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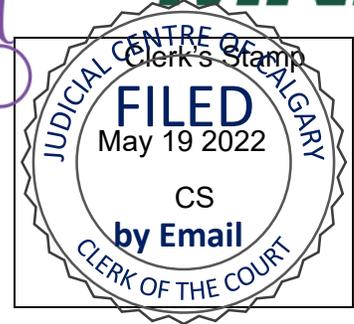
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May 27 2022

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

DOCUMENT

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

FILED

MAY 18, 2022

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## APPENDICES

Appendix A Projected Statement of Cash Flow for the Period from May 7, 2022 to August 5, 2022.

Appendix B 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 From May 7, 2022 to August 5, 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 proposal trustee. 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 projected statement of cash flow for the period February 4, 2022 to May 14, 2022 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. Also on March 4, 2022, the Court further granted an Order (Sale and Investment Solicitation Process) (“**SISP Order**”) approving a Sales and Investment Solicitation Process (“**SISP**”) in these proceedings.
4. On April 14, 2022, on application by the Company, this Honourable Court granted an Order (Extension of Time to File a Proposal, Sales Process Amendment) (the “**Second Extension Order**”) extending the Stay to May 30, 2022. The Second Extension Order further included a provision that afforded the Proposal Trustee greater protections within the SISP, discussed in detail below.
5. This is the third report of the Proposal Trustee (the “**Third Report**”), with GTL having filed a first report, dated February 25, 2022, in its then capacity as proposal trustee (the “**First Report**”), and the Proposal Trustee having filed its subsequent report, dated April 6, 2022 (the “**Second Report**”).
6. 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

7. In preparing the Third 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.
8. The Third Report has been prepared for the purpose described below. Accordingly, the reader is cautioned that the Third 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 Third Report contrary to the provisions of this paragraph.
9. All amounts included herein are in Canadian dollars unless otherwise stated.

## PURPOSE OF THE REPORT

10. The purpose of the Third Report is to provide this Honourable Court and other interested parties with:
  - a) An update with respect to the SISP originally reported in the First Report and further expanded upon in the Second Report;
  - 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 July 14, 2022 (the "**Third Extension Period**"); and
  - c) The recommendation of the Proposal Trustee to request a sealing order (the "**Sealing Order**") in relation to the confidential supplement to the Third Report

(the “**Confidential Supplement to the Third Report**”).

### **SALE AND INVESTMENT SOLICITATION PROCESS (“SISP”)**

11. As reported in the Second Report, the Company and Proposal Trustee commenced the SISP shortly after the granting of the SISP Order, with a deadline of April 21, 2022 for a potential bidder to submit their Phase 1 bid by way of a non-binding, qualified letter of intent ( “**Qualified Letter of Intent**”). As part of the SISP, until such time as there were no longer any “**Insider Bidders**” (as defined in the SISP as “any director, officer, employee or other member of senior management of the Company”), the Proposal Trustee is required to keep confidential from the Company any information pertaining to any bids or prospective bidders until the expiration of the Phase 2 Bid Assessment Deadline (as defined in SISP).
12. The Proposal Trustee has confirmed that there is an Insider Bidder, and therefore the Proposal Trustee is not in a position to provide any details to the Company regarding the Phase 1 letters of intent (“**LOI’s**”) or bids received to date, the details of which are included in the Confidential Supplement to the Third Report.
13. The Proposal Trustee received the initial round of LOI’s from interested parties (the “**Bidders**”) by the original April 21, 2022 deadline. However, some of the LOI’s were not fully compliant with the requirements under the SISP and thus the Proposal Trustee provided an opportunity for the Bidders to submit amended LOI’s with additional information (the “**Amended Qualified LOI’s**”), in order to become Qualified Letters of Intent. The deadline set for this extension of time to submit an Amended Qualified LOI was May 6, 2022 (the “**Phase 1 Extension Deadline**”).
14. The Proposal Trustee, in consultation with the Company, agreed to issue notice to, and publish the Phase 1 Extension Deadline to all of the original parties who had signed Confidentiality and Non-Disclosure Agreements (“**NDAs**”)and to the general public. As a result, additional news publications advising of the Phase 1 Extension Deadline were published by the Proposal Trustee.
15. As reported in the Second Report, the timeline established by the Proposal Trustee for the SISP was originally as follows:

<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

16. In consultation and agreement with the Company and HSBC Bank of Canada (“**HSBC**”), the Company’s senior secured lender, the Proposal Trustee extended the timeline (the “**Extended Timeline**”) as follows:

<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 - <b>extended</b>	May 6, 2022
Due diligence period - <b>extended</b>	May 6 to May 24, 2022
Phase 2 bid deadline and receipt of deposit - <b>extended</b>	May 24, 2022
Selection of successful bid - <b>extended</b>	May 24, 2022 to May 31, 2022
Closing of transaction (dependant on timing of any required Court approval) - <b>extended</b>	No later than June 28, 2022

17. The Proposal Trustee has received Amended Qualified LOI’s, and is now in the process of facilitating due diligence requests for these parties (the “**Qualified Bidders**”). Details of the Amended Qualified LOIs are included in the Confidential Supplement to the Third Report.

## **DUE DILIGENCE PROCESS**

18. As a result of the confidentiality provisions in the SISP Order pertaining to Insider Bidders, the Proposal Trustee has established certain controls through the due diligence period to ensure the confidentiality of all parties.
  
19. One of these controls was put in place to allow a Qualified Bidder access to review the Tomball, Texas, USA facility (the “**Tomball Facility**”), without direct, in person involvement of the Company. The Tomball Facility is the operational facility Vertex Downhole Inc.’s business, being the United States subsidiary of the Company. The Proposal Trustee confirmed a date and time with the Company where the Tomball Facility would be clear of all Company employees and representatives, with a sole employee who was not part of management to be in attendance to allow access to the building. The Proposal Trustee arranged for a representative of the Proposal Trustee’s legal counsel, Dentons US LLP (“**Dentons**”) to attend with the representative of the Qualified Bidder on behalf of the Proposal Trustee.
  
20. Following the site visit at the Tomball Facility, a key member of the Company’s executive team advised the Proposal Trustee that they left the premises late, and in doing so crossed paths with the representative of the Qualified Bidder, initiated a conversation with them and confirmed the identity of the representative of the Qualified Bidder.
  
21. The Proposal Trustee has reminded the Company of the SISP protocols approved by the Company, the Proposal Trustee and this Honourable Court to ensure that a recurrence does not occur.

## **SEALING ORDER APPLICATION**

22. The Confidential Supplement to the Third Report contains details of the Qualified LOI’s. In order to protect the confidentiality and commercial interests of the SISP process and maintain the Insider Bidder provisions under the SISP Order, the Proposal Trustee is seeking a sealing order to seal the Confidential Supplement to the Third Report until further order of the Court.

## **CASH FLOW STATEMENT AND VARIANCE ANALYSIS**

23. The Proposal Trustee has monitored the Company’s actual cash receipts and disbursements up to the week ending May 6, 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 March 26, 2022 to May 6, 2022**

	Actual	Forecast	Variance
<b>Cash Receipts</b>			
Customer Payments	\$ 975,166	\$ 819,308	\$ 155,858
HHBRP	122,665	112,473	10,192
GST	36,659	36,659	-
Repatriation from wholly owned subsidiary	266,810	461,060	(194,250)
<b>Total Cash Receipts</b>	<b>1,401,300</b>	<b>1,429,500</b>	<b>(28,200)</b>
<b>Cash Disbursements</b>			
Payroll	313,696	300,970	12,726
Rent	60,854	60,854	-
Insurance	76,529	76,051	478
General & Administrative	97,122	178,415	(81,293)
Vendor Payments	548,004	714,288	(166,284)
Interest & Bank Charges	47,740	43,040	4,700
<b>Total Cash Disbursements Before Restructuring Costs</b>	<b>1,143,945</b>	<b>1,373,618</b>	<b>(229,673)</b>
Legal Counsel Fees	-	40,000	(40,000)
Trustee Fees	34,218	34,220	(2)
Trustee's Legal Counsel Fees	16,746	16,750	(4)
<b>Total Restructuring Costs</b>	<b>50,964</b>	<b>90,970</b>	<b>(40,006)</b>
<b>Total Cash Disbursements</b>	<b>1,194,909</b>	<b>1,464,588</b>	<b>(269,679)</b>
Less outstanding cheques as of May 6, 2022	111,930	-	
<b>Net Cash Receipts over Net Cash Disbursements</b>	<b>94,461</b>	<b>(35,088)</b>	<b>129,549</b>
Funding Advances and (Repayments)	(94,461)	35,088	(129,549)
<b>Net Cash Receipts over Net Cash Disbursements including Funding Request</b>	<b>-</b>	<b>-</b>	<b>-</b>
Opening Cash	-	-	-
<b>Ending Cash Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

