

COURT FILE NO.

25-2618433

COURT

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JUDICIAL CENTRE

CALGARY

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IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF: TARTAN COMPLETION SYSTEMS INC.

DOCUMENT

SECOND REPORT OF MNP LTD., PROPOSAL TRUSTEE

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING

PROPOSAL TRUSTEE
MNP LTD.
1500, 640 – 5 AVENUE SW
CALGARY, AB T2P 3G4

THIS DOCUMENT

ATTN: VICTOR P. KROEGER
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APPENDICES

- APPENDIX A Cash flow projection for the period April 11, 2020 to June 14, 2020
- APPENDIX B Trustee's and Company's report on Cash flow forecast for the period April 11, 2020 to June 14, 2020 (Forms 29 and 30).

INTRODUCTION AND LIMITATIONS

1. On February 14, 2020, Tartan Completion Systems Inc. (the “Company” or the “TCSI”) filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to the Bankruptcy and Insolvency Act (“BIA”) and MNP Ltd. consented to act as trustee under the NOI (the “Trustee”).
2. This is the Trustee’s second report to the Court of Queen’s Bench of Alberta (the “Court”) (the “Second Report”).
3. All references to currency are in Canadian dollars unless otherwise stated.
4. In preparing this report and making comments herein, the Trustee has relied upon, certain unaudited, draft or internal financial information, including the Company’s books and records, and information from other third-party sources (collectively, the “Information”). The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or other standards established by the Chartered Professional Accountants of Canada (the “Standards”). Additionally, none of the Trustee’s procedures were intended to disclose defalcations or other irregularities. If the Trustee were to perform additional procedures or to undertake an audit examination of the Information in accordance with the Standards, additional matters may have come to the Trustee’s attention. Accordingly, the Trustee does not express an opinion, nor does it provide any other form of assurance on the financial or other information presented herein. The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.
5. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this report. Any use, which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.
6. A copy of the Second Report and other relevant documents in the Company’s restructuring proceedings will also be available on the Trustee’s website at <https://mnpdebt.ca/en/corporate/Engagements/tartan-completion-systems-inc>
7. Defined terms used in the Second Report will have the same meaning as in the First Report of the Trustee dated March 10, 2020.

PURPOSE OF THE REPORT

8. The purpose of the Second Report is to provide the Court and other interested parties with:
 - a. The Trustee’s position with respect to TCSI’s application regarding its ongoing negotiations with various secured creditors; and
 - b. Information on the Company’s application seeking the Court’s approval of an extension of the time period for the Company to file its proposal until June 11, 2020 (the “Extension Period”).

CASH FLOW STATEMENT AND VARIANCE ANALYSIS

9. Since the filing of the First Report, TCSI has shut down its and TCSC’s operations. This accounts for the significant variances reported to date by TCSI and are reflected in the Cash Flow Statement going forward.

10. The Trustee has monitored the Company's actual cash receipts and disbursements up to the week ending April 10, 2020 and provides the following variance analysis:

Description	Projected	Actual	Variance	Notes
A/R	\$ 20,758	\$ 6,965	\$ (13,794)	a
Interim financing	480,000	212,261	- 267,739	b
Other	13,000	1,225	- 11,775	c
	<u>513,758</u>	<u>220,451</u>	<u>- 293,308</u>	
Outflows				
Credit Card payment	1,800	1,800	-	
Staff Expenses	-	-	-	
401K (US)	10,289	-	- 10,289	d
Liquid Capital	130,000	-	- 130,000	e
Payroll	130,488	102,362	- 28,126	f
Payroll Taxes (Source deductions)	33,983	9,007	- 24,976	f
Insurance	4,000	4,000	-	
IT/phone	600	-	- 600	
Utilities	500	-	- 500	
Rent & Lease	51,600	27,653	- 23,946	g
Restructuring costs	65,000	-	- 65,000	h
Contingency	3,000	78,428	75,428	i
	<u>\$ 431,260</u>	<u>\$ 223,250</u>	<u>\$ (208,010)</u>	
Surplus (Shortfall)	<u>82,498</u>	<u>- 2,800</u>	<u>- 85,298</u>	
Beginning Cash	<u>2,800</u>	<u>2,800</u>	<u>-</u>	
Closing Cash	<u>\$ 85,298</u>	<u>\$ 0</u>	<u>\$ (85,298)</u>	

11. Notes to the Variance Analysis:

- A/R – Accounts receivable collections have been affected as a result of the shut-down of operations during the stay period.
- Interim financing – Due to the current shut down of operations, previously budgeted advances from TEG were not fully required to fund the operations that did take place during the stay period.
- Other – the SRED credit expected has not yet been received, other collections were for GST refunds.
- 401K (US) – amounts were not paid as TCSI has ceased operations at the end of March. All required payroll costs are accounted for in note f and are permanent differences.
- Liquid Capital – TEG has purchased Liquid Capital's security and has deferred collection during the NOI process, representing a permanent difference.

