COURT FILE NUMBER	1501-00396
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANTS	IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED AND IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c. B-9 AND IN THE MATTER OF GASFRAC ENERGY SERVICES INC., GASFRAC SERVICES GP INC., GASFRAC ENERGY SERVICES (US) INC., GASFRAC US HOLDINGS INC. and GASFRAC INC.
DOCUMENT	**SIXTH REPORT OF THE MONITOR** **MARCH 23, 2015**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>**MONITOR**</u> ERNST & YOUNG INC. 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Cassie Riglin Telephone: 403-206-5067 / 403-206-5106 Fax: 403-206-5075 Email: neil.narfason@ca.ey.com cassie.riglin@ca.ey.com <u>**COUNSEL**</u> Norton Rose Fulbright Canada LLP 3700, 400 – 3rd Avenue SW Calgary, Alberta T2P 4H2 Attention: Howard Gorman Q.C. Phone: 403-267-8144 Fax: 403-264-5973 Email: howard.gorman@nortonrosefulbright.com

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INTRODUCTION

1. On January 15, 2015 GASFRAC Energy Services Inc. ("GESI"), GASFRAC Services GP Inc. ("GSGP"), GASFRAC Energy Services Limited Partnership ("GES LP"), GASFRAC Energy Services (US) Inc. ("GESI US"), GASFRAC US Holdings Inc. ("Holdings"), and GASFRAC Inc. ("GI"), collectively the "Company" or "GASFRAC", sought and obtained protection pursuant to the *Companies' Creditors Arrangement Act, R.S.C. 1985, C-36*, as amended (the "CCAA") pursuant to an Order (the "Initial Order") of the Alberta Court of Queen's Bench (the "Court").

2. Ernst & Young Inc. was appointed as Monitor (the "Monitor") of the Company pursuant to the terms of the Initial Order.

3. On January 15, 2015, the Monitor filed on behalf of GASFRAC Chapter 15 Petitions for Recognition of a Foreign Proceeding with the United States Bankruptcy Court for the Western District of Texas, San Antonio Division ("US Court"), which cases are jointly administered under Case No. 15-50161. On January 16, 2015, GASFRAC sought and obtained a Temporary Restraining Order ("TRO") from the US Court pursuant to which the terms of the Initial Order are were given full force and effect in the United States on an interim basis.

4. On January 30, 2015, the Company sought and obtained a foreign recognition order of the Initial Order from the US Court, pursuant to which the terms of the Initial Order were given full force and effect in the United States and recognizing these CCAA proceedings as the foreign main proceedings.

5. On January 16, 2015, the Court approved the engagement of CIBC World Markets as financial advisor (the "Financial Advisor") to the Company.

6. On January 23, 2015, the Court approved a sale and investment solicitation process ("SISP") which had a bid deadline of February 24, 2015 (the "Bid Deadline"). The SISP was subsequently approved by the US Court on January 30, 2015.

7. The purpose of this sixth report of the Monitor (the "Sixth Report") is to provide the Court with:

    a) an update on the asset sale transaction (the "Asset Sale") described in the third report of the Monitor dated March 11, 2015 (the "Third Report);

b) GES LP's agreement to conduct transactions pursuant to a term sheet (the "Term Sheet") entered into with Calfrac Well Services Ltd. ("Calfrac");

c) the Monitor's comments on the Term Sheet and the proposed transactions; and

d) the Monitor's recommendation.

8. All references to dollars are in Canadian currency unless otherwise noted.

9. Capitalized terms not defined herein are as defined in the Initial Order.

BACKGROUND

10. Background information on GASFRAC and these CCAA proceedings is available on the Monitor's website at www.ey.com/ca/gasfracenergy.

TERMS OF REFERENCE

11. In preparing this Sixth Report, the Monitor has relied upon unaudited financial information, Company records and discussions with management of the Company. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed.

SISP UPDATE

12. On March 16, 2015, the Court approved the Asset Sale to STEP Energy Services Ltd. (the "Purchaser") which sale is described further in the Third Report. On March 18, 2015, the US Court approved the Asset Sale.

13. Since the respective approvals of the Asset Sale, the Company has been working with the Purchaser to complete all inspections required for the Asset Sale with a view to closing in advance of April 3, 2015.

RESTRUCTURING TERM SHEET

14. Subsequent to the Bid Deadline, GES LP received an offer from Calfrac involving the continuation of its business, operations and assets and the restructuring of certain of GESI's subsidiaries and shareholders, pursuant to the Term Sheet.

15. Both Calfrac and GES LP executed the Term Sheet on March 20, 2015.

16. The transactions contemplated by the Term Sheet require GES LP to continue its business uninterrupted in the ordinary course. As GASFRAC has agreed to sell certain of its assets in the Asset Sale, it is desirable for GES LP to acquire certain additional assets to assist in continuing its operations.

17. The key provisions of the Term Sheet contemplate that GES LP will:

a) purchase from Calfrac certain assets so as to assist GES LP to continue its operations, and the completion of the transactions contemplated under the Term Sheet, pursuant to an Asset Purchase Agreement dated March 23, 2015 (the "Calfrac APA");

b) continue its operations uninterrupted in the ordinary course of business including the continued use of its remaining assets, as well as assets to be acquired from Calfrac;

c) satisfy its continuing obligations to remaining employees, certain key suppliers of goods and services and customers; and

d) finalize a Plan of Compromise and Arrangement with its remaining creditors (the "Plan")

collectively referred to as the "Restructuring Transaction".

18. As consideration for the Restructuring Transaction, Calfrac will:

a) loan GES LP, on a limited recourse basis, the necessary funds to acquire the equipment purchased under the Calfrac APA;

b) loan to GES LP, on a limited recourse basis, the necessary funds for the working capital required to allow GES LP to continue its operations and to complete the Restructuring Transaction; and

c) provide for an additional payment that will allow for an increased distribution to unsecured subordinate debenture holders under a Plan, thereby maximizing value in the CCAA proceedings.

19. The Company anticipates applying to Court in mid-April to seek approval to circulate a plan and call a meeting of debenture holders for the purposes of voting on the Plan as contemplated under the Restructuring Transaction.

20. The Term Sheet, the Calfrac APA, and certain related documents are attached to the confidential affidavit of Lori McLeod-Hill sworn March 23, 2015.

MONITOR'S ANALYSIS OF THE RESTRUCTURING TRANSACTION

21. The Monitor has been actively involved in the negotiations to arrive at the Term Sheet and Calfrac APA and believes the Restructuring Transaction maximizes value in these CCAA proceedings.

22. The Term Sheet contemplates that Calfrac will lend a fixed amount for working capital (the "Working Capital Loan") to GES LP. The Monitor believes that the Working Capital Loan is sufficient to cover all incremental operating, administrative and professional costs incurred by GES LP in carrying on its business uninterrupted and in pursuing and completing the Restructuring Transaction.

23. In addition, the Restructuring Transaction will result in certain of GES LP's employees being retained.

24. The Restructuring Transaction will not delay or otherwise impact the closing of the Asset Sale.

25. The Monitor believes that the Restructuring Transaction is in the best interest of GASFRAC's stakeholders.

RECOMMENDATION

26. The Monitor respectfully recommends that the Court approve the Restructuring Transaction.

Dated at Calgary, this 23rd day of March, 2015.

ERNST & YOUNG INC.
in its capacity as Court-Appointed
Monitor of GASFRAC and not in
its personal or corporate capacity

Cassie Riglin

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