COURT FILE NUMBER	1501-	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	**PROPOSED MONITOR'S REPORT** **January 14, 2015**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**<u>PROPOSED 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: Hoawrd Gorman, QC Phone: 403-267-8144 Fax: 403-264-5973 Email: howard.gorman@nortonrosefulbright.com	

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APPENDIX TO THE PROPOSED MONITOR'S REPORT

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", will be bringing a Court application for relief pursuant to the *Companies' Creditors Arrangement Act, R.S.C. 1985, C-36*, as amended (the "CCAA").

2. GASFRAC has requested that Ernst & Young Inc. ("EYI") be appointed as Monitor (the "Proposed Monitor") under the CCAA, if such relief is granted.

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

    a) Company's cash flow projection in accordance with section 23(1)(b) of the CCAA;

    b) proposed critical suppliers' charge ("Critical Suppliers' Charge"); and

    c) Company's progress towards obtaining interim financing and developing employee retention plans;

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

CASH FLOW PROJECTION

5. In accordance with section 10(2) of the CCAA, the Company, with the assistance of EYI, has prepared a consolidated cash flow forecast (the "Cash Flow Projection") for anticipated receipts and disbursements for the period January 12, 2015 to April 10, 2015 (the "Forecast Period").

6. A copy of the Cash Flow Projection is attached as Exhibit "E" to the Affidavit of Lori McLeod-Hill sworn January 13, 2015 (the "McLeod-Hill Affidavit"). A copy of the signed Cash Flow Projection, accompanying notes thereto and a report containing the prescribed representations of the Company regarding the preparation of the Cash Flow Projection are attached hereto as Appendix "A".

7. In preparing the Cash Flow Projection, management of the Company has used the probable and hypothetical assumptions set out in notes 1 to 5 to the Cash Flow Projection.

8. As indicated in the Cash Flow Projection, the Company estimates that it will have opening cash of $1.5 million, cash receipts of approximately $24.1 million and total disbursements of approximately $31.3 million during the Forecast Period. As reflected in the Cash Flow Projection and as set out in the McLeod-Hill Affidavit, the Company will require interim financing (further discussed below) of approximately $10 million to satisfy its projected uses of cash during the Forecast Period.

Proposed Monitor's review of the Cash Flow Projection

9. The Proposed Monitor has conducted a review consisting of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since hypothetical assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Projection. The Proposed Monitor also reviewed the support provided by management of the Company for the probable assumptions and the preparation and presentation of the Cash Flow Projection.

10. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

a) the hypothetical assumptions are not consistent with the purpose of the Cash Flow Projection;

b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Projection, given the hypothetical assumptions; or

c) the Cash Flow Projection does not reflect the probable and hypothetical assumptions.

11. Since the Cash Flow Projection is based on assumptions regarding future events, actual results may vary from the information presented even if the hypothetical assumptions

occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Projection will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

12. The Cash Flow Projection has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

CRITICAL SUPPLIERS' CHARGE

13. The Company has identified two critical suppliers whose services and product are essential to the ongoing operation of the Company's LPG fracturing business as they supply products unique to the market place and that other suppliers would be unable to provide. These suppliers are:

    a) Lamberti Canada Inc. and Lamberti USA Inc. (together, "Lamberti") who supply gel and activator chemicals to the Company, which are patented by a third party and licensed to the Company and Lamberti as the development manufacturer of the system. As such, no other party could provide these specific chemicals used in LPG fracturing in Canada and the US without obtaining the license to use the patents and building the equipment needed to produce the chemicals; and

    b) Lubrizol Corporation ("Lubrizol") who owns the patents for a chemical called 'breaker', also critical in the LPG fracturing process.

14. The Company has indicated that if Lamberti and Lubrizol stop making these chemicals available to the Company, it would be unable to continue its LPG fracturing operations and complete the committed contracts for this financial quarter, which account for the majority of the receivables anticipated in the Cash Flow Projections.

15. The Company has worked with the Proposed Monitor to calculate the charge needed to protect these two suppliers at $1.10 million, being the amount for which the Company is liable for at any given time over the Forecast Period.

Analysis of Critical Suppliers' Charge

16. The Proposed Monitor believes that the proposed Critical Suppliers Charge is reasonable and that it is critical to ensuring that the supplies necessary to maintain the Company's business and operations will remain available to allow the Company to develop and finalize a restructuring plan. In addition, the Proposed Monitor is unaware of any other alternative for supply of these products.

17. The Proposed Monitor further believes that the quantum of the charge is reasonable as it represents only the amount necessary to cover the Company's projected outstanding balances with Lamberti and Lubrizol during the Forecast Period.

FINANCING

18. As set out in Appendix A, the Company will require financing during the Forecast Period as early as the week ending January 30, 2015.

19. The Company is currently in discussions with its senior secured lender, PNC Bank – Canada Branch, to provide financing under its existing credit facility which would alleviate the immediate need for interim financing.

EMPLOYEE RETENTION PLANS

20. As set out in the McLeod-Hill Affidavit, the Company is working to develop a proposed key employee retention plan for a limited number of its executive employees (the "KERP") and a proposed employee retention plan for other critical employees ("Employee Retention Plan"). The intention of the KERP and the Employee Retention Plan is to ensure that those employees considered essential to the continuation of operations and a successful restructuring are retained.

