COURT FILE NUMBER	1501-00396
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
	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
APPLICANTS	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	FOURTH SPECIAL REPORT OF THE MONITOR - PNC EARLY TERMINATION FEE
	MARCH 20, 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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MAR 20 2015
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APPENDICES

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", "GASFRAC" or "Applicants", 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. The purpose of this fourth special report of the Monitor (the "Fourth Special Report") is to request advice and direction from this Court with respect to its rejection of PNC's claim for payment of the PNC Early Termination Fee.

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

5. Capitalized terms not defined herein are as defined in the Initial Order or the Vesting Order (defined below).

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

TERMS OF REFERENCE

7. In preparing this Fourth Special 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.

BACKGROUND

8. Pursuant to an Approval and Vesting Order dated March 16, 2015 ("Vesting Order"), Justice Eidsvik authorized and directed the Monitor to pay to PNC all of its claims as against GASFRAC subject to the Monitor withholding USD$1,440,000 comprised of the amount of the Early Termination Fee claimed by PNC plus security for costs pending the within Application seeking determination of whether or not the Early Termination Fee properly forms part of the obligations of GASFRAC payable to PNC.

9. The proceeds arising from the transaction approved by the Vesting Order that stand in the place and stead of the GASFRAC assets are more than sufficient to satisfy the claims of PNC with the only issue remaining outstanding being the determination with respect to the Early Termination Fee.

10. The Monitor and its counsel have reviewed PNC's claim and security and determined that PNC maintains valid and subsisting, duly registered, floating charge security in first priority to GASFRAC's assets (subject only to certain minimal priority lease registrations).

11. Article 13.1 of the June 19th, 2014 Credit and Security Agreement ("Credit and Security Agreement") attached as Appendix "A" between GASFRAC and PNC provides as follows (at page 110):

> "13.1 Term
>
> This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of each Credit Party, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until June 19, 2019 (the "Term") unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon ninety days prior written notice to Agent upon payment in full of the Obligations. In the event the Obligations are prepaid in full (whether voluntary or involuntary, including after acceleration thereof) and this Agreement is terminated prior to the last day of the Term (the date of such prepayment hereinafter referred to as the "Early Termination Date"), Credit Parties shall concurrently pay to Agent for the benefit of Lenders an early termination fee in an amount equal to (x) $1,200,000 if the Early Termination Date occurs on or after the Closing Date to and including the date immediately preceding the first anniversary of the Closing Date, (y) $600,000 if the Early Termination Date occurs on or after the first anniversary of the Closing Date to and including the date immediately preceding the second anniversary of the Closing Date, and (z) $0 if the Early Termination Date occurs on or after the second anniversary of the Closing Date. [...]"

12. The GASFRAC entities provided various security supporting their obligations to GASFRAC under the Credit and Security Agreement.

13. On January 13, 2015, counsel for PNC issued to the various GASFRAC entities a series of demands and Notices of Intention to Enforce Security under Subsection 244(1) of the Bankruptcy and Insolvency Act (Canada) R.S.C. 1985, c. B-3 ("BIA"). These demands are attached as Appendix "B".

14. Subsequent to the issuance of the demands and BIA Notices, PNC and GASFRAC entered into a Forbearance Agreement and Forbearance Amendment Agreement, each approved by the Court by Orders dated January 23, 2015 and March 2, 2015. The Forbearance and Forbearance Amending Agreement are subject to sealing Orders and will be provided to this Court but are not attached to this Fourth Special Report.

15. In its administration of GASFRAC's CCAA proceedings, the Monitor has rejected PNC's claim for the Early Termination Fee and now seeks the Court's advice and directions with respect to that position.

16. The determination of this issue will affect the distribution to the creditors subordinate to PNC.

ADVICE AND DIRECTIONS

17. The Monitor requests this Court's determination, advice and directions with respect to its rejection of PNC's claim for payment of the PNC Early Termination Fee.

Dated at Calgary, this 20th 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

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Cassie Riglin, CA
Manager