COURT FILE NUMBER	1501-00396	Clerk's Stamp
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	**FIRST REPORT OF THE MONITOR** **JANUARY 20, 2015**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** 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 **COUNSEL** 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 of this Honourable Court (the "Initial Order").

2. Ernst & Young Inc. was appointed Monitor (the "Monitor") of the Company.

3. On January 16, 2015, GASFRAC sought and obtained a Temporary Restraining Order ("TRO") from the United States Bankruptcy Court for the Western District of Texas, San Antonio Division under which the terms of the initial order are given full force and effect in the United States. The TRO allows the Company to seek a foreign recognition order of the Initial Order which hearing is currently scheduled for January 30, 2015.

4. The purpose of this first report of the Monitor (the "First Report") is to provide this Honourable Court with the Monitor's comments with respect to the:

    a) activities of the Monitor since the granting of the Initial Order;

    b) Company's negotiations with its senior secured lender;

    c) Company's proposed employee retention plans;

    d) Directors' Charge;

    e) Company's retention of a financial advisor;

    f) Company's proposed sale and investment solicitation process ("SISP"); and

    g) Monitor's recommendations.

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

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

BACKGROUND

7. GASFRAC is an oilfield services company providing both conventional and waterless oil and gas well hydraulic fracturing services to major oil and gas companies in both Canada and the United States.

8. As a result of a combination of continuing negative operating results, limited access at the present time to capital markets for junior issuers such as the Company, reduced industry activity resulting from depressed petroleum and natural gas commodity prices and the inability of the Company to obtain a suitable offer for the purchase of the Company or its assets after a strategic alternative process that would satisfy all of the Company's existing financial obligations, both secured and unsecured, the Company was unable to restructure its affairs in an adequate manner. After careful consideration of all other available alternatives, the board of directors of the Company determined that it was in the best interests of the Corporation and all of its stakeholders to file for an application for creditor protection under the CCAA.

9. Additional background information concerning GASFRAC and these CCAA proceedings is available on the Monitor's website at www.ey.com/ca/gasfracenergy.

TERMS OF REFERENCE

10. In preparing this First 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.

ACTIVITIES OF THE MONITOR SINCE THE GRANTING OF THE INITIAL ORDER

11. Following the granting of the Initial Order, there have been no material adverse changes in the Company's operations. It has maintained an overwhelming majority of its workforce, has retained all its customers and has generally enjoyed the support of its critical vendors.

12. The Monitor has been working closely with the Company to develop and implement cost-reduction strategies which are reflected in the Cash Flow Projection (defined below).

13. The Monitor has also been working closely with the Company to communicate its strategies with all affected stakeholders.

14. The Monitor is in the process of completing its statutory notice requirements under the CCAA. The Monitor anticipates these requirements will be fulfilled shortly after the filing of this First Report.

NEGOTIATIONS WITH SENIOR SECURED LENDER

15. Under the terms of the Initial Order and interim forbearance agreement between the Company and PNC Bank – Canada Branch ("PNC" or the "Secured Lender"), the Company presently has a credit facility in place with a borrowing limit of $34.5 million with PNC.

16. The Company continues to negotiate with the Secured Lender regarding the terms of a more fulsome forbearance agreement that would allow the Company the opportunity to restructure under the CCAA. The Monitor understands that a further interim agreement has been reached that would extend the terms of the interim forbearance agreement, established in conjunction with the Initial Order, from 4:00 MST Wednesday, January 21, 2015 to 4:00 MST Thursday, January 22, 2015.

17. As shown in the cash flow projections (the "Cash Flow Projections") attached as Exhibit E to the January 13 McLeod-Hill Affidavit (defined below), the Company will require further financing in order to continue ongoing operations while it pursues restructuring alternatives.

18. In the event that a fulsome forbearance agreement cannot be negotiated, the Company is working to secure an attractive third party source for the required interim financing as indicated in the Cash Flow Projections.

19. The Monitor is currently in discussions with two parties regarding interim financing and believes that the terms being discussed are a good financing alternative in the event that a fulsome forbearance agreement cannot be negotiated between the Company and the Secured Lender. The Company has been provided a third party term sheet if required for alternate interim financing; a copy of which is attached as Appendix "A" to the affidavit of Lori McLeod-Hill sworn January 20, 2015 (the "January 20 McLeod-Hill Affidavit")

EMPLOYEE RETENTION PLANS

20. As set out in the affidavit of Lori McLeod-Hill sworn January 13, 2015 (the "January 13 McLeod-Hill Affidavit") and the confidential affidavit of Lori McLeod-Hill also sworn

January 13, 2015 (the "January 13 Confidential McLeod-Hill Affidavit"), the Company is seeking this Court's approval of a proposed key employee retention plan for a limited number of its executive employees (the "KERP") and a proposed employee retention plan for other employees ("Employee Bonus"). The intention of the KERP and the Employee Bonus are to ensure that those employees considered essential to the continuation of the operations and a successful restructuring are retained.

