Clerk's Stamp

JUDICIAL CENTRE OF EDMONTON
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Clerk of the Court

COURT FILE NUMBER	1703-12327
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	EDMONTON
	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 ARRANGEMENT OF CANADA NORTH GROUP INC., CANADA NORTH CAMPS INC., CAMPCORP STRUCTURES LTD., D.J. CATERING LTD., 816956 ALBERTA LTD., 1371047 ALBERTA LTD., AND 1919209 ALBERTA LTD.
DOCUMENT	**MONITOR'S THIRD REPORT** **October 2, 2017**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>**MONITOR**</u> ERNST & YOUNG INC. EPCOR Tower 10423 - 101 Street, Suite 1400 PO Box 44 Edmonton, Alberta T5H 0E7 Attention: Matt McCulloch / Dan McCulloch Telephone: 780-638-6642 / 780-441-4695 Fax: 780-428-8977 Email: matt.mcculloch@ca.ey.com dan.mcculloch@ca.ey.com <u>**COUNSEL**</u> Duncan Craig LLP Suite 2800, 10060 Jasper Avenue Edmonton, Alberta T5J 3V9 Attention: Darren R. Bieganek, QC Phone: 780-441-4386 Fax: 780-428-9683 Email: dbieganek@dcllp.com

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INTRODUCTION AND PURPOSE OF THE REPORT

1. On July 5, 2017, Canada North Group Inc. ("**CNG**"), Canada North Camps Inc. ("**CNC**"), Campcorp Structures Ltd. ("**Campcorp**"), D.J. Catering Ltd. ("**DJ**"), 816956 Alberta Ltd. ("**816**"), And 1371047 Alberta Ltd. ("**137**") (hereinafter collectively referred as the "**Applicants**" or the "**Companies**" or the "**Group**") made an application before this Honourable Court requesting certain relief under the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended* (the "**CCAA**") and obtained, inter alia, an initial order (the "**Initial Order**"), a stay of proceedings ("**Stay**") against the Applicants for a period of 30 days up to and including August 3, 2017, and the appointment of Ernst & Young Inc. ("**EYI**" or the "**Monitor**") as monitor of the Applicants. In addition to the appointment of the Monitor, the Initial Order also included the appointment of R.e.l. group inc. as Chief Restructuring Officer ("**CRO**").

2. Prior to the application noted above, on June 26th, 2017, each of CNG, CNC, Campcorp, and DJ filed a Notice of Intention to Make a Proposal ("**NOI**") pursuant to Section 50.4(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3 ("**BIA**") and EYI consented to act as Trustee in each instance. These NOI proceedings commenced by CNG, CNC, Campcorp and DJ under the BIA were taken up and continued under the CCAA.

3. On July 27, 2017, the Applicants made an application before this Honourable Court for the following relief:

   a) an extension of the Stay under the Initial Order;

   b) to include an additional entity, 1919209 Alberta Ltd. ("**1919**"), as an applicant to these CCAA proceedings; and,

   c) an increase to the interim financing ("**DIP**") from $1 million as stipulated in the Initial Order to $2.5 million primarily to fund operations and the unexpected revenue (and associated costs) associated with housing the relief effort and firefighters in relation to the wildfires in British Columbia ("**BC**").

   At the application on July 27, 2017, the Court granted an extension of the Stay to September 29, 2017 along with the other relief requested by the Applicants as outlined above.

4. On September 26, 2017, the Applicants made an application before this Honourable Court to request relief in relation to a number of matters, including the following significant items:

   a) A further extension of the Stay up to and including January 31, 2018;

   b) Authorization for the Applicants to carry out an investment and sales solicitation process ("**ISSP**") substantially in accordance with the outline and indicative timeline as described in the CRO's First Report;

   c) Authorization to engage Peters & Co. Limited ("**Peters**") to act as the solicitation agent for the Applicants in relation to carrying out the ISSP;

   d) Authorization to sell the Applicants' head office premises owned by 137, located in Edmonton, Alberta;

   e) Authorization to enter into a Sub-Lease and Interim Sub-Lease Agreement with respect to a new head office; and,

   f) Direction by the Court for ECN Financial Inc. ("**ECN**") to return $12,890.13 of funds debited by ECN on July 1, 2017 and July 10, 2017 to CNC.

   At the application on September 26, 2017, the Court granted an extension of the Stay up to and including January 31, 2018 along with the other relief requested by the Applicants.

5. The purpose of this limited report (the "**Monitor's Third Report**") is to provide this Honourable Court and the Applicants' creditors and other interested parties with information and recommendations in relation to the Applicants' requests to transition the role of the CRO to the Monitor and to approve an extension and amendment of the DIP terms.

