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COURT FILE NO. 25 - 2802560

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE
A PROPOSAL OF VERTEX DOWNHOLE LTD.

DOCUMENT **SECOND REPORT OF THE PROPOSAL TRUSTEE
(FIRST REPORT OF MNP LTD. AS PROPOSAL TRUSTEE)**

FILED APRIL 6, 2022

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING
THIS DOCUMENT

COUNSEL

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ATTN: SAM GABOR
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PROPOSAL TRUSTEE

MNP LTD.
1500, 640 – 5 Avenue S.W.
CALGARY, AB T2P 3G4

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APPENDICES

- Appendix A The Sales and Investment Solicitation Process Information Summary.
- Appendix B Cash flow projection for the period of March 26, 2022 to June 24, 2022.
- Appendix C Trustee's report on Cash Flow Statement and the Report on Cash Flow Statement by Person Making a Proposal (Forms 29 and 30) for the Projected Statement of Cash Flow for the Period Ending June 24, 2022.

INTRODUCTION AND BACKGROUND

1. On February 4, 2022, Vertex Downhole Ltd. (“**Vertex**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act* (“**BIA**”) and Grant Thornton Limited (“**GTL**”) consented to act as trustee under the proposal. Upon filing its NOI, Vertex became subject to a statutory 30-day stay of proceedings pursuant to Section 69(1) of the BIA (the “**Stay**”).
2. On February 14, 2022, GTL filed the Company’s cash flow statement with the Official Receiver pursuant to section 50.4(2)(a) of the BIA.
3. On March 4, 2022, on application by the Company, this Honourable Court granted an Order (Extension of Time to File a Proposal, Approval of Administration Charge, and Substitution of Proposal Trustee) (the “**First Extension Order**”) extending the Stay to April 18, 2022 and approving the substitution of MNP Ltd. as Proposal Trustee (the “**Proposal Trustee**”) for GTL.
4. This is the second report of the Proposal Trustee (the “**Second Report**”), with GTL having filed a first report, dated February 25, 2022, in its then capacity as proposal trustee (the “**First Report**”).
5. Copies of the relevant documents relating to these proceedings are available on the Proposal Trustee’s website at <https://mnpdebt.ca/en/corporate/corporate-engagements/vertex-downhole-ltd>

RESTRICTIONS AND LIMITATIONS

6. In preparing the Second Report, the Proposal Trustee has relied upon unaudited financial information, the Company’s records, financial information, and discussions with the Company’s management. While the Proposal Trustee reviewed various documents provided by the Company and believes that the information therein provides a fair summary of the transactions and material, as reflected in the documents, such work does not constitute an audit or verification of such information for accuracy, completeness or compliance with Generally Accepted Accounting Principles (“**GAAP**”), International Financial Reporting Standards (“**IFRS**”), or Generally Acceptance Auditing Standards (“**GAAS**”). Accordingly, the

Proposal Trustee expresses no opinion or other form of assurance pursuant to GAAP, IFRS, or GAAS with respect to such information.

7. The Second Report has been prepared for the purpose described below. Accordingly, the reader is cautioned that the Second Report may not be appropriate for any other purpose. The Proposal Trustee will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this Second Report contrary to the provisions of this paragraph.
8. All amounts included herein are in Canadian dollars unless otherwise stated.

PURPOSE OF THE REPORT

9. The purpose of the Second Report is to provide this Honourable Court and other interested parties with:
 - a) An update with respect to the Sale and Investment Solicitation Process (the “**SISP**”) originally reported in the First Report; and
 - b) Information on the Company’s application seeking the Court’s approval for an extension of the period for the Company to file its proposal until May 30, 2022 (the “**Second Extension Period**”).