- a) Customer payments are higher than projected as the Company sold approximately \$150,000 more in parts inventory than had been forecast. This difference is permanent;
- b) The Canadian government's Hardest-Hit Business Recovery Program receipts are higher than projected as a result of a forecasting error for Period 26. This difference is permanent;
- c) Repatriation transfers from a wholly owned subsidiary are less than projected due to delays in invoicing during January and February 2022, that resulted in delayed receipt. This difference is temporary;
- d) Payroll was higher than projected as a result of employee turnover requiring integral positions to be covered with more expensive contractors. This amount includes a retainer paid to a headhunting agency. This difference is permanent;
- e) Insurance costs are higher than projected as a result of incorrect forecasting of the foreign exchange. This difference is permanent;
- f) General & Administrative disbursements were less than projected as a result of timing of payments. This difference is temporary;
- g) Vendor payments were lower than projected. As a result of supply chain issues and the Company adopting a more just in time inventory purchasing approach, they have postponed purchasing certain inventory until a later date. This difference is temporary;
- h) Interest & bank charges were higher than projected as a result of incorrect forecasting. This difference is permanent;
- i) Restructuring professional costs are less than projected as payment for legal counsel invoices were delayed. This difference is temporary; and
- j) Funding advances are less than projected primarily due the above permanent and temporary variances which has resulted in a cumulative repayment of debt to HSBC over the period, rather than having required funding.

## **PROJECTED STATEMENT OF CASH FLOW**

25. The Company has prepared its projected statement of cash flow for the period May 13, 2022 to August 5, 2022, (the "**Third Extension Period Cashflow**") that is attached as **Appendix "A"**. The BIA prescribed Company's report and Proposal Trustee's report on the projected

statement of cash flow, Form 29 and 30 respectively, filed with the Official Receiver on May 16, 2022, are attached as **Appendix “B”**.

26. A summary of the Company prepared Third Extension Period Cashflow is as follows:

**Vertex Downhole Ltd.**  
**Summary of Projected Statement of Cash Flow**  
**For the Period May 7, 2022 to August 5, 2022**

Opening Cash Balance at May 7, 2022	\$ -
<b>Cash Inflows</b>	
Customer Payments	2,673,327
Repatriation from Wholly Owned Subsidiary	1,203,876
HHBRP	45,565
GST	26,000
Total Estimated Inflows	<u>3,948,768</u>
<b>Cash Outflows</b>	
Total Vendor Payments	1,123,812
Total Payroll	609,540
Total Restructuring Costs	487,304
Total General & Administrative	340,375
Total Insurance	113,870
Total Interest and Bank Charges	99,660
Total Rent	82,902
Total Estimated Outflows	<u>2,857,463</u>
Total Cash Inflows over Cash Outflows	<u>1,091,305</u>
Total Cumulative Funding Request	<u>(62,051)</u>
<b>Estimated Closing Cash Balance at August 5, 2022</b>	<u>\$ 1,029,254</u>

27. The Third Extension Period Cashflow requires the Company to obtain funding of between \$535 to \$232,886 weekly to carry on operations during the period of May 7, 2022 to August 5, 2022, which is beyond the Third Extension Period. On a cumulative basis for the period, the Company is projecting funding repayments which exceed funding advances by \$62,051.

28. In order to allow the Company to proceed with the SISP and make a viable Proposal, HSBC has advised that as long as the Company operates within the parameters of the Third Period

Cash Flow, it is supportive of it funding the aforementioned amounts above.

### **REQUEST FOR EXTENSION**

29. Pursuant to the BIA, and the Extension Order granted by this Honourable Court, the Company must file a Proposal no later than May 30, 2022, unless an application is made to the Court for a further extension.
30. The Company is requesting an extension of the stay of proceedings until July 14, 2022, to allow time to continue with the SISP, to be able to make a viable Proposal to its creditors.

### **RECOMMENDATION AND CONCLUSION**

31. The Proposal Trustee is of the view that the Company's requested extension to July 14, 2022 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 May 30, 2022 and maintaining ongoing operations is needed for the Company to be in a position to complete a sale and 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.
32. The Proposal Trustee is requesting a Sealing Order for the Confidential Supplement to the Third Report for the reasons stated above.