DISCLAIMER

6. In preparing the Monitor's Third Report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with the Applicants' management ("**Management**"). The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information provided. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied upon in its preparation. Future oriented

financial information reported or relied on in order to prepare this report is based on Management's assumptions regarding future events; actual results will vary from forecast, and such variations may be material.

7. This report should be read in conjunction with the Fifth Affidavit of Shayne McCracken sworn on October 2, 2017, and filed with the Court by the Applicants in support of this application.

8. All references to dollars are in Canadian currency unless otherwise noted.

TRANSITION OF THE ROLE OF THE CRO TO THE MONITOR

9. The Monitor has reviewed a draft of the Fifth Affidavit of Shayne McCracken, and, provided no significant revisions are made prior to its finalization and filing with the Court, the Monitor agrees with the content outlined therein. The appointment of the CRO at the onset of these CCAA proceedings was made a number of reasons, which include the following:

   a) the appointment of the CRO was required by Business Development Bank of Canada ("**BDC**") as a condition of providing the DIP to the Applicants;

   b) the CRO assisted the Applicants directly with the restructuring issues that arose on account of the CCAA proceedings, and otherwise;

   c) the CRO assisted the Applicants in addressing a number of internal accounting and control matters;

   d) the insertion of the CRO helped increase the confidence to the Court and creditors in the CCAA proceedings;

   e) the CRO assisted the Applicants in its communications with BDC, the Monitor, other creditors and potential investors; and,

   f) the CRO assisted the Applicants in arranging for various appraisals of the Applicants' assets, interviewing various firms and the ultimate selection of Peters as the solicitation agent in carrying out the ISSP, and determining a general process and related timeline for the ISSP and the filing of a Plan.

10. The Monitor understands that the Applicants are of the view that the initial mandate of the CRO has been completed and that the transition of the role of the CRO to the Monitor is appropriate in the circumstances and should lead to the reduction of duplication of efforts, and provide for a more stream-lined, cost effective and collaborative approach moving forward.

11. The Monitor advises that since the onset of these CCAA proceedings, it has worked closely with the CRO and the Applicants, and is familiar with the status of the CRO's accomplishments to date. Further, the Monitor is aware of the work that the CRO currently has in progress and is of the view that the transition, if approved, will not be overly onerous or disruptive to the CCAA proceedings.

12. The Monitor confirms that it has been advised that BDC is supportive of the transition of the role of the CRO, and further advises that it is supportive of the Applicants' request, and is prepared and able to fulfill an expanded role in these CCAA proceedings.

EXTENSION AND AMENDMENT TO THE DIP TERMS

13. The Monitor has been advised that the Applicants entered into an extension and amendment of the DIP terms with BDC by way of a letter dated September 28, 2017 (the "**Amendment**"). The Monitor understands that a copy of the Amendment will be included as a schedule to the Fifth Affidavit of Shayne McCracken.

14. The Monitor has reviewed the Amendment, and advises that the primary purpose of the Amendment is to confirm reporting requirements between the Applicants and BDC with respect to the ISSP and the pending Plan. The Monitor advises that the terms and reporting requirements outlined in the Amendment are consistent with the Monitor's understanding of the timeline associated with the ISSP and the balance of these CCAA proceedings. Further, the Monitor is of the view that the Amendment is fair and reasonable in the circumstances.

OTHER MATTERS RELEVANT TO THE CCAA PROCEEDINGS AT THIS TIME

15. There are no other matters relevant to the CCAA proceedings to report at this time.

THE MONITOR'S RECOMMENDATIONS

16. The Applicants are seeking a transition of the role of the CRO to the Monitor in these CCAA proceedings for the reasons outlined in this brief report and in the Fifth Affidavit of Shayne McCracken. It is the Monitor's view that the transition requested is a reasonable and appropriate course of action in these CCAA proceedings and should be approved by this Honourable Court.

17. With respect to the Amendment, as noted earlier in this report, the Monitor is of the view that the Amendment is fair and reasonable, and as such, should also be approved by this Honourable Court.

Dated at Edmonton, this 2nd day of October, 2017

Ernst & Young Inc.
In its capacity as Monitor of
Canada North Group Inc.;
Canada North Camps Inc.;
CampCorp Structures Ltd.;
D.J. Catering Ltd.;
816956 Alberta Ltd.;
1371047 Alberta Ltd.; and
1919209 Alberta Ltd.
and not in its personal or corporate capacity

Per:

Matt McCulloch, CPA, CA, CIRP, Licensed Insolvency Trustee
Senior Vice-President