SALE AND INVESTMENT SOLICITATION PROCESS (“SISP”)

10. The Company and Proposal Trustee commenced the SISP as approved by this Honorable Court on March 4, 2022 (the “**SISP Order**”), by preparing an information summary and outlining the process to submit bids (the “**Information Summary**”). The Information Summary provided details of the SISP and the timeline established by the Proposal Trustee (the “**Timeline**”). A copy of the Information summary is attached hereto as Appendix “**A**”.
11. Shortly after the granting of the SISP Order, the Information Summary was sent via email to thirty-two brokers and prospective bidders who had contacted the Proposal Trustee or were referred to the Proposal Trustee by the Company (the “**Prospective Bidders**”). The Information Summary was also distributed to MNP LLP’s energy niche partners across Canada who are responsible for over 4,000 clients in the energy industry. Since the initial distribution, the Proposal Trustee has also provided the Information Summary to eighteen of the Companies’ competitors.

12. The Information Summary was also posted to the Proposal Trustee's website, and the SISP was advertised in the following publications:

- a) BOE Report on March 14, 2022;
- b) The National Post, National Edition on March 15, 2022;
- c) Calgary Herald on March 14, 2022; and
- d) Insolvency Insider beginning on March 14, 2022.

13. In addition, and in order to attract potential foreign purchasers, the Proposal Trustee, in consultation with the Company, issued a Press Release advising of the SISP in the following publications:

- a) Canada Newswire on March 15, 2022;
- b) EIS Presswire on March 11, 2022; and
- c) Dealstream on March 14, 2022.

14. The Timeline outlined in the Information Summary, is summarized below:

<u>Milestones</u>	<u>Estimated deadlines</u>
Issuance of a teaser and confidentiality and non-disclosure agreement	Beginning March 4, 2022
Publication of SISP	March 9, 2022
Issuance of a confidential information memorandum upon receipt of a confidentiality and non-disclosure agreement	Beginning March 9, 2022
Phase 1 bid deadline	April 21, 2022
Due diligence period	April 21, 2022 to May 6, 2022
Phase 2 bid deadline and receipt of deposit	May 6, 2022
Selection of successful bid	May 7, 2022 to May 20, 2022
Closing of transaction (dependant on timing of any required Court approval)	No later than June 23, 2022

15. The Proposal Trustee, in consultation with the Company, has created a virtual data room (the "VDR") to facilitate the SISP process whereby the Proposal Trustee has and continues to upload information and documents pertaining to the Company for potential purchasers to review as part of their due diligence.

16. The Proposal Trustee and its counsel, in consultation with the Company and its counsel, prepared a standard form of confidentiality and non-disclosure agreement (“**NDA**”) which is required to be executed by Prospective Bidders to have access to the VDR. To date, the Proposal Trustee has received twelve executed NDA and has provided access to the VDR to those parties

17. As identified in the Timeline above, the Prospective Bidders have until April 21, 2022 to submit their Phase 1 bid by way of a non-binding, qualified letter of intent, a standard form of which has been uploaded into the VDR by the Proposal Trustee (the “**Qualified Letter of Intent**”).

18. The Proposal Trustee and its counsel have also worked with the Company and its counsel to draft a standard form of asset sale agreement which has been uploaded into the VDR for Prospective Bidders to review. A “Definitive Agreement” as defined in the SISP, in the form of an asset sale agreement or other agreement prepared by a Prospective Bidder, will need to be provided to the Proposal Trustee to qualify under the Phase 2 Bid process.

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CASH FLOW STATEMENT AND VARIANCE ANALYSIS

19. The Proposal Trustee has monitored the Company's actual cash receipts and disbursements up to the week ending March 25, 2022, and provides the following variance analysis:

**In the Matter of the Notice of Intention
to File a Proposal under the Bankruptcy & Insolvency Act by Vertex Downhole Ltd.
Comparison of Actual to Forecast Cash Receipts and Cash Disbursements
For the Period February 18, 2022 to March 25, 2022**

