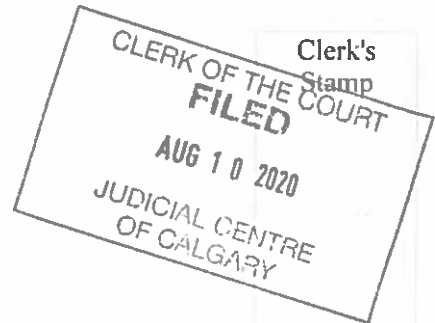


COURT FILE NUMBER 2001 06423
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY



IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, as amended

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF ENTREC CORPORATION, CAPSTAN
HAULING LTD., ENTREC ALBERTA LTD., ENT CAPITAL
CORP., ENTREC CRANES & HEAVY HAUL INC., ENTREC
HOLDINGS INC., ENT OILFIELD GROUP LTD. and ENTREC
SERVICES LTD.

DOCUMENT **THIRD REPORT OF THE MONITOR**
August 10, 2020

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ALVAREZ & MARSAL

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1.0 INTRODUCTION

- 1.1 On May 15, 2020, ENTREC Corporation, Capstan Hauling Ltd., ENTREC Alberta Ltd., ENT Capital Corp., ENTREC Cranes & Heavy Haul Inc., ENTREC Holdings Inc., ENT Oilfield Group Ltd. (“**ENT Oilfield**”), and ENTREC Services Ltd. (collectively, the “**Applicants**” or “**ENTREC**”), were granted an initial order (the “**Initial Order**”) to commence proceedings (the “**CCAA Proceedings**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Among other things, the Initial Order provided for a stay of proceedings in respect of the Applicants for a period initially expiring May 25, 2020 (the “**Stay Period**”).
- 1.2 Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. was appointed as monitor (the “**Monitor**” or “**A&M**”) in the CCAA Proceedings.
- 1.3 The Monitor, as foreign representative, filed petitions for each of the Applicants under Chapter 15 of the U.S. Bankruptcy Code (the “**U.S. Proceedings**”) in the United States Bankruptcy Court for the Southern District of Texas (the “**U.S. Court**”), Jointly Administered Case No. 20-32643. On May 15, 2020, the U.S. Court in the U.S. Proceedings entered an order granting provisional relief providing that the Initial Order be given full force and effect in all respects on an interim basis, including, without limitation, with respect to property of the Applicants located in the U.S.
- 1.4 On May 21, 2020, the Monitor filed the First Report of the Monitor (the “**First Report**”) which described the Monitor’s activities to date and provided background in respect of the Applicants’ business and financial affairs, the proposed Sale and Investment Solicitation Process (the “**SISP**”), the key employee retention and incentive plan (“**KERP/KEIP**”), the increase to the sale transaction limits for redundant assets, the extension of the Stay Period, the cash flow projection for the 13 weeks ended August 7, 2020 (the “**First Cash Flow Forecast**”), the cash management system used by the Applicants, and the Interim Facility.
- 1.5 On May 25, 2020, the Court granted an Amended and Reinstated Initial Order (the “**ARIO**”) providing a further extension of the Stay Period until August 7, 2020 and an order (the “**SISP Order**”) which authorized the SISP, appointed Ernst & Young Orenda Corporate Finance Inc. (“**EY**”) and Sequeira Partners (“**Sequeira**”) as financial advisors (together, the “**Sales Agents**”) to administer the SISP, approved the KERP/KEIP, and increased the restriction on the maximum amount that may be advanced under the Interim Facility to \$30.0 million.
- 1.6 On May 28, 2020, the U.S. Court recognized the ARIO and the SISP Order in the U.S. Proceedings.