- f. Payroll and related expenses – These amounts were originally budgeted for the payment of TCSC payroll. TCSC has been shut down and no payroll payments were required after operations ceased at the end of March.
- g. Rent & Lease – The forecast rent included rental payments during the stay period for the Edmonton and US properties. Only March rent payments for the Edmonton and Wyoming properties were paid. As operations were discontinued the Edmonton and Wyoming properties have been vacated.
- h. Restructuring Costs – Restructuring costs were not paid during the period and are included in the June 30 cash flow forecast.
- i. Contingency – Amounts were paid to various TCSC creditors including the US Postal Service and Wyoming Department of Workforce Services, sales tax payments and bank charges that were not originally budgeted. These amounts were issued prior to operations ceasing and are permanent differences.

CONTINUING OPERATIONS

- 12. Due to the COVID-19 pandemic and the catastrophic collapse of oil prices, TCSI made the decision to cease for the time being its and TCSC's business operations in March.
- 13. The Company determined that in order for operations to restart and for it to file a proposal to its unsecured creditors the following had to occur:
 - a. The economic effect of the COVID-19 pandemic needed to be resolved and/or oil prices needed to recover;
 - b. Liquid Capital's demand, pursuant to its security, needed to be resolved;
 - c. The patent dispute with Rapid Design Group ("Rapid Design") needed to be settled;
 - d. Continued financial support from TEG during the Period; and
 - e. Determine a recommended approach for its proposal to creditors.
- 14. To date, the Company has resolved some of the above matters as follows:
 - a. Ceased all current business operations, reduced staff complement and leased a new facility at a cost of \$5,000 per month versus the previous amount of \$27,000 per month;
 - b. TEG has purchased Liquid Capital's security and has deferred payment obligations during the Period;
 - c. The Company has entered into a settlement agreement in principle with Rapid Design. This agreement in principle is subject to finalizing of the necessary settlement documentation and Court approval. The Company is expecting that the settlement agreement (and its approval) will form part of the application being heard on April 24, 2020; and
 - d. TEG has advised the Company and the Trustee that it will provide funding during the Period pursuant to the Interim Financing should the request for the increased Interim Financing limit be approved by this Honourable Court.

15. There is some indication from the former manager of TCSC that certain of the downhole tools located in the United States are owned by TCSI. These and other assets owned by TCSC have been relocated to a new location in Wyoming. TCSI is currently determining if the indication of ownership is correct and if so, TCSI will arrange to take possession of these downhole tools.

PROJECTED STATEMENT OF CASH FLOW

16. The Company has prepared a cash flow projection for the period April 11, 2020 to June 14, 2020 (the “Extension Period Cashflow”) and it is attached as Appendix A. The Company’s report and Trustee’s Reports on the cash flow projection, Forms 29 and 30 are attached hereto as Appendix B.

17. A summary of the Company prepared cashflow is as follows:

<u>Receipts:</u>	,000's of dollars
Interim Financing	\$520
SR&ED refund	<u>21</u>
Total Receipts	<u>541</u>
<u>Expenses</u>	
Payroll costs	84
Rapid Design	160
Restructuring Costs	241
Rent & Leases	10
Other	<u>0</u>
Total expenses	<u>543</u>
Opening Cash	4
Net cash difference	<u>-2</u>
Ending Cash	<u><u>\$2</u></u>

18. The Trustee has reviewed the cash flow projection and has the following comments:
- a. The Company is projecting cash flow shortfalls due to COVID-19, the collapse of world oil prices and the temporary cessation of its operations. The Company also projects that the shortfall will continue to be funded by TEG, as required, through the Interim Financing;
 - b. During the Extension Period the Company will be:
 - i. Paying restructuring costs;
 - ii. Consolidating equipment into its new facility;
 - iii. Complying with its obligation pursuant to the agreement with Rapid Design;
 - iv. Determining ownership of the assets located in the United States; and
 - v. Developing its proposal to creditors;

- c. The cash flow forecast indicates that TCSI will require additional funding of \$520,000 during the Extension Period;
- d. The SR&ED preparation fee only become payable after the SR&ED refund is received and are based on 35% of the amount collected; and
- e. TEG has advised the Company, and the Trustee, that subject to Court approval of the increased Interim Financing, it will continue to provide funding during the NOI to pay all costs incurred by the Company to allow the Company to make its proposal.

