and Historic CTOs in the Jurisdictions

6. on July 24, 2009, the Filer obtained an order (the ASC Order) from the Alberta Securities Commission (the ASC) that deemed it to cease to be a reporting issuer in the Province of Alberta on the basis that it had a *de minimis* number of shareholders resident in the Province of Alberta, holding a *de minimis* number of shares;
7. at the time the ASC issued the ASC Order, the Filer did not appear, and the Filer continues to not appear, on the lists of reporting issuers or reporting issuers in default of any securities commission in Canada;
8. in connection with the process of applying to cease to be a reporting issuer in the Province of Alberta, the Filer provided advance notice to Canadian resident security holders in a press release, dated July 6, 2009, that it had applied to the ASC for a decision that it is not a reporting issuer and, if that decision was made, the Filer would no longer be a reporting issuer in Canada;
9. also in connection with the Alberta cease to be a reporting issuer application, the Filer undertook to concurrently deliver to its Canadian security holders all disclosure it would be required under U.S. securities law or exchange requirements to deliver to U.S. resident security holders;
10. in the course of preparing the application to cease to be a reporting issuer in Alberta, the Filer became aware that MSR Exploration Ltd. (MSR Exploration), a predecessor of a predecessor entity of the Filer, is subject to a cease trade order (the Ontario CTO) dated July 16, 1991 that was issued by the Ontario Securities Commission (the OSC) in respect of MSR Exploration by reason of its delay in filing certain financial statements within the time periods prescribed under the Legislation; the Ontario CTO remains in existence; in addition, the Filer recently became aware that MSR Exploration is also subject to a cease trade order (the BC CTO) dated June 20, 1990 that was issued by the BCSC, which also remains in existence;
11. the representations in respect of MSR Exploration set out herein are made to the best of the Filer's information, knowledge and belief, following reasonable inquiry, including a review of the public files of the OSC and the BCSC, given the lengthy passage of time since the events described, the unavailability of complete corporate records and a lack of access to the individuals who were

2010 BCSECCOM 286

involved in the management of the companies that are the predecessors of the Filer;

12. MSR Exploration was formed in 1981 from the merger of two Canadian listed public corporations and was a reporting issuer at the time in the Provinces of Alberta and Ontario; MSR became a reporting issuer in the Province of British Columbia in 1988; MSR Exploration was headquartered at all relevant times in the United States;
13. in 1990, a new management group began managing MSR Exploration; MSR Exploration's previous management regained control of MSR Exploration via court proceedings in 1991; MSR Exploration filed for Chapter 11 bankruptcy protection in the United States in 1992 and emerged from Chapter 11 in early 1993;
14. it was during the period leading up to and when MSR Exploration was temporarily managed by a different management team, that MSR Exploration failed to make certain continuous disclosure filings with the BCSC, ASC and OSC;
15. in mid-1990, the securities of MSR Exploration were cease traded in British Columbia pursuant to the BC CTO for a failure by MSR Exploration to file its annual audited financial statements for the year ended December 31, 1989 and its first quarter interim unaudited financial statements for the period ended March 31, 1990;
16. by order of the OSC dated July 16, 1991, the securities of MSR Exploration were temporarily cease traded in Ontario for MSR Exploration's failure to file its annual audited financial statements for the year ended December 31, 1990 and its first quarter interim unaudited financial statements for the period ended March 31, 1991;
17. on July 29, 1991, the OSC issued a further cease trade order in respect of the securities of MSR Exploration pursuant to the Ontario CTO, which by its terms would remain in effect until such cease trade order was revoked by further order;
18. subsequent to the Ontario CTO, the securities of MSR Exploration were also cease traded in Alberta for failing to file the same financial statements;
19. later in 1991, MSR Exploration filed with the OSC its 1990 Annual Report; its 1990 Annual Report included its annual audited financial statements for the year ended December 31, 1990; following a review of the public file of the