- 1.7 On July 28, 2020, the Monitor filed the Second Report of the Monitor (the “**Second Report**”), which described the Monitor’s activities since the First Report and provided an update of the SISP, the sale of Non-Core Assets, certain insurance matters, a comparison of actual cash flow results to the First Cash Flow Forecast, the updated and extended cash flow forecast for the 8-week period ending September 11, 2020 (the “**Second Cash Flow Forecast**”), the extension of the Support Agreement between the Applicants and the Syndicate (as subsequently defined) dated July 27, 2020 (the “**RSA Extension Agreement**”), and the extension of the Stay Period.
- 1.8 On August 6, 2020 the Court granted an order (the “**Stay Extension Order**”) providing a further extension of the Stay Period until September 11, 2020, authorizing the Monitor to distribute the proceeds from the sale of a crane and auction of certain office equipment to Wells Fargo Capital Finance Corporation (the “**Agent**”) in partial satisfaction of the Applicants’ obligations owing to the syndicate of lenders (the “**Syndicate**”), and granting of a security interest in favour of FIRST Insurance Funding, a Division of Lake Forest Bank and Trust Company (the “**U.S. Insurance Lender**”) in the unearned premiums in connection with the financing provided by the U.S. Insurance Lender to renew the Applicants’ insurance policies in the U.S. An application will be filed with the U.S. Court to grant comity to the Stay Extension Order.
- 1.9 On August 7, 2020, the Applicants filed a notice of application (the “**August 7 Application**”) for the following orders:
- a) an order (the “**Bonnyville SAVO**”) to authorize the proposed sale of the assets located at the ENTREC branch in Bonnyville, Alberta (the “**Bonnyville Transaction**”) to 4-Way Developments Ltd. (the “**Purchaser**”); and
 - b) an order (the “**Assignment, Distribution, and Sealing Order**”) to:
 - i. assign certain customer contracts and operating leases to the Purchaser pursuant to section 11.3 of the CCAA;
 - ii. authorize the Monitor to distribute the net sales proceeds from the Bonnyville Transaction to the Agent as a partial reduction of the Applicants’ obligations to the Syndicate;
 - iii. seal the confidential appendices of the Fourth Stevens Affidavit (as subsequently defined) and the Monitor’s First Confidential Report (as subsequently defined) until the closing of the transaction or further order of this Court; and
 - iv. approve the activities of the Monitor to date.
- 1.10 Further information regarding these CCAA Proceedings, including copies of the court orders, affidavits, reports of the Monitor and all other court-filed documents and notices are available on

the Monitor's website at www.alvarezandmarsal.com/entrec (the "**Monitor's Website**").

Information regarding the U.S. Proceedings is available on the website of the U.S. notice agent at <https://cases.stretto.com/entrec>.

2.0 PURPOSE

2.1 The Monitor's third report (the "**Third Report**") was prepared by the Monitor to provide information to this Honourable Court in respect of the SISP, and to review the Applicants' selection of the Winning Bid (as defined in the SISP) and their application to this Honourable Court for approval to complete the Bonnyville Transaction with the Purchaser on the terms set out in the Winning Bid.

2.2 The Third Report should be read in conjunction with the August 7 Application and the supporting affidavit of John Stevens sworn August 7, 2020 (the "**Fourth Stevens Affidavit**"). Background information, including capitalized terms not defined herein, are contained in the Initial Order, the ARIQ, the SISP, and the Monitor's previous reports, and have not been repeated herein.

3.0 TERMS OF REFERENCE

3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to it, by certain senior management of ENTREC ("**Management**"). Although this information has been subject to review, A&M has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Applicants. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this report, or otherwise used to prepare this report.

3.2 Unless otherwise stated, all monetary amounts contained in this Third Report are expressed in Canadian dollars.

4.0 UPDATE ON THE SISP

Phase 1 – LOI Process

4.1 The Monitor provided a summary of the sale process and details regarding the status of the SISP in the Monitor's previous reports. An update of the SISP activities to date is set out in the Fourth Stevens Affidavit.