All of which is respectfully submitted this 18<sup>th</sup> day of May, 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



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

# APPENDIX A

Vertex Downhole Ltd.  
Cash Flow Forecast

May 7, 2022 to August 5, 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	13-May-22	20-May-22	27-May-22	03-Jun-22	10-Jun-22	17-Jun-22	24-Jun-22	01-Jul-22	08-Jul-22	15-Jul-22	22-Jul-22	29-Jul-22	05-Aug-22	
<b>Opening Cash</b>	1	-	-	-	-	-	-	-	-	-	52,686	373,265	690,761	786,463	-
<b>Receipts</b>															
Customer Payments	2	169,875	130,663	63,000	55,517	232,318	318,622	-	200,815	117,055	247,380	397,819	255,012	485,251	2,673,327
HHRBP	3	-	30,565	-	-	-	15,000	-	-	-	-	-	-	-	45,565
GST	4	-	-	-	-	-	6,000	-	-	-	20,000	-	-	-	26,000
Repatriation from wholly owned subsidiary	5	129,349	52,639	145,487	32,316	33,726	151,517	19,508	258,584	154,488	213,132	-	5,873	7,257	1,203,876
<b>Total Receipts</b>		<b>299,224</b>	<b>213,867</b>	<b>208,487</b>	<b>87,833</b>	<b>266,044</b>	<b>491,139</b>	<b>19,508</b>	<b>459,399</b>	<b>271,543</b>	<b>480,512</b>	<b>397,819</b>	<b>260,885</b>	<b>492,508</b>	<b>3,948,768</b>
<b>Disbursements</b>															
Payroll	6	-	98,100	-	98,100	10,470	98,100	-	98,100	10,470	98,100	-	98,100	-	609,540
Rent	7	-	-	-	27,634	-	-	-	27,634	-	-	-	-	27,634	82,902
Insurance	8	-	35,290	-	-	20,000	9,290	-	20,000	-	-	9,290	-	20,000	113,870
General & Administrative	9	80,419	19,341	19,833	17,583	42,935	14,583	19,833	18,833	37,683	14,583	14,583	19,833	20,333	340,375
Vendor Payments	10	94,279	52,815	126,896	97,920	125,311	162,490	92,489	53,283	129,329	47,250	47,250	47,250	47,250	1,123,812
Interest & Bank Charges	11	245	-	9,200	19,500	-	-	22,515	19,500	-	-	9,200	-	19,500	99,660
<b>Total Disbursements</b>		<b>174,943</b>	<b>205,546</b>	<b>155,929</b>	<b>260,737</b>	<b>198,716</b>	<b>284,463</b>	<b>134,837</b>	<b>237,350</b>	<b>177,482</b>	<b>159,933</b>	<b>80,323</b>	<b>165,183</b>	<b>134,717</b>	<b>2,370,159</b>
<b>Net cashflow from operations</b>		<b>124,281</b>	<b>8,321</b>	<b>52,558</b>	<b>(172,904)</b>	<b>67,328</b>	<b>206,676</b>	<b>(115,329)</b>	<b>222,049</b>	<b>94,061</b>	<b>320,579</b>	<b>317,496</b>	<b>95,702</b>	<b>357,791</b>	<b>1,578,609</b>
<b>Professional costs</b>															
Legal Counsel Fees		-	50,000	-	13,838	67,863	-	-	20,000	-	-	-	-	50,000	201,701
Trustee Fees		43,049	45,155	-	35,347	-	-	-	50,000	-	-	-	-	50,000	223,551
Trustee's Legal Counsel Fees		21,255	-	-	10,797	-	-	-	15,000	-	-	-	-	15,000	62,052
<b>Total Professional costs</b>	12	<b>64,304</b>	<b>95,155</b>	<b>-</b>	<b>59,982</b>	<b>67,863</b>	<b>-</b>	<b>-</b>	<b>85,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,000</b>	<b>487,304</b>
<b>Net cashflow following professional costs</b>		<b>59,977</b>	<b>(86,834)</b>	<b>52,558</b>	<b>(232,886)</b>	<b>(535)</b>	<b>206,676</b>	<b>(115,329)</b>	<b>137,049</b>	<b>94,061</b>	<b>320,579</b>	<b>317,496</b>	<b>95,702</b>	<b>242,791</b>	<b>1,091,305</b>
<b>Funding request</b>															
Funding advances and repayments	1, 13	(59,977)	86,834	(52,558)	232,886	535	(206,676)	115,329	(137,049)	(41,375)	-	-	-	-	(62,051)
<b>Ending Cash Balance</b>		<b>-</b>	<b>52,686</b>	<b>373,265</b>	<b>690,761</b>	<b>786,463</b>	<b>1,029,254</b>	<b>1,029,254</b>							
<b>Cumulative funding request</b>	1, 13	<b>2,074</b>	<b>88,908</b>	<b>36,350</b>	<b>269,236</b>	<b>269,771</b>	<b>63,095</b>	<b>178,424</b>	<b>41,375</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 16th day of May 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**  
**May 7, 2022 to August 5, 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. In any period where the Cumulative Funding Request (since February 4, 2022) has been fully repaid, the net cash inflows are presented as Ending Cash Balance, available to fund ongoing operations.