2010 BCSECCOM 286

OSC, no evidence can be located which would indicate that the interim financial statements for the three month period ended March 31, 1991 were ever filed with the OSC; the Filer has no ability to independently confirm if the filing was made; according to the public file of the OSC, MSR Exploration did file its interim financial statements for the period ended June 30, 1991 which includes some comparative information to the three-month period ended March 31, 1991;

20. MSR Exploration made the outstanding filings in Alberta and the Alberta cease trade order was revoked by subsequent order on September 9, 1993;
21. no order revoking the Ontario CTO or the BC CTO has been found on the public record of the OSC or the BCSC, respectively;
22. in addition, a review of MSR Exploration's public file with the ASC and OSC indicates that MSR Exploration continued to file continuous disclosure documents subsequent to the three month period ending March 31, 1991 with both the ASC and OSC until its merger with Mercury Montana, Inc. (Mercury) in 1997; accordingly, the only missing financial statement filing in Ontario for MSR Exploration, until the date of its merger with Mercury in 1997, appears to be its interim financial statements for the three month period ending March 31, 1991;
23. the Filer has been advised that the BCSC has destroyed its historic files in respect of MSR Exploration; the Filer is therefore unable to determine whether MSR Exploration continued to make continuous disclosure filings in British Columbia subsequent to the three month period ending March 31, 1990;
24. the ASC was informed of the discovery of the Ontario CTO with respect to MSR Exploration prior to it issuing the ASC Order which deemed the Filer to have ceased to be a reporting issuer in Alberta;
25. as described below, MSR Exploration is the predecessor of a predecessor of the Filer; the directors and management of the Filer at the time of the 1999 Merger (as defined below) were not responsible for the missed filings by MSR Exploration in 1989 and 1990 in British Columbia and Ontario, respectively, that resulted in the BC CTO and Ontario CTO; in addition, none of these individuals had any knowledge that MSR Exploration was subject to historic cease trade orders in the Jurisdictions at the time of the 1999 Merger;

2010 BCSECCOM 286

The 1997 and 1999 Mergers

26. in October 1997, MSR Exploration was continued and domesticated into Delaware to facilitate a merger with Mercury, a Delaware corporation (the 1997 Merger); upon completion of the 1997 Merger, Mercury remained as the surviving entity and changed its name to MSR Exploration, Ltd. (New MSR);
27. following the 1997 Merger, continuous disclosure filings were continued with the ASC but ceased with the OSC and, although it cannot be confirmed, likely ceased with the BCSC; the continuous disclosure filings made with the ASC were filed in paper and no SEDAR profile was ever established for MSR Exploration or New MSR;
28. on March 4, 1999 the Filer and New MSR merged under Delaware law with the Filer remaining as the surviving entity (the 1999 Merger);
29. following the 1999 Merger of the Filer and New MSR, continuous disclosure filings continued with the ASC; the continuous disclosure filings made with the ASC were filed in paper and no SEDAR profile was ever established for the Filer; as disclosed to the ASC prior to receipt of the ASC Order, the Filer did not make filings in respect of the disclosure required under National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* and certain other disclosure requirements;
30. at the time of the 1999 Merger, the Filer had no knowledge of the fact that MSR Exploration, a predecessor of New MSR, had been a reporting issuer in the Jurisdictions or of the BC CTO or Ontario CTO; the directors and management of the Filer at the time of the 1999 Merger had neither any connection to nor any involvement with MSR Exploration at the time the CTOs were issued;
31. the Ontario CTO only first became known as part of certain research completed to prepare an application on behalf of the Filer for the Filer to cease to be a reporting issuer in the Province of Alberta; the existence of the BC CTO did not become known until February 2010, several months after the ASC Order was granted, as a result of a typographical error in the spelling in the name of MSR Exploration used to index the BC CTO;
32. the Filer has exhausted its reasonable efforts to identify the legal reasoning that may have led to the conclusion in 1997 that New MSR did not become a reporting issuer in the Jurisdictions following the 1997 Merger;

