

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 RE: TARTAN COMPLETION SYSTEMS INC.

DOCUMENT

THIRD REPORT OF MNP LTD., PROPOSAL TRUSTEE

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING

THIS DOCUMENT

PROPOSAL TRUSTEE

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

ATTN: VICTOR P. KROEGER
TEL: 403.298.8479
FAX: 403.537.8437
EMAIL: vic.kroeger@mnp.ca

APPENDICES

APPENDIX A Cash flow projection for the period June 6, 2020 to July 31, 2020

APPENDIX B Trustee's and Company's report on Cash flow forecast for the period June 6, 2020 to July 31, 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 the proposal trustee under the NOI (the "Trustee").
2. This is the Trustee's third report (the "Third Report") to the Court of Queen's Bench of Alberta (the "Court").
3. All references to currency are in Canadian dollars unless otherwise stated.
4. In preparing this Third 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 Third 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 Third Report will have the same meaning as in the First Report of the Proposal Trustee dated March 10, 2020 and the Second Report of the Proposal Trustee dated April 22, 2020.

PURPOSE OF THE REPORT

8. The purpose of the Third 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;
 - b. The Trustee's position with respect to the proposed sale and investment solicitation process ("SISP");
 - c. TCSI's application for an increase in the Updated Interim Financing Facility and Interim Financing Charge;

- d. TCSI's application for an increase in the Administration Charge; and
- e. 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 July 31, 2020 (the "Extension Period").

ACTUAL RESULTS AND VARIANCE ANALYSIS

9. Since the filing of the Second Report, TCSI's operations have remained shut down.
10. The economic shut down due to the COVID – 19 pandemic and the collapse of world oil prices continue to account for the variances reported to date by TCSI and these will affect the Cash Flow Statement going forward.
11. The Company has provided us with copies of its fixed assets listing that are now stored in the Tartan Energy Group facility in Calgary, Alberta.
12. Subsequent to the Trustee's second Report, the Trustee has continued to monitor the Company's actual cash receipts and disbursements up to the week ending June 5, 2020 and provides the following variance analysis for the April 17, 2020 to June 5, 2020 period:

Description	Projected	Actual	Variance	Notes
A/R	\$0	\$6,889	-\$6,889	a
Interim financing	520,000	340,242	179,758	b
Other	21,013	21,013	0	
	<u>541,013</u>	<u>368,144</u>	<u>172,869</u>	
Staff Expenses	410	0	410	
Transportation	25,048	76,306	-51,258	c
Rapid Design	160,000	160,000	0	
Payroll & related expenses	67,468	61,278	6,190	d
Insurance	2,112	0	2,112	e
IT/phone	900	0	900	
Rent & Lease	5,000	9,983	-4,983	f
Restructuring costs	240,546	31,310	209,236	g
Contingency	9,821	13,059	-3,238	h
	<u>517,905</u>	<u>351,936</u>	<u>165,968</u>	
Surplus	23,108	16,208	6,900	
Beginning Cash	174,156	4,469	169,687	
Closing Cash	<u>\$197,264</u>	<u>\$20,678</u>	<u>\$176,587</u>	

13. Notes to the Variance Analysis:

- a. A/R – amounts collected in the most recent period were higher than projected due to the collection of a GST refund and a collection of accounts receivable that were not previously included in the forecast.
- b. Interim financing – Interim financing was lower than forecast as the Company has delayed certain of its restructuring cost payments.
- c. Transportation costs – In the initial projection, the Company anticipated utilizing TEG's equipment to transport the Company's assets to the TEG facility. Management discovered that TEG's equipment was insufficient to undertake this task and therefore a specialized equipment hauler had to be retained at a significant cost.
- d. Payroll and related expenses – Payroll and related taxes were lower than projected due to fewer employees than forecast being required for the asset consolidation into the TEG facility.
- e. Insurance – TEG is paying the insurance premiums on TCSI assets with TCSI named as the loss payee on the policy.
- f. Rent & Lease – The final rent payment for the Grande Prairie location was made during the period. This amount was higher than projected because TCSI originally planned to be out of the location before May, however, the landlord auto-debited the payment of May rent of \$9,983. The Company is dealing with the landlord on this overpayment. Ongoing rent in the TEG facility in Calgary for the TCSI assets will be \$10,500/month.
- g. Restructuring Costs – The Company has paid a portion of the outstanding restructuring costs to date. The outstanding balance is expected to be paid during the Extension Period.
- h. Contingency – The contingency amount paid certain patent continuity payments that were not included in the previous forecast prepared by the Company.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