	Actual	Forecast	Variance
Cash Receipts			
Customer Payments	359,175	311,985	\$ 47,190
HHBRP	95,096	175,330	-80,234
GST	12,671	25,000	-12,329
Repatriation from wholly owned subsidiary	213,383	141,653	71,730
Total Cash Receipts	680,325	653,968	26,357
Cash Disbursements			
Payroll	324,000	319,750	4,250
Rent	36,543	36,088	455
General & Administrative	56,695	98,265	-41,570
Vendor Payments	428,432	442,732	-14,300
Interest & Bank Charges	44,566	22,890	21,676
Total Cash Disbursements Before Restructuring Costs	890,236	919,725	-29,489
Legal Counsel Fees	40,000	80,000	-40,000
Trustee Fees	-	40,000	-40,000
Trustee's Legal Counsel Fees	-	30,000	-30,000
Total Restructuring Costs	40,000	150,000	-110,000
Total Cash Disbursements	930,236	1,069,725	-139,489
Net Cash Receipts over Net Cash Disbursements	-249,911	-415,757	165,846
Funding Advances and Repayments	144,666	310,512	-165,846
Net Cash Receipts over Net Cash Disbursements including Funding Request	-105,245	-105,245	-
Opening Cash	105,245	105,245	-
Ending Cash Balance	\$ -	\$ -	\$ -

20. Key differences in the variance analysis are due to the following:

- a) Customer payments are higher than projected due to customers paying the Company earlier than expected. This difference is temporary;
- b) The Canadian government's Hardest-Hit Business Recovery Program receipts are less than projected as the amount projected to be collected in Week 3 is under review by the Canada Revenue Agency and is now listed as being expected in Week 12. This difference is temporary;
- c) The GST refund is less than projected due to the Company's constrained cash flow resulting in the Company being unable to purchase the bulk of supplies anticipated, thereby decreasing the January GST claim filed. This difference is permanent;
- d) The Repatriation from wholly owned subsidiary is higher than projected. The difference relates to timing of receipts received from Vertex Downhole Inc. as customer collections were received in this subsidiary sooner than expected. This difference is temporary;
- e) Payroll was higher than projected as a result of an underestimated payroll cost. This difference is permanent;
- f) Rent was higher than projected in week 3 as a result of a forecast error. This difference is permanent;
- g) General & Administrative disbursements were less than projected as the original forecast included pre-filing amounts which will not be paid. This difference is temporary Vendor payments were less than projected as the Company restricted purchases to what was essential for ongoing operations. This difference is temporary Interest and Bank Charges were higher than projected, due to \$7,890 in bank fees forecast to be paid in week 11 being paid in week 3. This is a temporary difference. In addition, there was an EDI guarantee fee of \$13,000 that was not part of the original forecast. This difference is permanent;
- h) Restructuring professional cost are less than projected as invoices were delayed. This difference is temporary; and
- i) Funding advances are less than projected primarily due the above permanent and temporary variances.

PROJECTED STATEMENT OF CASH FLOW

21. The Company has prepared its cash flow projection for the period March 26, 2022 to June 24, 2022, (the “**Second Extension Period Cashflow**”) that is attached as Appendix “**B**”. The BIA prescribed Company’s report and Proposal Trustee’s report on the cash flow projection, Form 29 and 30 respectively, filed with the Official Receiver on April 5, 2022, are attached as Appendix “**C**”.

22. A summary of the Company prepared Second Extension Period Cashflow is as follows:

**Vertex Downhole Ltd.
Summary of Cash Flow Projection
For the Period March 26, 2022 to June 24, 2022**

Opening Cash Balance at March 26, 2022	<u>\$ -</u>
Cash inflows	
Customer payments	\$ 1,554,220
Repatriation from wholly owned subsidiary	706,981
HHBRP	164,473
GST	<u>96,659</u>
Total estimated inflows	<u>2,522,333</u>
Cash outflows	
Total Vendor Payments	1,253,718
Total Payroll	632,410
Total General & Administrative	330,996
Total Restructuring Costs (Monitor and legal)	260,970
Total Insurance	114,119
Total Interest and Bank Charges	89,486
Total Rent	<u>88,488</u>
Total estimated outflows	<u>2,770,187</u>
Total Cash Outflows over Cash Inflows	<u>247,854</u>
Total Cumulative Funding Request	<u>247,854</u>
Estimated Closing Cash Balance at June 24, 2022	<u><u>\$ -</u></u>

23. The Second Extension Period Cashflow requires the Company to obtain funding of between \$39,913 to \$256,702 to carry on operations during the period of March 26, 2022 to June 24, 2022, which is beyond the Second Extension Period.

