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BANKRUPTCY AND INSOLVENCY
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EDMONTON
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COURT FILE NUMBER	24-2612715
COURT	COURT OF QUEEN'S BENCH OF ALBERTA IN BANKRUPTCY AND INSOLVENCY
JUDICIAL CENTRE	EDMONTON
	IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF COPPERLINE EXCAVATING LTD.
DOCUMENT	**FIRST REPORT OF THE PROPOSAL TRUSTEE** **FEBRUARY 14, 2020**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**PROPOSAL TRUSTEE** 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

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INTRODUCTION AND PURPOSE OF THE REPORT

1. On January 31, 2020, Copperline Excavating Ltd. ("**Copperline**") filed a Notice of Intention ("**NOI**") under section 50.4 of the *Bankruptcy and Insolvency Act*, RSC 1985 c. B-3 (the "**Act**") and Ernst & Young Inc. was appointed as the proposal trustee (hereinafter referred to as "**EY**" or the "**Proposal Trustee**") in the NOI proceedings.

2. The primary purpose of the NOI proceeding was to implement a stay of proceedings to provide Copperline with the time needed to make a proposal to its creditors, if possible.

3. The purpose of this brief report (the "**First Report**") is to provide information to the Court and other interested stakeholders in relation to an application made by Copperline for the Court's approval to sell certain redundant capital assets within the NOI proceedings pursuant to section 65.13 of the Act and the Proposal Trustee's recommendation regarding same.

DISCLAIMER

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

5. This report should be read in conjunction with any other materials filed before the date of the upcoming application to Court, which the Proposal Trustee understands has currently been set for February 18, 2020. All reports and Orders, save for items directed to be sealed for confidentiality purposes, are available on the Proposal Trustee's website established for these proceedings that is located at www.ey.com/ca/copperline.

6. All references to monetary amounts contained herein are in Canadian currency unless otherwise noted.

PROPOSED SALE OF ASSETS

7. Copperline has recently advised the Proposal Trustee that it has entered into sale discussions with a potential purchaser and wishes to finalize a sale in relation to the

following capital assets (collectively referred to as the "**Assets**"):

(a) a 2015 Freightliner 108SD Digger Derrick, with serial number 1FVHG5CY3GHHA9338, (the "**Digger Derrick**") at a sale price of $155,000 plus GST (or $162,750.00 inclusive of GST); and

(b) a 2014 Freightliner 108SD Bucket Truck, with serial number 1FVHG5CY3EHFU8782, (the "**Bucket Truck**") at a sale price of $155,000 plus GST (or $162,750.00 inclusive of GST).

8. The Proposal Trustee understands that the Assets are redundant to Copperline's business.

9. In Mid-2019, prior to the onset of the NOI proceedings or any discussions with the Proposal Trustee, Copperline obtained an independent third-party appraisal of its physical assets from Verus Valuations Ltd. ("**Verus**"), within which the following values were attributed to the Digger Derrick and the Bucket Truck:

   (a) the Digger Derrick:
      i. Fair Market Value: $175,000.00 to $185,000.00
      ii. Orderly Liquidated Value: $140,000.00 to $150,000.00
      iii. Forced Liquidation Value: $120,000.00 to $130,000.00; and

   (b) the Bucket Truck was appraised at:
      i. Fair Market Value: $140,000.00 to $150,000.00
      ii. Orderly Liquidation Value: $110,000.00 to $120,000.00
      iii. Forced Liquidation Value: $60,000.00 to $65,000.00

10. The Proposal Trustee advises that it has not been involved in the discussions or the process leading up to this proposed sale; however, Copperline did advise the Proposal Trustee that it was looking to reduce its redundant fleet in an effort to raise funds and reduce its indebtedness to its stakeholders where possible.

11. The Proposal Trustee understands that Copperline's management has canvassed a number of potential qualified purchasers who were in the immediate need for equipment such as Copperline's, and has made a reasonable effort to obtain the best price without resorting to a liquidation or auction process to date. In regard to the proposed sale

specifically, Copperline has advised the Proposal Trustee that the potential purchaser evaluated the market for similar assets and conducted a thorough inspection of the Assets in conjunction with its negotiations with Copperline. The Proposal Trustee has been advised that the potential purchaser's initial offer was significantly less than the proposed sale amounts noted herein (verbal offer of roughly $120,000 per asset), and that Copperline's management advised the purchaser that it was not interested in "fire selling" the Assets and negotiated the price up to the current offer amount. Based on Copperline's representations in this regard, the Proposal Trustee has no reason to believe that the process leading to the proposed sale was not fair and reasonable in the circumstances.

12. As noted in Copperline's materials filed in connection with this application, the proposed purchaser is not related to Copperline.

13. The Proposal Trustee understands that both senior secured creditors of Copperline who have a direct interest in the Assets subject to this pending sale have been notified of the pending sale and have either released their interest or are in support of the proposed sale. Conversely, the Proposal Trustee has not been made aware of any opposition to the proposed sale, and specifically understands that Royal Bank of Canada ("**RBC**" who holds the first charge against these assets) is in support of this proposed sale provided it receives the full sale proceeds as the first priority secured creditor. The Proposal Trustee understands that unsecured creditors were not consulted in relation to this pending sale.

14. The Proposal Trustee understands that the net sales proceeds (exclusive of GST) derived from the sale of these assets are proposed to be paid directly to RBC by the proposed purchaser to reduce Copperline's indebtedness to RBC. RBC's indebtedness will not be eliminated by virtue of the receipt of these funds, and there will be no funds available from this proposed sale to other stakeholders.

15. It is the opinion of the Proposal Trustee that the consideration to be received for the sale of the Assets is reasonable and fair in the circumstances, and the sale would be more beneficial to the creditors than a disposition under a bankruptcy for a number of reasons, including:

a.) the proposed sale price of both the Digger Derrick and Bucket Truck of $155,000 plus GST each is higher in both instances than Verus' Orderly Liquidation and Forced

Liquidation values which is what would be a likely realizable value in a bankruptcy scenario;

b.) the Fair Market Value of the Bucket Truck according to Verus is $5,000.00 less than the offer received;

c.) there are no commissions or other sale costs associated with this proposed sale; and

d.) there is no risk of a reduced realization in the future if the Assets were to be liquidated in a bankruptcy or otherwise.

OTHER MATTERS

16. RBC has scheduled an application before the Court on February 21, 2020 to lift the stay of proceedings against Copperline afforded by the NOI filing and appoint a receiver. The Proposal Trustee anticipates the receivership appointment will be consented to by Copperline at this time. The Proposal Trustee believes that the proposed sale contemplated herein will be beneficial to RBC and Copperline's estate in comparison to the amount that could be realized in the pending receivership, if approved by the Court.

CONCLUSION

17. Based on the matters outlined in this report, the Proposal Trustee is supportive of the Asset sale and respectfully recommends that this Honourable Court grant an Order approving the sale of the Assets by Copperline.

Respectfully submitted this 14th day of February 2020.

Ernst & Young Inc.
In its capacity as Proposal Trustee of
Copperline Excavating Ltd.
and not in its Personal Capacity

Per:

Matt McCulloch, CPA, CA, CIRP, LIT,
Senior Vice President