21. The Company's ability to successfully reorganize depends on the continued employment, active participation and dedication of the employees who possess the knowledge, experience and skills necessary to support the Company's day-to-day operations. Certain employees have extensive experience with, and knowledge of the proprietary assets of the Company, which will be essential to supporting a sales process.

22. The employees have been anxiously awaiting details of the KERP and the Employee Bonus and many have concerns with respect to job security and compensation. Finding suitable replacements for any departing employees could be difficult and costly due to costs associated with executive search firms, relocation expenses and bonuses, and perceived need, in light of the Company's situation, to pay above-market salaries to interest good quality prospects. In addition, the loss of key employees could create further stability concerns, potentially leading to additional departures and creating a momentum of attrition.

Methodology in developing the KERP and Employee Bonus

23. The bonuses under KERP and the Employee Bonus were established by the Company's senior management, with the assistance of the Monitor and approval of the Directors of the Company, based on the following factors:

    a) the nature of the employees' job requirements and experience;

    b) the employees' relevance to a successful restructuring; and

    c) the estimate of the cost and risk that without appropriate incentives the employees would seek alternate employment.

Summary of KERP

24. The proposed KERP covers only certain executive employees ("Key Employees") and assumes a total payment of approximately $825,000.

25. Key Employees who remain with the Company until these CCAA proceedings are terminated by an order of the Court will receive a bonus of a percentage of their base salary.

26. Payments under the KERP will only be made if the Key Employee:

    a) has not voluntarily resigned or been terminated for cause; and

    b) has fulfilled his or her employment obligations to the Company.

27. The Company has made one modification to the proposed KERP to address the concerns of certain employees of the Company. The modification to the KERP is described further in a confidential supplement to the First Report (the "Confidential Supplement"). Given the nature of the content of the Confidential Supplement to this First Report, the Monitor is seeking an Order of this Court whereby the Confidential Supplement will be, subject to further Order of this Court, be treated as confidential, sealed and not form part of the public record (the "Restricted Court Access Order").

Summary of the Employee Bonus

28. The proposed Employee Bonus is intended to provide the necessary incentive to those employees critical to the Company's ongoing operations throughout the course of the restructuring proceedings.

29. The Employee Bonus has two components:

    a) Firstly, the Company intends to reinstate an employee pay top up program (the "Top Up Program") that it had previously established in February of 2014. Under the Top Up Program, field operations personnel who are in part compensated by a field bonus would be guaranteed a minimum of three bonuses per month. If the bonuses actually earned by the employee for work completed during the month exceeds the value of the three guaranteed bonuses, then the bonus payment would be adjusted to reflect only the bonuses earned. Field maintenance personnel under the Top Up

Program would be guaranteed nine hours of overtime pay per month based on their individual hourly wage. If the maintenance employee actually performs over nine hours of overtime pay during the month period, the overtime payment would be similarly adjusted to reflect the overtime earned; and

b) Secondly, and in addition to the Top Up Program, other employees critical to the ongoing operations of the Company would be eligible to a maximum bonus of 10% of their salary (the "Bonus") if employment with the Company continued throughout the CCAA proceedings. The Bonus would be earned monthly in the amount of approximately 3.33% of salary, up to the maximum amount of the Bonus.

KERP review and analysis

30. The Monitor compared the proposed KERP and Employee Bonus with similar programs authorized in recent CCAA filing (the "Benchmark Data"). The Monitor's analysis indicated that the proposed KERP and Employee Bonus terms and the total payments are consistent with the Benchmark Data.

31. The Monitor believes that the proposed KERP and Employee Bonus are reasonable and that it is critical to ensuring that key personnel are retained to maintain the Company's business and operations and to develop and finalize a restructuring plan.

32. As indicated above, the Company's proposed KERP amount is approximately $825,000. The Company is requesting that this amount be secured under a charge against all assets of GASFRAC and ranking in priority to the PNC security (the "KERP Charge"). The Monitor is supportive of the KERP Charge both in quantum and priority ranking as proposed by the Company. The Monitor understands that an interim agreement has been made with the Secured Lender to allow the KERP Charge to be secured only against a specific real property owned by the Company in Edson, Alberta, but subordinate to PNC with respect to all other assets of the Company, on an interim basis. Further details regarding the proposed KERP can be found in the January 13 Confidential McLeod-Hill Affidavit.

33. The Company's proposed Employee Bonus amount is approximately $1 million, these amounts would not be included in the KERP Charge, but have been fully included in the Cash Flow Projections. It is proposed that the monthly amount earned under the

Employee Bonus be transferred to the Company's counsel in escrow for the employees. The Monitor understands that an interim agreement has been made with the Secured Lender to allow one month's portion of the Employee Bonus (approximately $338,000) to be transferred once earned to the Company's counsel in escrow, subject to further review of cash flows and discussions between the Monitor and PNC.

DIRECTORS' AND OFFICERS' CHARGE

34. The Initial Order provided for a charge against the assets of GASFRAC in the amount of $1.4 million for obligations of the directors and officers of the Company (the "Directors' Charge"). As set out in the Initial Order the Directors' Charge ranks subordinate to the Administration Charge, the Critical Suppliers Charge, and the security of PNC.