24. In order to allow the Company to proceed with the SISP and make a viable Proposal, HSBC, the Company's senior secured lender, has advised that as long as the Company operates within the parameters of the Second Period Cash Flow, it is supportive of it funding the aforementioned amounts above.

REQUEST FOR EXTENSION

25. Pursuant to the BIA, and the Extension Order granted by this Honourable Court, the Company must file a Proposal no later than April 18, 2022 unless an application is made to the Court for a further extension.

26. The Company is requesting an extension of the stay of proceedings until May 30, 2022, to allow time to continue with the Timelines identified in the SISP, to be able to make a viable Proposal to its creditors.

REQUEST FOR ADDITIONAL PROTECTIONS FOR PROPOSAL TRUSTEE

27. The Proposal Trustee has requested that the Company seek an amendment to paragraph 19 of the SISP in order to afford the Proposal Trustee greater protections. The Proposal Trustee views the additional language as appropriate firstly, and more broadly, because the Proposal Trustee is the primary party marketing the assets of the Company. Secondly, and more specifically, at the granting of the First Extension Order, it was uncertain to the Proposal Trustee whether any "Insider Bidder" (as defined in the SISP as "any director, officer, employee or other member of senior management of the Company") would potentially bid on the assets of the Company. The Company has not yet advised the Proposal Trustee whether or not there will be Insider Bidders and the Phase 1 Bid Deadline has not yet expired. Accordingly, the Proposal Trustee may not be in a position to consult with the Company regarding potential bidders and other aspects of the SISP until it is confirmed to the Proposal Trustee that there are no Insider Bidders for the Company.

28. The Company and HSBC are agreeable to amend the SISP as requested by the Trustee. The Company has confirmed in its court materials for the April 14, 2022 application, that the Proposal Trustee's request is reasonable in the circumstances.

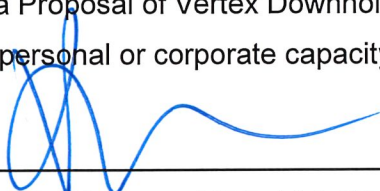
RECOMMENDATION AND CONCLUSION

29. The Proposal Trustee is of the view that the amendment to the SISP to afford it greater protection is reasonable and appropriate.
30. The Proposal Trustee is of the view that the Company's requested extension is in the best interest of all the Company's stakeholders for the following reasons:
- a) The Company is acting in good faith and with due diligence;
 - b) The SISP process will not be concluded prior to the current stay deadline of April 18, 2022 and maintaining ongoing operations is needed for the Company to be in a position to make a Proposal to its creditors; and
 - c) The Proposal Trustee does not believe any creditor would be materially prejudiced if the extension was granted.

All of which is respectfully submitted this 6th day of April, 2022

MNP Ltd.

In its capacity as Trustee in the Notice of Intention
to Make a Proposal of Vertex Downhole Ltd. and
not in its personal or corporate capacity



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

APPENDIX A

OILFIELD SERVICES SALES AND INVESTMENT SOLICITATION PROCESS (“SISP”) OPPORTUNITY



INTRODUCTION

MNP Ltd. in its capacity as Proposal Trustee (the “Proposal Trustee”) under a Notice of Intention to make a proposal for Vertex Downhole Ltd. (“Vertex” or the “Company”) was authorized by the Court of Queen’s Bench of Alberta under court Order dated March 4, 2022 (the “Order”) to conduct a sales and investment solicitation process (“SISP”), which may involve a person purchasing the assets or newly issued shares in Vertex, making an investment in Vertex or providing additional financing to Vertex. Interested parties are invited to review the SISP information summary on our webpage at: <https://mnpdebt.ca/en/corporate/corporate-engagements/vertex-downhole-ltd>