2010 BCSECCOM 286

33. based on the information now available to the Filer, New MSR became a reporting issuer in the Jurisdictions following the 1997 Merger and the Filer became a reporting issuer in the Jurisdictions following the 1999 Merger, in each case subject to the BC CTO and the Ontario CTO;

Ceasing to be a Reporting Issuer and Revocation of Cease Trade Orders

34. the only distributions of Shares in Canada have been to employees of the Filer and its affiliates under the employee prospectus exemption under section 2.24 of National Instrument 45-106 *Prospectus and Registration Exemptions* as part of the Filer's 2006 Equity Plan (the 2006 Plan) or its Amended and Restated 1999 Stock Option and Retention Stock Plan (the 1999 Plan);
35. the 2006 Plan authorizes the award of various incentives to the Filer's directors, executive officers and selected employees and consultants; Canadian employees have been awarded restricted stock units (consisting of the right to receive either cash or Shares from the Filer at the end of a specified deferral period) and stock options under the 2006 Plan; the Filer also historically made awards of restricted stock units and stock options to Canadian employees pursuant to the 1999 Plan, but no awards have been made under such plan since 2006;
36. as of April 20, 2010, the Filer had 103 active employees in Canada who were eligible for awards under the 2006 Plan; awards under the 2006 Plan are typically granted annually at the beginning of each fiscal year of the Filer; in the twelve months prior to the date of the Filer's application, Canadian employees were awarded 166,118 restricted stock units (all of which consisted of the right to receive cash, and not Shares, from the Filer) and 97,053 stock options, all of which were granted in January 2010; the next scheduled grant of awards to Canadian employees under the 2006 Plan is in January 2011, although it is possible that the Filer may make a small number of isolated grants to particular employees again in 2010; the Filer does not anticipate material changes in the composition or number of awards granted to Canadian employees in 2011 as compared to 2010; consequently, the impact of the 2006 Plan on the number of Shares held by Canadian employees is not expected to result in a more significant shareholder base in Canada;
37. based upon the enquiries of the Filer described below, residents in Canada:
- (a) do not directly or indirectly beneficially own more than 2% of each class or series of outstanding securities of the Filer worldwide, and

2010 BCSECCOM 286

- (b) do not directly or indirectly comprise more than 2% of the total number of securityholders of the Filer worldwide;

38. the due diligence conducted by the Filer in support of the foregoing representation is summarized below:

- (a) the Filer caused its transfer agent, BNY Mellon Shareowner Services (BNY), to conduct an investigation to confirm the residency of the holders of its outstanding Shares; as of February 18, 2010:
 - (i) there are 38 registered holders of Shares who are resident in Canada, out of a total number of 844 registered holders of Shares worldwide; and
 - (ii) the number of Shares registered in the name of such registered shareholders who are resident in Canada is approximately 9,540, which represents less than 0.01% of the issued and outstanding Shares;
- (b) the Filer caused Broadridge Financial Services, Inc. (Broadridge) to conduct an intermediary search, being a search for Shares which are beneficially owned other than by the registered holder, using a record date of March 8, 2010; Broadridge's search identified a total of 298 Canadian resident accounts, holding 2,510,953 Shares in the aggregate, out of a total of 24,666 accounts holding 58,772,617 Shares in the aggregate;
- (c) aggregating the data set forth in paragraphs (a) and (b) above, and assuming that one intermediary account generally represents one beneficial shareholder, the Filer concluded that:
 - (i) Canadian resident holders of Shares number approximately 336, being approximately 1.32% of the total number of holders of Shares worldwide; and
 - (ii) the number of Shares held by Canadian securityholders is approximately 2,520,493, which figure represents approximately 1.48% of the issued and outstanding Shares;
- (d) in respect of the Debt Securities, all of which are held by beneficial holders, the Filer caused Broadridge to conduct an intermediary search using a record date of March 19, 2010 in respect of the Debt Securities outstanding on such date; Broadridge's search identified 4 Canadian resident holders holding 2,210,000 Debt Securities in the aggregate, out of

2010 BCSECCOM 286

a total of 975 holders of Debt Securities worldwide holding 1,173,420,000 Debt Securities in the aggregate;