REQUEST FOR EXTENSION

- 19. Pursuant to the BIA, and the March 12, 2020 Order granted by this Honourable Court, the Company must file a Proposal no later than April 27, 2020 unless an application is made to the Court for an extension.
- 20. Since the date of the NOI the Company has been taking steps towards its restructuring efforts, including TEG taking over the management of the Company to gain control of costs and address interim funding requirements, in order to develop a proposal to the Company's creditors.
- 21. The Company is requesting an extension of the stay of proceedings until June 11, 2020.
- 22. The Trustee is of the view that the continued actions of the Company should enhance the value of the Company for the creditors, and more generally, is in the best interest of all of the Company's stakeholders.
- 23. The Trustee is also of the view that the Company is acting in good faith and with due diligence in taking steps to resolve certain outstanding issues and claims of creditors in order that it might be in a position to make a proposal to its creditors.
- 24. The Trustee supports the settlement agreement in principle reached with Rapid Design and understands that once this is finalized it will resolve any outstanding issues surrounding which entity has title to the intellectual property and that is one of the key assets of the Company.
- 25. The intellectual property subject to the Rapid Design dispute is critical to the value of the Company's assets. Therefore, the Trustee believes that the settlement with Rapid Design is necessary to be able to commence any sales and investment solicitation process that may be initiated by the Company in the future and to properly formulate any proposal to the creditors of the Company.
- 26. The Trustee does not take a position on the request of the Company for the increase to the Interim Financing in order to fund the settlement with Rapid but believes that achieving this settlement with Rapid Design is critical and necessary for the Company to continue and complete its restructuring efforts.

27. In addition:

- a. The Trustee understands the Company, through its actions, as described herein and with the proposed increase to the Interim Financing, is preparing itself to be in a position to make a proposal to its creditors; and
- b. The Trustee does not believe that any creditor would be materially prejudiced if the extension were granted.

All of which is respectfully submitted this 23rd day of April, 2020.

MNP Ltd. in its capacity as Trustee in the Notice
of Intention to Make a Proposal of Tartan
Completion Systems Inc and not in its personal or
corporate capacity



Per: _____
Victor P. Kroeger CPA, CA, LIT, CIRP, CFE
Senior Vice President

APPENDIX A

**Tartan Completion Systems Inc. (the "Company")
Statement of Weekly Projected Cash Flow
For the period from Apr 11, 2020 to Jun 14, 2020**

**Court No.: 25-2618433
Estate No.: 25-2618433**

General Notes & Assumptions

1. Unless otherwise stated, all amounts are based on historical data and management estimates.
2. As the Company is in the process of developing its proposal pursuant to the BIA (the "Proposal"), the Statement of Projected Cash Flow does not include any payments to the Company's creditors pursuant to this proposal
4. All amounts include applicable GST.

Specific Notes & Assumptions

1. No fund will be received from customers.
2. \$510,000 of cash injection is required from investors.
3. \$21,013 of SRED refund expected to be received on week of March 6, 2020.
4. No Credit Card payment are anticipated in the Stay period.
5. \$615 of staff expenses are anticipated for microsoft 365 system maintenance fee in the Stay period.
6. Approximately \$25,048 of transportation payment for take care of TCSI moving stuff.
7. Approximately \$160,000 of Rapid Design payments are anticipated in the Stay period.
8. Approximately \$75,983 of payroll for management and employees.
9. Approximately \$7,980 of source deductions for employess, remitted to CRA.
10. Approximately \$2,112 of insurance for employee.
11. Approximately \$900 of IT/Phone cost for accounting system and cellphone fee.
12. No utilities for company locations each month end.
13. No Rent & Lease fee for company locations each month end.
14. Restructuring costs to MNP as the Trustee (MNP) and Stikeman as legal counsel and their counsel are estimates based on TCS being able to file its proposal, or seek an extension as required.
15. Approximately \$20,000 of contingency fee for unforeseen expenses that may arise during the Stay period (\$9,821 will pay to the company help to apply the SE&RD).

Tartan Completion Systems Inc.