14. Below is the Company's Statement of Receipts and Disbursements for the period February 14, 2020 to June 5, 2020.

In the matter of the Notice of Intention to make a Proposal
of Tartan Completion Systems Inc.
Statement of Receipts and Disbursements
For the period February 14, 2020 to June 5, 2020

<u>Receipts</u>	
A/R	\$17,972
Investment	548,339
Other	<u>51,567</u>
Total Receipts	<u>617,878</u>
<u>Disbursements</u>	
Operation cost	50,367
Staff Expenses	24,000
Transportation	80,643
Rapid Design	163,693
Payroll	200,607
Payroll Taxes	3,443
Rent & Lease	38,341
Restructuring costs	62,810
Contingency	<u>13,892</u>
Total Disbursements	<u>637,795</u>
Excess of Receipts over Disbursements	-19,917
Beginning Cash	<u>40,595</u>
Ending Cash	<u><u>\$20,678</u></u>

CONTINUING OPERATIONS

15. 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 2020.
16. The Company has previously advised that in order for operations to restart and for it to file a proposal to its unsecured creditors the following had to occur:
- a. Recovery from the economic effect of the COVID-19 pandemic;
 - b. Recovery of oil prices;
 - c. Resolution of the Liquid Capital secured claim;
 - d. Settlement of the patent dispute with Rapid Design Group ("Rapid Design");
 - e. Continued financial support from TEG;

- f. Assessment of what interest it has in Tartan Completion Systems Corp. ("TCSC") in the United States;
- g. Development of a sale and investment solicitation process (the "SISP"); and
- h. Preparation of a proposal to creditors.

17. The Company has resolved many of the above matters as follows:

- a. As business operations have been stopped TCSI has reduced its staff count and consolidated its assets into the TEG facility;
- b. TEG has purchased Liquid Capital's security and has deferred TCSI's payment obligations during the NOI process;
- c. Settled its dispute with Rapid Design and has made the agreed upon payments required under the terms of the settlement agreement, to date;
- d. Drafted a form of SISP procedures in consultation with the Trustee for the Court to consider;
- e. TEG has advised the Company and the Trustee that it will continue to provide funding during the Extension Period pursuant to the Interim Financing Order as approved by this Honourable Court; and
- f. The Company has retained US counsel regarding TCSC and will advise us once the ownership interest of TCSC is resolved and what further steps will be required.

SALE AND INVESTMENT SOLICITATION PROCESS ("SISP")

18. The Company and the Trustee have prepared a draft SISP procedure that the Trustee will administer to facilitate a sale or investment in the Company's assets and patents whereby interested parties will be canvassed for either an outright purchase of the assets or to invest in the Company. To date, the proposed milestones and estimated deadlines for the SISP procedure, including an Approval Hearing, are as follows:

Milestones	Estimated Deadlines
Establishment of a virtual data room	Week of June 8, 2020
Issuance by the Trustee of a solicitation package (including teasers, confidential information memorandums and non-disclosure agreements)	Week of June 8, 2020
Due Diligence Period for Potential Bidders	Week of July 13, 2020
Phase I Bid Deadline	Week of July 13, 2020

Determination of the Successful Bidder(s)	Week of July 20, 2020
Approval Hearing	Week of July 27, 2020
Closing of the transaction contemplated in the Successful Bid(s)	Week of July 27, 2020

19. A copy of the SISP procedures are attached as Schedule "A" to the draft order that is attached to the Application of the Company filed on June 5, 2020.
20. The Trustee believes that the SISP will provide certainty to the Company's creditors and, if successful, will establish whether the Company will be in a position to make a proposal to its unsecured creditors.