Key Highlights:

- Headquartered in Calgary, Alberta;
- International presence with operations in Canada, the United States and UAE;
- Oilfield technology manufacturing engaged in development of MWD guidance systems and tools used in all aspects of energy exploration and development;
- Patented technology registered in both Canada and the United States;
- Downhole tools currently deployed in over 10 countries
- Strong customer relation base.

In our capacity as Proposal Trustee, we are soliciting offers on behalf of the Company. Further information regarding what is including in the sale will be made available upon receipt of an executed confidentiality agreement and non-disclosure (“Confidentiality Agreement”).

LIMITATIONS

To facilitate this process, we have prepared a Confidential Information Memorandum (“CIM”). All information in the CIM has been prepared solely for the convenience of prospective purchasers and has not been audited or otherwise verified by the Proposal Trustee. A copy of the CIM can be provided to you upon the Proposal Trustee’s receipt of an executed confidentiality and non-disclosure agreement.

The Proposal Trustee does not make any representations or warranties as to the accuracy or completeness of the CIM and shall have no liability for any representations (be they expressed or implied) or omissions contained herein nor in any other written or oral communications transmitted to prospective purchasers in the course of the evaluations of the assets. Furthermore, the information provided in the CIM may not contain all of the information a prospective purchaser may require and therefore, prospective purchasers should conduct their own investigations, analysis and due diligence and obtain their own professional advice relating to the Company’s business and assets and any of the information contained in the CIM.

CONTACTS: Jacqueline Shellon, CPA
Corporate Recovery and Restructuring
587-702-5959
Jacqueline.shellon@mnp.ca

OILFIELD SERVICES SALE AND INVESTMENT SOLICITATION PROCESS (“SISP”) OPPORTUNITY



TIMELINE

Milestones	
Issuance of a teaser and confidentiality and non-disclosure agreement	Beginning March 4, 2022
Publication of SISP	March 9, 2022
Issuance of a CIM upon receipt of a confidentiality and non-disclosure agreement	Beginning March 9, 2022
Phase 1 bid deadline	April 21, 2022
Due diligence period	April 21, 2022 to May 6, 2022
Phase 2 bid deadline and receipt of deposit	May 6, 2022
Selection of successful bid	May 7, 2022 to May 20, 2022
Closing of transaction (dependant on timing of required Court approval)	No later than June 23, 2022

SALES PROCESS

The Proposal Trustee has formulated specific transaction procedures that are included in the Terms and Conditions of Sale included in the CIM. However, the Proposal Trustee reserves the right to:

- Amend or terminate the sales procedures during the sales process, including the above milestones as provided under the Order;
- Accept an Offer to Purchase that may not necessarily be the highest bid;
- Negotiate with one or more prospective purchasers at any time;
- Set a minimum offer price for the assets;
- Enter into a definitive transaction agreement without prior notice to other prospective purchasers at any time during the transaction process; and
- Not accept any Offer to Purchase.

Please note that any offer the Proposal Trustee accepts is subject to the approval of the Court of Queen’s Bench of Alberta, and accordingly, is not binding on the Proposal Trustee until such Court approval has been obtained.

To receive a copy of the CIM and access to the electronic data room, please request a Confidentiality and Non-Disclosure Agreement from the Proposal Trustee through the contact listed below.

MNP Ltd. in its capacity as Proposal Trustee under the Notice of Intention to make a proposal for Vertex Downhole Ltd. and not in its personal or corporate capacity

Letter of Intent to be provided for the Phase 1 Deadline must be received by the Proposal Trustee no later than 5:00pm MDST on April 21, 2022.