35. Certain of the Company's directors have expressed concern about their indemnity under the Directors' Charge in light of it ranking behind PNC. The Company believes that in order to retain its directors it is necessary to amend the priority of the Directors' Charge such that it ranks ahead the security of PNC.

36. The Monitor notes that it is common in similar CCAA proceedings for charges similar to the Directors' Charge to rank in priority to all pre-CCAA filing charges. The Monitor further believes that the continued involvement of the board is important to the successful restructuring of GASFRAC and that the Directors' Charge is instrumental in ensuring board member retention.

37. In addition, the Company is seeking to increase the Directors' Charge to $1.85 million, to cover the maximum exposure of the directors and officers during the Forecast Period. As a result of the proposed changes, the Directors' Charge would have a priority change against all assets of GASFRAC subordinate only to the Administration Charge and the Critical Suppliers Charge.

RETENTION OF FINANCIAL ADVISOR

38. On November 13, 2014, the Company retained CIBC World Markets ("CIBC") as its financial advisor to explore and evaluate the strategic alternatives available to the Company.

39. On January 15, 2015, the Company entered into a renewed engagement agreement with CIBC to continue acting as its financial advisor. Court approval for the renewed engagement agreement with CIBC was granted on January 16, 2015.

40. The engagement of CIBC is critical to the Company's development of a SISP.

41. The Monitor has reviewed the terms of CIBC's engagement and considers them to be reasonable in the circumstances and in comparison to other similar engagement terms.

42. Details of CIBC's engagement are contained in the January 15, 2015 Confidential McLeod-Hill Affidavit.

43. The Company is requesting the Administration Charge, as defined in the Initial Order, be increased to $1.5 million to include CIBC's fees and that CIBC be added as a beneficiary to this charge. The Monitor is supportive of the increase and the inclusion of CIBC in the Administration Charge as proposed by the Company. The Monitor understands that an interim agreement has been made with the Secured Lender to allow the fees associated with CIBC to be secured only against a specific real property owned by the Company in Edson, Alberta, but subordinate to PNC with respect to all other assets of the Company, on an interim basis.

44. The Monitor believes that including CIBC in the Administration Charge is reasonable given that the:

    a) engagement of CIBC is critical to the success of the SISP; and

    b) granting of the change is consistent with other sales processes within CCAA proceedings.

45. The Monitor understands that CIBC has indicated that it is unwilling to continue to work for the Company if its fees are not secured by the Administration Charge and secured against all assets of the Company in priority to PNC.

SALE AND INVESTMENT SOLICITATION PROCESS

46. The Company has developed, with input from the Monitor, CIBC and PNC, a SISP with a view to maximizing the value of its proprietary technologies and customer relationships for the benefit of its broader stakeholder group.

47. The Company, CIBC, PNC and the Monitor are currently negotiating the final terms of the SISP and intend to make an application for approval of the SISP on Thursday January 22, 2015 at 2pm MST. A high-level summary of the SISP, with certain dates and activities subject to further negotiation, is as follows:

a) the process will commence as soon as reasonably practicable upon approval of this Honourable Court;

b) the SISP will be advertised in the *Daily Oil Bulletin* and the *Houston Chronicle*;

c) CIBC will deliver an information package to all identified potential bidders ("Potential Bidders") on or about January 23, 2015;

d) additional information will be made available to Potential Bidders by way of confidential information memorandum and access to CIBC's electronic data room upon execution of a confidentiality agreement on or after January 26, 2015; and

e) the deadline for bids will be February 24, 2015 at noon MST (the "Bid Deadline") and late bids will not be considered.

48. In order for bids to qualify for consideration ("Qualified Bids"), they must be:

a) received by the Bid Deadline;

b) accompanied by a deposit as specified in the SISP;

c) have no material conditions other than Court approval; and

d) open for acceptance until on or after March 13, 2015 or such other date as specified.

49. Following the Bid Deadline, the Company will work with the Monitor, PNC and CIBC to select the most favourable proposal (the "Successful Bid") and develop a satisfactory purchase and sale agreement. The Successful Bid will be selected by March 13, 2015.

50. The Monitor notes that the timeline for the SISP is condensed but believes it to be reasonable as CIBC was previously engaged and actively working with the Company to market the Company and its assets to interested parties.

51. The Monitor believes that the SISP provides reasonable market exposure and will balance the needs of all stakeholders.

RECOMMENDATIONS

52. The Monitor respectfully recommends that this Honourable Court approve the:

a) KERP and Employee Retention Plan;

b) quantum and priority ranking of the KERP Charge;

c) increase in the quantum of the Directors' Charge and the amended priority ranking of the Directors' Charge; and

d) inclusion of CIBC's remuneration under the Administration Charge and the resulting increase in the quantum of the Administration Charge; and

e) SISP.

Dated at Calgary, this 20th day of January, 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