PROJECTED STATEMENT OF CASH FLOW

21. The Company has prepared a cash flow projection for the period June 6, 2020 to July 31, 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.
22. A summary of the Company prepared cashflow is as follows:

<u>Receipts:</u>	
Interim financing	<u>\$900,000</u>
 <u>Disbursements:</u>	
Credit Card payment	35,338
Transportation	88,548
Rapid Design	120,000
Payroll and related expenses	64,887
IT/phone	924
Rent & Lease	21,000
Restructuring costs	499,544
Contingency	<u>69,760</u>
Total Disbursements	<u>900,000</u>
Surplus(Shortfall)	-
Beginning Cash	<u>20,678</u>
Estimated Closing Cash	<u><u>\$20,679</u></u>

23. The Trustee has reviewed the Extension Period Cashflow and has the following comments:
 - a. The Company does not intend to recommence operations during the SISP process. The Company 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. Complying with its obligation pursuant to the settlement agreement with Rapid Design;
 - iii. Determining ownership of TSCS and the assets located in the United States;
 - iv. Proceeding to implement the SISP as outlined in the SISP procedures (should the SISP be approved by this Honourable Court); and
 - v. Developing its proposal to creditors;
- c. The Extension Period Cashflow indicates that TCSI will require additional funding of \$900,000 during the Extension Period; and
- d. TEG has advised the Company, and the Trustee it will continue to provide funding to the Company during the NOI to pay all costs incurred by the Company in order to allow the Company to make its proposal or complete the process commenced under the SISP.

REQUEST FOR EXTENSION

- 24. Pursuant to the BIA, and the April 24, 2020 Order granted by this Honourable Court, the Company must file a Proposal no later than June 14, 2020 unless an application is made to the Court for an extension.
- 25. 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 SISP and ultimately, a proposal to the Company's creditors.
- 26. The Company is requesting an extension of the stay of proceedings until July 31, 2020.
- 27. The Company is also requesting an increase in the Interim Financing Charge to \$1,500,000 and an increase in the Administration Charge to \$500,000.
- 28. The Trustee notes that the increased amount of the Interim Financing Charge will be necessary to provide sufficient liquidity in order to fund the expenses of the Company until the end of the Extension Period and allow the Company to make payments for services incurred post-filing, including the restructuring costs of commencing and completing the SISP.
- 29. The Trustee supports the increased amount of the Administration Charge in order to provide sufficient security for the restructuring costs to be incurred by the Trustee, its legal counsel and legal counsel for the Company during the SISP and the Extension Period. Provided timely payments of accounts issued by the restructuring professionals are made, then the increased quantum of the Administration Charge will provide adequate coverage for the next phase of the NOI proceedings.
- 30. The Trustee is of the view that the continued actions of the Company and the commencement of the SISP will preserve the value of the Company for the creditors, and more generally, is in the best interest of all of the Company's stakeholders.

31. 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.
32. The Trustee supports the proposed SISP and the timeframes outlined therein, subject to the approval of this Honourable Court.
33. In addition:
 - a. The Trustee understands the Company, though 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 8th day of June 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 June 6, 2020 to July 31, 2020