CONTACT: Jacqueline Shellon, CPA
Corporate Recovery and Restructuring
587-702-5959
Jacqueline.shellon@mnp.ca

APPENDIX B

Vertex Downhole Ltd.
Cash Flow Forecast

March 26, 2022 to June 24, 2022

		Forecast Week 1	Forecast Week 2	Forecast Week 3	Forecast Week 4	Forecast Week 5	Forecast Week 6	Forecast Week 7	Forecast Week 8	Forecast Week 9	Forecast Week 10	Forecast Week 11	Forecast Week 12	Forecast Week 13	Total
For the week ending, in CAD	Notes	01-Apr-22	08-Apr-22	15-Apr-22	22-Apr-22	29-Apr-22	06-May-22	13-May-22	20-May-22	27-May-22	03-Jun-22	10-Jun-22	17-Jun-22	24-Jun-22	
Opening Cash	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receipts															
Customer Payments	2	148,780	94,294	334,952	121,822	116,164	3,296	131,185	60,799	55,835	222,276	126,559	69,129	69,129	1,554,220
HHBRP	3	-	-	30,000	7,500	-	74,973	22,000	7,500	-	-	-	15,000	7,500	164,473
GST	4	-	36,659	-	-	-	-	30,000	-	-	-	30,000	-	-	96,659
Repatriation from wholly owned subsidiary	5	-	216,499	78,136	32,419	38,348	95,658	-	53,270	34,267	69,011	89,373	-	-	706,981
Total Receipts		148,780	347,452	443,088	161,741	154,512	173,927	183,185	121,569	90,102	291,287	245,932	84,129	76,629	2,522,333
Disbursements															
Payroll	6	-	103,970	-	93,500	-	103,500	10,470	103,500	-	103,500	10,470	103,500	-	632,410
Rent	7	27,634	2,793	-	-	-	30,427	-	-	-	27,634	-	-	-	88,488
Insurance	8	-	67,017	-	9,034	-	-	-	9,034	-	20,000	-	9,034	-	114,119
General & Administrative	9	36,257	33,853	37,683	19,132	19,833	31,657	39,833	14,583	19,833	14,583	29,333	14,583	19,833	330,996
Vendor Payments	10	69,512	160,702	148,703	145,950	71,619	117,802	51,515	137,241	78,530	68,036	68,036	68,036	68,036	1,253,718
Interest & Bank Charges	11	17,664	-	-	7,755	-	17,621	-	-	7,755	17,621	-	-	-	89,486
Total Disbursements		151,067	368,335	186,386	275,371	91,452	301,007	101,818	264,358	106,118	251,374	107,839	195,153	108,939	2,509,217
Net cashflow from operations		(2,287)	(20,883)	256,702	(113,630)	63,060	(127,080)	81,367	(142,789)	(16,016)	39,913	138,093	(111,024)	(32,310)	13,116
Professional costs															
Legal Counsel Fees		-	-	-	40,000	-	-	20,000	-	-	-	20,000	-	-	80,000
Trustee Fees		-	-	-	34,220	-	-	50,000	-	-	-	50,000	-	-	134,220
Trustee's Legal Counsel Fees		-	-	-	16,750	-	-	15,000	-	-	-	15,000	-	-	46,750
Total Professional costs	12	-	-	-	90,970	-	-	85,000	-	-	-	85,000	-	-	260,970
Net cashflow following professional costs		(2,287)	(20,883)	256,702	(204,600)	63,060	(127,080)	(3,633)	(142,789)	(16,016)	39,913	53,093	(111,024)	(32,310)	(247,854)
Funding request															
Funding advances and repayments	1, 13	2,287	20,883	(256,702)	204,600	(63,060)	127,080	3,633	142,789	16,016	(39,913)	(53,093)	111,024	32,310	247,854
Ending Cash Balance		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative funding request	1, 13	270,729	291,612	34,910	239,510	176,450	303,530	307,163	449,952	465,968	426,055	372,962	483,986	516,296	516,296

Management of Vertex Downhole Ltd. (the "Company") has prepared this forecasted cash-flow statement (the "Cash Flow Forecast") based on probable and hypothetical assumptions detailed in Notes 1 to 13. The Cash Flow Forecast has been prepared solely for the purpose of supporting the Notice of Intention to Make a Proposal ("NOI") filed by the Company on February 4, 2022. As such, readers are cautioned that it may not be appropriate for their purposes. The Cash Flow Forecast of the Company prepared in accordance with the provisions of the Bankruptcy and Insolvency Act ("BIA") should be read in conjunction with the Trustee's Report on the Cash-flow Statement.