- 4.2 The Sales Agents initiated a number of marketing activities pursuant to the SISP Order including disseminating notices of the SISP through the Wall Street Journal, the National Post, and other various news outlets in Canada and the U.S. between May 27, 2020 and June 4, 2020.
- 4.3 In addition to the notices, the Sales Agents, in consultation with the Applicants, the Monitor and the Agent and its advisors, prepared an initial list of potential bidders including strategic parties, private equity firms, alternative lenders and liquidators (the “**Potential Bidders**”). A teaser letter was prepared and distributed along with a form of confidentiality agreement (the “**CA**”) to 394 Potential Bidders with CAs concluded with a total of 66 parties resulting in the distribution of the Confidential Information Memorandums (for the Canadian or US assets as applicable) to each of these parties. The Sales Agents prepared virtual data rooms with operational details of ENTREC’s business and assets for access by Potential Bidders with executed CAs.
- 4.4 Interested parties were required to submit a non-binding letter of intent (“**Non-Binding LOIs**”) to the Monitor by June 26, 2020 (the “**LOI Deadline**”). The Applicants received 13 Non-Binding LOIs by the LOI Deadline in respect of the assets in Canada (the “**Canadian Assets**”). All bidders were interested in acquiring the assets of ENTREC and no restructuring or hybrid bids were received.
- 4.5 The Applicants, in consultation with the Sales Agents, the Monitor, and the Agent focused their efforts on the parties that appeared to have reasonable bid ranges, capability and financial wherewithal to close a transaction within the timelines as required under the SISP.
- 4.6 It was determined that six parties were considered as ‘Qualified Bidders’ as defined in the SISP and would proceed to Phase 2 of the SISP to conduct additional due diligence for the Canadian Assets. In addition, two liquidation firms were invited to submit final binding offers in respect of select Canadian assets.

Phase 2 – Final Bid Process for the U.S. Assets

- 4.7 As detailed in the Second Report, the Final Bid Deadline for the U.S. assets and business (the “**U.S. Assets**”) was extended to August 7, 2020 with the consent of the Syndicate.
- 4.8 Final Bids for the U.S. Assets were received on August 7, 2020 and are currently being evaluated by the Applicants in conjunction with the Sales Agent, the Monitor, and the Agent and its advisors. Further updates on the U.S. SISP and accepted offer(s) will be set out in subsequent application materials to approve a transaction(s), should there be any accepted offers.

Phase 2 – Final Bid Process for the Canadian Assets

- 4.9 Under Phase 2, Qualified Bidders were required to submit a final, binding asset purchase agreement (a “**Canadian Final Bid**”) by July 24, 2020 (the “**Final Bid Deadline**”) for the Canadian Assets.
- 4.10 The Applicants facilitated six site visits and three management meetings as requested by the Qualified Bidders and addressed any due diligence requests.
- 4.11 The Purchaser’s principals include one individual who serves on the management team of ENTREC’s Canadian operations and another who is the manager of the Bonnyville branch (the “**Insiders**”). Additionally, the Purchaser is the landlord of ENTREC’s leased premises in Bonnyville, Alberta. The Applicants and the Monitor were aware of the Insiders’ potential interest in the Canadian Assets and the Insiders submitted an LOI for substantially all of the assets located at the Bonnyville branch. The Applicants and the Monitor took several steps to maintain the fairness and integrity of the SISP, including:
- a) the Insiders did not participate in the development of the SISP;
 - b) the Insiders did not participate in the administration of the SISP, except as required for certain management presentations;
 - c) confidential information regarding the other bids was not shared with the Insiders;
 - d) all Qualified Bidders in Canada were notified in writing that the Insiders had submitted a Qualified Bid and were instructed not to discuss bid details at management meetings; and
 - e) a representative of the Monitor attended, in a supervisory capacity, all management meetings that included Bonnyville as a potential target along with EY and members of ENTREC’s senior management team.
- 4.12 By the Final Bid Deadline, three Canadian Final Bids were received. In order for a bid to be considered a ‘Qualified Asset Bid’ pursuant to the SISP, it was required to include the following:
- a) a letter stating the offer is irrevocable;
 - b) a duly authorized and executed asset purchase agreement (“**APA**”) that is not contingent on unperformed due diligence, obtaining financing, and/or upon any governmental or regulatory approval;
 - c) excludes any request or entitlement to a break fee, expense reimbursement or similar type of payment;
 - d) written evidence of the bidder’s financial and other capabilities to consummate the transaction;