**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 30-days for the sale of pulsers, 60-days for the sale of parts, and 75-days for rentals, all following the issuance of an invoice. Pulser and part sales and services are invoiced on delivery to customer where rental is typically invoiced at end of each month. Customer payments increase towards the end of the 13-week period as the forecast assumes part sales to its largest customer from Canada will be paid directly to Canadian entity. Prior to this, payments are reflected in repatriation from and transfer to wholly-owned subsidiary.

**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 April through May 7, 2022. Period 27 (to April, 9, 2022) was filed on May 11, 2022. It is projected that HHBRP will be received approximately 5 business days following submission to CRA of the documentation required. The forecast assumes there is no extension of the current programs.

**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. The Company recently received a notice from Canada Revenue Agency about ITC's claimed on creditor invoices prior to filing of the Notice of Intention. As such estimated net recoveries of GST for May and June have been reduced to reflect the required repayment.

**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. During April and May 2022, the Canadian headcount declined from 24 to 21 employees. In addition, during this period the company entered into a contract for a full time Financial Controller. The Company also reinstated COVID related salary reductions in place since April 2020 for 9 Canadian employees. The impact of these are reflected in the forecast. Cost savings from reduced headcount fully offset increased costs of other actions.

**Note 7**

The Company's main warehouse and office facility is under a short term triple net lease that expires in 2023.

**Note 8**

The Company's insurance policies were renewed March 17, 2022 entered into a premium financing agreement with up front payment made in April. The remaining premiums are paid over the remaining following 11-months. The Company's D&O insurer has been extended for the same increments as the NOI extensions granted by the courts. Cash flow forecast reflects D&O extension beyond the 13-week period.

**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. The week ending May 13, 2022 includes a prepayment to a public accounting firm to assist the Company in preparing and filing its Scientific Research and Experimental Development claim for the 2020 tax year. The Company anticipates filing the claim prior to June 30, 2022 and resultant cash inflow from Canada Revenue Agency to occur in the forecast period. Given the uncertainty surrounding timing and amount, the cash inflow is not included in the cash flow forecast.

**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. Prior to the commencement of these proceedings, the Company's maintained payment terms averaging approximately 70-days. 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. Vendors which are not pre-paid have provided 30-day payment terms. At May 16, 2022 the Company has paid deposits totalling \$124,000 and the Company has open sales orders totalling approximately US\$5.1 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. In the cash flow forecast the Company is planning to pay each invoice 30-days following the issuance of a monthly invoice. The forecasted cash outflow for the weeks ending May 18 and June 5 include an unpaid pre-NOI invoice from Proposal Trustee services and amounts owing to the Company's legal counsel for the period January to March 31 2022 for which payment had been delayed as the charges exceeded amounts previously estimated.

**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 1.2953 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 10%, and on General and Administrative and Vendor Payments of 5%. In aggregate, over the 13-week Cash Flow, the Contingency totals \$479,112.

# APPENDIX B

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 7<sup>th</sup> day of May 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 16<sup>th</sup> day of May 2022.

MNP Ltd. - Licensed Insolvency Trustee  
Per:



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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 7th day of May, 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 16th day of May, 2022.



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Vertex Downhole Ltd.  
Debtor

Craig S. Flint, CFO

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Name and title of signing officer