Dated at the City of Calgary in the Province of Alberta, this 5th day of April 2022.

Vertex Downhole Ltd.
Per:



Craig Flint
Chief Financial Officer

MNP Ltd. in its capacity as Trustee in the Notice of Intention to Make a Proposal of Vertex Downhole Ltd. and not in its personal or corporate capacity
Per:



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

Vertex Downhole Ltd.
Notes to the Cash Flow Forecast
March 26, 2022 to June 24, 2022

Note 1

The Company had a cash balance equivalent to \$102,586.63 CAD in its USD account with HSBC Bank Plc ("HSBC") on February 4, 2022, the commencement date of these proceedings and the stay of proceedings. The Company's CAD Operating Facility with HSBC was \$5,636,588.07 on February 4, 2022. For the purposes of the cash flow forecast to more clearly present changes in the Company's cash position during the period, and to reflect the stay in place, the overdrawn balance at the commencement of the proceedings has not been included in the opening cash. Any further funding, or repayment of funding, projected by the Company during the period is reflected in Funding Request as advances and repayments.

Note 2

Customer payments represent projections for collection of existing accounts receivable balances as well as collection of new revenues resulting from the sale, service and rental of equipment by the Company. The Company has assumed customer payments at 60-days following the issuance of an invoice. Equipment sales and service are invoiced on delivery to customer where rental is typically invoiced at end of each month.

Note 3

The amount projected to be received under the Hardest-Hit Business Recovery Program ("HHBRP"), relates to eligible wages and rent paid during the period from February through May 2022. It is projected that HHBRP will be received approximately 5 business days following submission to CRA of the documentation required. In addition, Week 6 includes \$74,973 rent and wage claim filed January 17 related to November and December 2021. These filings continue to be under review at CRA as of April 4, 2022. While the timing is uncertain, the company has assumed that the CRA full amount will be received on April 30, 2022 and that the CRA review is part of normal protocols.

Note 4

The Company files its GST returns on a monthly basis. As the Company purchases goods and services in Canada and earns most revenue from customers outside Canada it has historically been in a receivable position. It is assumed that GST refunds will be received 5 business days following submission to CRA. Forecasted amount increased from original 13-week cash flow due to increased Input Tax Credits from increased purchases of inventory.

Note 5

Repatriation from and transfer to wholly-owned subsidiary represent amounts transferred from and to Vertex Downhole Inc. ("Vertex US"), a wholly-owned US subsidiary of the Company. Vertex US rents equipment manufactured by the Company to US customers and provides servicing and part sales for the equipment. The cash flow assumes that repatriation of excess cash will occur when, and in the amount of, cash on hand exceeds \$75,000 at Vertex US. The increase in the Repatriation forecast for week two reflects the delay in payments from Vertex's largest customer from March 2022.

Note 6

The company pays employees on a biweekly basis while employee benefits are paid monthly. In March 2022, the Canadian headcount declined from 28 to 24 employees as reflected in reduction of week four. The Cash Flow Forecast then assumes the engagement of a contract employee in week five, paid in week six.

Note 7

The Company's main warehouse and office facility is under a short term triple net lease that expires in 2023. Prior to April 2022, the Company also occupied an additional office on a short term basis at an all-in lease rate, the Cash Flow Forecast assumes lease payments on both facilities through May, and one facility thereafter.