21. The Company is working with the Proposed Monitor to develop the KERP and the Employee Retention Plan in a manner which will balance the needs of all stakeholders.

Dated at Calgary, this 14th day of January, 2015

ERNST & YOUNG INC.
in its capacity as the Proposed
Monitor of GASFRAC and not in
Its personal or corporate capacity

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

Cassie Riglin, CA
Manager

Appendix A

GASFRAC ENERGY SERVICES INC.

January 13, 2015

Ernst & Young Inc.

1000, 440-2nd Ave SW

Calgary AB T2P 5E9

Attention: Neil Narfason, Senior Vice President

Dear Sir:

Re: **Proceedings under the Companies' Creditors Arrangements Act ("CCAA")**

Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by GASFRAC Energy Services Inc. ("GES"), GASFRAC Services GP Inc. ("GSGP"), GASFRAC Energy Services (US) Inc. ("GES US"), GASFRAC US Holdings Inc. ("Holdings") and GASFRAC Inc. ("GI"), collectively the "Company" or "GASFRAC" ("MMC"), for the commencement of proceedings under the CCAA, the management of GASFRAC has prepared the attached Cash Flow Projection and the assumptions on which the Cash Flow Projection is based.

GASFRAC confirms that:

1. The hypothetical assumptions are reasonable and consistent with the purpose of the projections, and the probable assumptions are suitably supported and consistent with the plans of the debtor company and provide a reasonable basis for the projections. All such assumptions are disclosed in Notes 1 to 5.

2. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

3. The projections have been prepared solely for the purpose described in Notes 1 to 5, using the probable and hypothetical assumptions set out in Notes 1 to 5. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Yours Truly,

L. McLeod-Hill

Lori McLeod-Hill
Chief Financial Officer

GASFRAC Energy Services Inc.
Suite 1900, 801 – 6 Ave. S.W. Calgary, Alberta T2P 3W2 Tel: (403) 237-6077 Fax: (403) 269-3722

GASFRAC Energy Services Inc.
Consolidated 13 Week Cash Flow
$000 CAD, unaudited

	Week 1 16-Jan-15	Week 2 23-Jan-15	Week 3 30-Jan-15	Week 4 6-Feb-15	Week 5 13-Feb-15	Week 6 20-Feb-15	Week 7 27-Feb-15	Week 8 6-Mar-15	Week 9 13-Mar-15	Week 10 20-Mar-15	Week 11 27-Mar-15	Week 12 3-Apr-15	Week 13 10-Apr-15	Total
Opening Canadian Cash (Note 2)	1,500	558	605	(1,493)	(226)	(2,271)	(4,003)	(5,550)	(8,258)	(9,879)	(4,965)	(4,531)	(2,671)	1,500
Cash Receipts (Note 3)														
Canada	581	-	12	2,059	-	-	500	-	-	4,707	-	-	-	7,859
US	1,612	1,785	1,662	2,764	-	245	-	696	-	2,357	2,029	3,114	-	16,264
Total Cash Receipts	2,193	1,785	1,674	4,823	-	245	500	696	-	7,064	2,029	3,114	-	24,124
Cash Disbursements (Note 4)														
Canada	(2,381)	(634)	(846)	(1,208)	(851)	(608)	(859)	(1,531)	(1,258)	(957)	(1,145)	(661)	(2,371)	(15,311)
US	(754)	(1,104)	(2,925)	(2,348)	(1,194)	(1,369)	(1,188)	(1,874)	(363)	(1,193)	(451)	(593)	(624)	(15,979)
Total Cash Disbursements	(3,134)	(1,738)	(3,772)	(3,557)	(2,045)	(1,977)	(2,047)	(3,405)	(1,621)	(2,150)	(1,596)	(1,254)	(2,995)	(31,290)
Net Cash Surplus (Deficit)	(942)	47	(2,098)	1,266	(2,045)	(1,732)	(1,547)	(2,709)	(1,621)	4,914	433	1,861	(2,995)	(7,166)
Ending Cash Balance (Deficit) (Note 5)	558	605	(1,493)	(226)	(2,271)	(4,003)	(5,550)	(8,258)	(9,879)	(4,965)	(4,531)	(2,671)	(5,666)	(5,666)
Accounts Receivable	7,940	12,278	15,986	14,134	17,556	22,553	22,553	23,946	28,594	22,404	21,986	22,773	24,802	

Lori McLeod-Hill, CFO
GASFRAC

Notes

1 Estimated FX rates for the forecast period is 1.1608

2 Opening cash as at January 12, 2015, is the amount held in the Company's HSBC bank account related to amounts held for security against the Company's corporate credit cards that will be available to the Company upon cancellation of the credit cards.

3 Cash receipts are comprised of the collection of accounts receivable, for both completed and committed work over the Forecast Period, and the sale of redundant assets.

4 Cash disbursements represent cash requirements for ongoing operations, including purchases required to complete committed work during the Forecast Period, professional fees during the CCAA proceedings,

5 Deficits would be offset by Interim Financing. All Interim Financing requirements are fully off-set by increased accounts receivable (i.e. no burn) during the CCAA Process.