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

Notes	Forecast									Total
	12-Jun	19-Jun	26-Jun	03-Jul	10-Jul	17-Jul	24-Jul	31-Jul		
Opening Balance	20,678	20,678	20,678	20,678	20,678	20,678	20,678	20,678	20,678	40,594.68
Inflows										
A/R	1	-	-	-	-	-	-	-	-	17,971.56
Investment	2	19,030	9,214	163,290	27,048	22,190	165,485	88,310	405,433	1,448,339.33
Other	3	-	-	-	-	-	-	-	-	51,567.28
Total Inflows		19,030	9,214	163,290	27,048	22,190	165,485	88,310	405,433	1,517,878.17
Outflows										
Credit card payment	4	-	-	-	-	-	-	-	-	-
Operation cost	5	-	-	35,338	-	-	-	-	-	85,704.88
Staff Expenses	6	-	-	-	-	-	-	-	-	24,000.00
Transportation	7	2,809	9,214	41,231	2,142	5,968	5,289	5,599	16,295	169,190.69
Rapid Design	8	-	-	60,000	-	-	-	60,000	-	283,692.50
Employee Insurance	9	-	-	-	-	-	-	-	-	-
Liquid Capital	10	-	-	-	-	-	-	-	-	-
Payroll	11	14,122	-	14,122	-	14,122	-	14,122	-	257,095.48
Payroll Taxes	12	2,099	-	2,099	-	2,099	-	2,099	-	11,840.68
Insurance	13	-	-	-	-	-	-	-	-	-
IT/phone	14	-	-	-	924	-	-	-	-	923.70
Utilities	15	-	-	-	-	-	-	-	-	-
Rent & Lease	16	-	-	10,500	-	-	-	-	10,500	59,341.14
Restructuring costs	17	-	-	-	23,983	-	160,196	6,489	308,877	562,353.75
Contingency	18	-	-	-	-	-	-	-	69,760	83,652.48
Total outflows		19,030	9,214	163,290	27,048	22,190	165,485	88,310	405,433	1,537,795.29
Closing Balance		20,678	20,678	20,678	20,678	20,678	20,678	20,678	20,678	20,677.56

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 specifically for the purposes contemplated in that section and readers are cautioned that it may not be appropriate for other purposes.

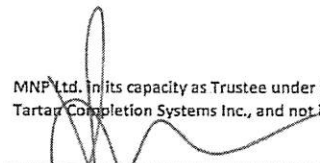
In addition, the Statement of Projected Cash Flow has been prepared based on assumptions regarding future events, therefore actual results may vary from the estimates presented herein and these variances may be material.

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 June 6, 2020 to July 31, 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
3. All amounts include applicable GST.

Specific Notes & Assumptions

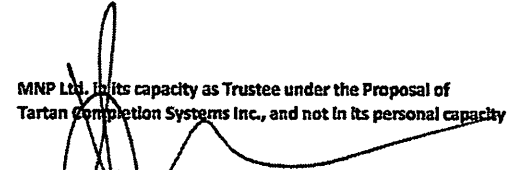
1. No funds will be received from customers.
2. \$00,000 of cash injection is required under the DIP.
3. No other funds will be received from any other source.
4. No Credit Card payments are anticipated in the Stay period.
5. Approximately \$35,338 for taking care of TCSI operation in receivership period, such as patent continuity, tax filing, etc.
6. No staff expenses are anticipated in the Stay period.
7. Approximately \$88,548 of transportation payments were made as part of the asset consolidation of TCSI.
8. Approximately \$120,000 of Rapid Design payments are anticipated in the Stay period.
9. No employee insurance payments are anticipated in the Stay period.
10. No Liquid Capital payments are anticipated in the Stay period.
11. Approximately \$56,489 of payroll for management and employees.
12. Approximately \$8,398 of payroll tax for management and employees.
13. No insurance is anticipated in the Stay period.
14. Approximately \$924 of IT/Phone cost for accounting system and cellphone fee.
15. No utilities for company locations each month end.
16. Approximately \$10,500 of rent & lease fee for storage of TCSI's assets each month end.
17. Restructuring costs to MNP as the Trustee and their counsel and Stikeman as legal counsel to the Company are estimates based on TCS being able to file its proposal, or seek an extension as required.
18. Approximately \$69,760 of contingency fee for unforeseen expenses that may arise during the Stay period.

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 A. Krueger
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 7th day of June 2020, consisting of updated cash flow projections from June 14, 2020 to July 31, 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

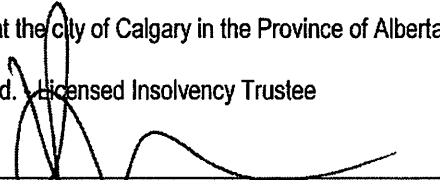
(c) the projection does not reflect the probable and hypothetical assumptions.

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 8th day of June 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 8th day of June 2020, consisting of .

Updated cash flow projections from June 14, 2020 to July 31, 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 8th day of June 2020.



Tartan Completion Systems Inc.
Debtor

Bill Chu, COO

Name and title of signing officer

Name and title of signing officer