(e) aggregating all of the foregoing data in respect of the Shares and Debt Securities, and again assuming that one intermediary account generally represents one beneficial securityholder, the Filer concluded that:

(i) Canadian securityholders number approximately 340, being approximately 1.28% of the total number of securityholders of the Filer worldwide; and

(ii) the number of Shares held by Canadian securityholders is approximately 2,520,493, which figure represents approximately 1.48% of the issued and outstanding Shares, and the number of Debt Securities held by Canadian securityholders is approximately 2,210,000, which figure represents approximately 0.19% of the issued and outstanding Debt Securities;

39. the Filer files continuous disclosure reports under U.S. securities laws and is listed on a U.S. exchange; should the Exemptive Relief Sought be granted, all of the Filer's securityholders resident in the Jurisdictions will continue to have immediate access to the same continuous disclosure documents through EDGAR, the filings section of the SEC website (www.sec.gov);

40. the Filer's securities are not currently listed, traded or quoted for trading on any "marketplace" in Canada (as defined in National Instrument 21-101 – *Marketplace Operation*), and the Filer does not currently intend to have its securities listed, traded or quoted on such a marketplace in Canada;

41. other than equity issued under the 2006 Plan to employees, in the 12 months preceding this application, the Filer has not taken any steps that indicate there is a market for its securities in Canada; the Filer currently has no plans to raise financing by way of a public or private offering of its securities in Canada or otherwise distribute its securities in Canada except for distributions to employees under the 2006 Plan;

42. the Filer has previously undertaken to the ASC and continues to undertake to concurrently deliver to its Canadian securityholders all disclosure the issuer would be required under U.S. securities law or exchange requirements to deliver to U.S. resident securityholders; the Filer is in compliance with such undertaking and in all material respects with all applicable requirements of United States securities laws;

2010 BCSECCOM 286

43. in connection with the ASC Order, and prior to gaining knowledge of the Filer's status as a reporting issuer in the Jurisdictions, the Filer provided advance notice to Canadian resident securityholders in a press release, dated July 6, 2009, that it had applied to securities regulatory authorities for a decision that it is not a reporting issuer in Canada and, if that decision was made, that the issuer would no longer be a reporting issuer in any jurisdiction in Canada;
44. the Filer acknowledges that, because it was unaware that it was a reporting issuer in the Jurisdictions and of the existence of the BC CTO and the Ontario CTO, it has inadvertently failed to comply with its continuous disclosure obligations in the Jurisdictions and any other securities law requirements applicable to a reporting issuer in the Jurisdictions, as well as the terms of the BC CTO and the Ontario CTO; upon becoming aware that it was a reporting issuer in the Jurisdictions and of the existence of the BC CTO and the Ontario CTO, the Filer alerted the BCSC and OSC and has made this application in order to seek a practical remedy to the situation;
45. if the Exemptive Relief Sought is granted, the Filer will no longer be a reporting issuer in any jurisdiction in Canada;
46. after the Filer ceases to be a reporting issuer in the Jurisdictions, securityholders resident in Canada may continue to hold and trade securities of the Filer, and employees of the Filer resident in Canada may continue to hold and/or exercise stock options or be issued additional stock options of the Filer; although it is expected that residents of Canada will primarily trade securities of the Filer over the facilities of the New York Stock Exchange, any trades of such securities by residents of Canada may be considered to be in violation of the terms of the Ontario CTO and BC CTO if they are not revoked; and
47. the Filer has been advised by staff of the OSC that the Ontario CTO will be revoked concurrently upon the grant of the Exemptive Relief Sought, and the Filer has been advised by staff of the BCSC that the BC CTO will be revoked concurrently upon the grant of the Exemptive Relief Sought.

Decision

- ¶ 4 The Decision Maker is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make this decision.

2010 BCSECCOM 286

The decision of the Decision Maker under the Legislation is that the Exemptive Relief Sought is granted.

Andrew S. Richardson, CA
Acting Director, Corporate Finance
British Columbia Securities Commission