Per: Terry Lau

MNP Ltd. in its capacity as Trustee under the Proposal of
Tartan Completion Systems Inc., and not in its personal capacity



Per: Victor P. Kroeger
Senior Vice President

Tartan Completion Systems Inc. (the "Company")
Statement of Weekly Projected Cash Flow
For the period from Apr 11, 2020 to Jun 14, 2020

Court No.: 25-2618433
Estate No.: 25-2618433

	Notes	17-Apr	24-Apr	01-May	08-May	15-May	22-May	29-May	31-May	07-Jun	14-Jun
Opening Balance		\$ 3,730	\$ 6,914	\$ 6,090	\$ 4,236	\$ 7,625	\$ 14,921	\$ 14,921	\$ 8,425	\$ 33,738	\$ 12,038
Inflows											
A/R	1	-	-	-	-	-	-	-	-	-	-
Investment	2	-	110,000	15,000	150,000	25,000	-	70,000	150,000	-	-
Other	3	21,013	-	-	-	-	-	-	-	-	-
Total Inflows		21,013	110,000	15,000	150,000	25,000	-	70,000	150,000	-	-
Outflows											
Credit Card payment	4	-	-	-	-	-	-	-	-	-	-
Staff Expenses	5	205	-	-	-	205	-	-	-	205	-
Transportation	6	-	-	-	25,048	-	-	-	-	-	-
Rapid Design	7	-	100,000	-	-	-	-	60,000	-	-	-
Payroll	8	15,523	-	15,115	-	15,115	-	15,115	-	15,115	-
Payroll Taxes (Source deductions)	9	2,101	-	1,739	-	1,380	-	1,380	-	1,380	-
Insurance	10	-	704	-	-	704	-	-	704	-	-
IT/phone	11	-	300	-	-	300	-	-	300	-	-
Utilities	12	-	-	-	-	-	-	-	-	-	-
Rent & Lease	13	-	-	-	5,000	-	-	-	-	5,000	-
Restructuring costs	14	-	-	-	116,563	-	-	-	123,983	-	-
Contingency	15	-	9,821	-	-	-	-	-	-	-	10,179
Total outflows		17,829	110,825	16,854	146,611	17,704	-	76,495	124,987	21,700	10,179
Closing Balance		\$ 6,914	\$ 6,090	\$ 4,236	\$ 7,625	\$ 14,921	\$ 14,921	\$ 8,425	\$ 33,738	\$ 12,038	\$ 1,859

Purpose:

The Statement of Projected Cash Flow has been prepared by the Company's management pursuant to Section 50.4(2) of the *Bankruptcy and Insolvency Act* (the "BIA"). It is being filed in addition, the Statement of Projected Cash Flow has been prepared based on assumptions regarding future events, therefore actual results may vary from the estimates presented herein

Tartan Completion Systems Inc.



Per: Terry Lau

MNP Ltd. in its capacity as Trustee under the Proposal of
Tartan Completion Systems Inc., and not in its personal capacity



Per: Victor P. Kroeger
Senior Vice President

APPENDIX B

District of: Alberta
Division No. 02 - Calgary
Court No. 25-2618433
Estate No. 25-2618433

FORM 29
Trustee's Report on Cash-Flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

The attached statement of projected cash flow of Tartan Completion Systems Inc., as of the 22nd day of April 2020, consisting of updated cash flow projections from April 11, 2020 to June 14, 2020, has been prepared by the management of the insolvent person (or the insolvent debtor) for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by: the management and employees of the insolvent person or the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by: management or the insolvent person for the probable assumptions and preparation and presentation of the projection.

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

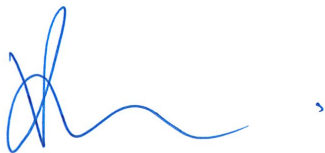
- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will 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 projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the city of Calgary in the Province of Alberta, this 22nd day of April 2020.

MNP Ltd. - Licensed Insolvency Trustee
Per:



Victor Kroeger - Licensed Insolvency Trustee
1500, 640 - 5 Avenue SW
Calgary AB T2P 3G4
Phone: (403) 538-3187 Fax: (403) 537-8437

District of: Alberta
Division No. 02 - Calgary
Court No. 25-2618433
Estate No. 25-2618433

FORM 30
Report on Cash-Flow Statement by the Person Making the Proposal
(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

I, Tartan Completion Systems Inc., have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 21st day of April, 2020, consisting of .

Updated cash flow projections from April 11, 2020 to June 14, 2020. Assumptions have been updated and the cash flow projections updated to reflect funding that will be provided by Tartan Energy Group, the debtor's parent company.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

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

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the city of Calgary in the Province of Alberta, this 21st day of April 2020.



Tartan Completion Systems Inc.
Debtor

Bill Chu, Chief Operating Officer
Name and title of signing officer

Name and title of signing officer