Note 8

The Company's insurance policies were renewed March 17, 2022 all for a period of one year except for Directors and Officers policy which was extended for 30-days. The Company expects to enter into a premium financing agreement which results in an up front payment with remaining premiums paid over the following 11 months. The Cash Flow assumes the D&O coverage is monthly at the same rate and period through the forecast.

Note 9

General and administrative costs are assumed to include IT support, licensing, discretionary costs, office supplies, repairs, maintenance, freight, cleaning, professional services (excluding professional fees related to the NOI process), phone, waste, and similar expenses. A number of these costs, including freight and IT services require up front payment, while others, including monthly licensing and telephone are paid by procurement card.

Note 10

Vendor payments represent projected payments to purchase inventory required to complete sales orders and generate revenues during the period. Payment terms have been adjusted to reflect discussions with key vendors undertaken by the Company since the commencement of these proceedings. The Company has increased Vendor payments in the initial weeks of the cash flow forecast in order to accelerate delivery of key parts to satisfy open sales orders. Prior to the commencement of these proceedings, the Company's maintained payment terms averaging approximately 70-days. After initial discussions, the February 14 cash flow forecast assumed that key Vendors would provide credit terms to the Company. Many have subsequently required deposits for material at the time of purchase orders and payment before delivery. The timing of Vendor Payments in the forecast are based on detailed assessment of each open purchase order, planned delivery date, and payment date specific to each vendor's credit terms. Those which are not pre-paid are assumed a 30 day payment term. At April 4 2022 the Company has paid deposits totalling \$148,000 and the Company has open sales orders totalling approximately US\$4.1 million which, with supply chain delays and working capital constraints will extend well beyond the 13-week period.

Note 11

Interest and bank charges comprise of regular interest on debt amount owed to HSBC, ongoing bank charges, and a quarterly guarantee fee paid to Economic Development Bank related to the Business Credit Availability Program.

Note 12

Professional fees are estimated based on discussions with relevant professional involved with the NOI process. Week four Cash Outflow is for February invoices received recently, later than initially forecasted. Future payments based on expected credit terms.

Note 13

The Company is in ongoing discussions with HSBC, the Company's primary lender, regarding the Funding Request and the Cash Flow Forecast assumes the continued support of HSBC during the period.

Note 14

The Cash Flow Forecast assumes an exchange rate of 1.2512 CAD to 1 USD for the period.

Note 15

The cash flow presented includes a calculated contingency on Customer Payments and Repatriation from Wholly Owned Subsidiary of 15%, and on General and Administrative and Vendor Payments of 5%. In aggregate, over the 13-week Cash Flow, the Contingency totals \$455,637.

Dated at the City of Calgary in the Province of Alberta, this 5th day of April 2022.

Vertex Downhole Ltd.


Per:



Craig Flint
Chief Financial Officer

MNP Ltd. in its capacity as Trustee in the Notice of Intention to
Make a Proposal of Vertex Downhole Ltd. and not in its personal or
corporate capacity

Per:



Victor P. Kroeber, CPA, CA, IIT, CIRP, CFE
Senior Vice President

APPENDIX C

District of: Alberta
Division No. 02 - Calgary
Court No. 25-2802560
Estate No. 25-2802560

-- 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 Vertex Downhole Ltd., as of the 4th day of April 2022, consisting of a rolling 13-week cash flow projection with documented assumptions, 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 5th day of April 2022.

MNP Ltd. - Licensed Insolvency Trustee
Per:



Victor Kroeger - Licensed Insolvency Trustee
1500, 640 - 5 Avenue SW
Calgary AB T2P 3G4
Phone: (403) 298 8479

District of: Alberta
Division No. 02 - Calgary
Court No. 25-2802560
Estate No. 25-2802560

- 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, Vertex Downhole Ltd., have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 4th day of April 2022.

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.

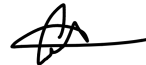
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

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 5th day of April 2022.

April 5, 2022

Vertex Downhole Ltd.
Debtor



Name and title of signing officer