- e) full disclosure of the identity of each Person (as defined in the SISP) that is bidding or otherwise sponsoring or participating in the bid;
 - f) inclusion of a cash deposit equal to 10% of the purchase price;
 - g) the bid was to be on an “as is, where is” basis; and
 - h) received by no later than the Final Bid Deadline.
- 4.13 The three Canadian Final Bids were all asset bids that included all or substantially all of the assets located at the Bonnyville, Alberta branch. The Applicants, in consultation with the Monitor and the Agent, have selected the Qualified Asset Bid submitted by 4-Way Developments Ltd. (Purchaser) as the ‘Winning Bid’ for the purchase of substantially all of the assets of the Bonnyville branch. The Syndicate provided its support for the Winning Bid on August 4, 2020.
- 4.14 The SISP provides discretion to the Applicants on whether to select a backup bid as the next highest, best or otherwise most favourable Qualified Bid (the “**Backup Bid**”) should the Winning Bid not close. The Applications in consultation with the Sales Agents, Monitor and Agent, elected not to select a Backup Bid based on, among other things, the other bids not meeting the requirements of a Qualified Asset Bid as outlined in section 4.12 and the proposed purchase prices being inadequate. On August 5, 2020, notice was given to the other two bidders that their Canadian Final Bids were not the Winning Bid or the Backup Bid.
- 4.15 The Monitor has prepared a Confidential Supplemental Report to the Third Report (the “**First Confidential Report**”) which includes certain financial details about the Canadian Final Bids. The Applicants are seeking to have the First Confidential Report filed with this Honourable Court sealed under the Assignment, Distribution and Sealing Order to preserve the confidentiality of the Canadian Final Bids to maintain the competitive nature of the sale process in the event that the Bonnyville Transaction does not complete, in which case the Applicants may seek to complete an alternative transaction with another party.

Remaining Canadian Assets

- 4.16 Subsequent to the Final Bid Deadline, the Sales Agent, in consultation with the Applicants, the Monitor and the Agent, identified and, subsequently, held discussions with a select group of Potential Bidders who participated in Phase 1 of the SISP and may be interested in submitting a bid for the remaining branches in Canada: Fort McMurray, Whitecourt, and Grande Prairie.
- 4.17 Further updates regarding the sale process for the remaining Canadian Assets and accepted offer(s) will be set out in subsequent application materials to approve a transaction(s), should there be any accepted offers.

5.0 THE PROPOSED SALE TRANSACTION

Terms of the Winning Bid

- 5.1 The Winning Bid is in the form of a definitive APA, in respect of substantially all of the assets of the Bonnyville location. A redacted copy of the APA is attached to the Fourth Stevens Affidavit along with an unredacted copy of the fully-executed APA in a confidential exhibit.
- 5.2 A detailed discussion of the terms of the Winning Bid is included in the Fourth Stevens Affidavit. A summary of the non-commercially sensitive key terms of the APA is as follows:
- a) the Purchaser offers to purchase all of ENTREC's right, title, interest in and to all of ENTREC's assets, undertakings, and properties relating to the ENT Oilfield Bonnyville location free and clear of any encumbrances (the "**Purchased Assets**");
 - b) the closing date for the subject transaction will be 10 business days following the date on which the Bonnyville SAVO is granted by this Honourable Court;
 - c) a deposit of 10% of the purchase price has been remitted to and is held in trust by the Monitor and is non-refundable if the Purchaser does not close after Court approval and satisfaction of conditions. The purchase price less the deposit amount will be paid in cash upon closing by wire transfer;
 - d) nine contracts are to be assigned and include six customer contracts, leases for two equipment units and the lease agreement in respect of the Bonnyville premises (the "**Assigned Contracts**"); and
 - e) the sale is on an "as is, where is" basis.
- 5.3 The Winning Bid includes a limited number of customary closing conditions, the assignment of one significant customer contract, which is included as one of the Assigned Contracts, and is not conditional on financing. Management believes that these closing conditions are achievable and that none of them are likely to prevent the Bonnyville Transaction from closing. The Applicants have already commenced to work with the Purchaser to address the closing conditions with a view to closing the Bonnyville Transaction, subject to the granting of the Bonnyville SAVO.

Monitor's Review of the Winning Bid

- 5.4 The Monitor's review of the Winning Bid included consideration of the following:
- a) adherence of all interested parties including the Purchaser, to the terms of the Court approved SISP;

- b) the Purchaser's intention to hire all of the currently active employees, which consists of 85 full-time employees, at the Bonnyville location and continue the operations on a going concern basis;
- c) the purchase price in comparison to certain appraisal information after considering current market conditions and costs to prepare the equipment, and other wind-up costs, if a liquidation were to occur;
- d) the purchase price was higher than the other Canadian Final Bids;
- e) the financial wherewithal of the Purchaser and the likelihood of the Purchaser being able to conclude a successful transaction;
- f) the potential for additional costs to be incurred, including sale and wind-up costs and professional fees, if a transaction was not concluded in a timely manner and/or if the Bonnyville location was to be wound up; and
- g) the Syndicate, as the primary economic stakeholder in the Applicants, is supportive of the Bonnyville Transaction.

5.5 The Monitor is of the view that the Canadian Assets were marketed comprehensively and in a manner which was fair and reasonable, that the market has been adequately canvassed for potential purchasers and that the Bonnyville Transaction is in the best interest of the stakeholders of the Applicants. Accordingly, it is the Monitor's opinion that the Winning Bid provides for the highest and best value for the Bonnyville assets and recommends the approval of the Bonnyville Transaction.

Assigned Contracts

5.6 The Applicants intend to assign the Assigned Contracts included in the APA pursuant to section 11.3 of the CCAA. The Monitor is of the opinion that the assignment of contracts appears to be appropriate and the Purchaser appears capable of performing the obligations after consideration of the following factors:

- a) the Purchaser has experience and is familiar with the Assigned Contracts and operations as it is comprised of individuals from the current management team and landlord of the leased premises in Bonnyville, and intends to retain all of the employees at the Bonnyville location;
- b) the assigned equipment and facility leases will be utilized in the Purchaser's operations to generate revenue;
- c) the assignment of the Assigned Contracts would satisfy the APA, facilitate the going concern sale of the Bonnyville location, and be in the best interests of the Applicants stakeholders;

- d) the Purchaser appears to have the ability and financial wherewithal to perform its obligations under the Assigned Contracts; and
- e) as detailed in the Fourth Stevens Affidavit, the Assigned Contracts do not have any monetary defaults that are required to be cured. Under the APA, the Purchaser is responsible for cure costs in respect of the Assigned Contracts.

5.7 For the reasons listed above, the Monitor is in support of the assignment of the Assigned Contracts.

6.0 DISTRIBUTION OF NET SALE PROCEEDS TO AGENT

6.1 Pursuant to the RSA Extension Agreement, the Applicants agreed to seek approval from the Court to distribute the net proceeds of such transaction to the Agent, subject to a reserve (the “**Reserve**”), which must be acceptable to the Syndicate and sufficient to meet the following requirements:

- a) satisfy post-filing obligations incurred by the Applicants in the ordinary course of business;
- b) complete such steps as are necessary to wind-down the Applicants’ Canadian operations; and
- c) account for amounts payable to parties with claims against any of the Purchased Assets in priority to the Agent’s security, including the Charges (as defined in the ARIO).

6.2 Following the closing of the Bonnyville Transaction, the Applicants seek to distribute to the Agent the proceeds from the Bonnyville Transaction (the “**Net Sale Proceeds**”). Based on, among other things, the Applicants’ available assets following the closing of the Bonnyville Transaction, the Applicants, in consultation with the Agent and the Monitor, anticipate that a Reserve in relation to the proceeds generated from the Winning Bid will not be necessary in these circumstances. The Applicants have given notice of the August 7 Application to the parties entitled to the Charges.

6.3 The Syndicate is the Applicants’ largest senior secured creditor and is owed in excess of \$90 million. An immediate distribution on closing of the Net Sale Proceeds will partially reduce the indebtedness owing to the Syndicate, thereby reducing the Applicants’ ongoing interest costs for the benefit of all stakeholders.

6.4 The Monitor received an opinion from its legal counsel that, subject to customary assumptions and qualifications, the security held by the Agent is valid and enforceable in accordance with its terms and the Applicants’ stakeholders will not be materially prejudiced by the proposed distribution to the Agent.

7.0 RECOMMENDATIONS

7.1 The Monitor respectfully recommends that this Honourable Court grant the following:

- a) the Bonnyville SAVO; and
- b) the Assignment, Distribution and Sealing Order.

All of which is respectfully submitted to this Honourable Court this 10th day of August, 2020.

**Alvarez & Marsal Canada Inc.,
in its capacity as Monitor of
ENTREC Corporation and its subsidiaries**



Per: Anthony Tillman
Senior Vice President



Per: Vicki Chan
Vice President