

COURT FILE NUMBER

1103-18646

COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

APPLICANTS

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 ARRANGMENT OF ARMAC INVESTMENTS LTD.
(AB), LAKE EDEN PROJECTS INC. (AB), 1204583
ALBERTA INC. (AB), 1317517 ALBERTA INC. (AB),
WESTRIDGE PARK LODGE DEVELOPMENT CORP
(AB), and WESTRIDGE PARK LODGE AND GOLF
RESORT LTD. (AB), HALF MOON LAKE RESORT
LTD. (AB), NO. 50 CORPORATE VENTURES LTD.
(BC), FISHPATH RESORTS CORPORATION (BC),
ARMAC INVESTMENT LTD. (BC), OSTROM ESTATES
LTD. (BC), HAWKEYE MARINE GROUP LTD. (BC),
JUBILEE MOUNTAIN HOLDINGS LTD. (BC), GIANT
MOUNTAIN PROPERTIES LTD. (BC), and CHERRY
BLOSSOM PARK DEVELOPMENT CORP (BC)
(collectively, the "Purdy Group" or the "Applicants")

DOCUMENT

TWELFTH REPORT OF THE MONITOR

JUNE 28, 2013

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

MONITOR

ALVAREZ & MARSAL CANADA INC.
Bow Valley Square I
Suite 570, 202 – 6th Avenue SW
Calgary, Alberta T2P 2R9
Tim Reid/Orest Konowalchuk
Telephone: (403) 538-4756 / (403) 538-4736
Email: treid@alvarezandmarsal.com
okonowalchuk@alvarezandmarsal.com

COUNSEL

DENTONS CANADA LLP
Barristers & Solicitors
Ray Rutman
2900 Manulife Place, 10180 – 101 Street
Edmonton, Alberta T5J 3V5
Phone: (780) 423-7246
Fax: (780) 423-7276
Email: Ray.Rutman@dentons.com
File: 529227.7/RCR

TABLE OF CONTENTS OF THE TWELFTH REPORT

INTRODUCTION	3
TERMS OF REFERENCE	4
BACKGROUND	4
RESTRUCTURING UPDATE.....	5
THE MONITOR'S REQUEST FOR AN INCREASE IN THE ADMINISTRATION CHARGE	10
RECOMMENDATION	11

INTRODUCTION

1. On December 1, 2011, the Purdy Group sought and obtained protection from its creditors under the Companies' Creditors Arrangement Act, R.S.C. 1985, c.C-36, as amended (the "CCAA") pursuant to an order of the Court of Queen's Bench of Alberta ("Court") (the "Initial Order").
2. Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. was appointed monitor of the Purdy Group (the "Monitor").
3. At the last Court Application for an extension of the stay of proceedings, the Court granted an order to extend the stay to July 26, 2013 (the "Stay Extension Order"). The Stay Extension Order also required the Monitor to return to Court by the expiry of the stay to update the Court on the restructuring efforts of the Applicants and if required, the Monitor's intended course of action in the event a draft Plan was not prepared and submitted to the Monitor by June 7, 2013. In that case, the Court authorized the Monitor to take such steps as are necessary to obtain appraisals to confirm the value of the properties and proposals for the orderly disposition of the properties and report to the Court its recommendations. The Court also requested the Monitor provide to it a status report on July 4, 2013.
4. The purpose of this twelfth report of the Monitor (the "Twelfth Report") is to provide the Court with an update in respect of the following:
 - a) restructuring activities and status of the draft plan of the Applicant's since the eleventh report of the Monitor (the "Eleventh Report"); and
 - b) the Monitor's request for a \$300,000 increase in the Administration Charge to \$800,000 (the "Revised Administration Charge");
5. Capitalized terms not defined in this Twelfth Report are as defined in the Initial Order, the First Report, the Second Report, the Third Report, the Fourth Report, the Fifth Report, the Sixth Report, the Seventh Report, the Eighth Report, the

Ninth Report, the Tenth Report, the Eleventh Report, the Claims Procedure Order and the Dispute Procedural Order.

6. The style of cause has either an (AB) or (BC) after each of the corporate Applicant company names. The Monitor understands this was done to indicate in which province the corporate applicants are located, and that those letters do not form a part of the legal name of the company. There are two different corporate entities with the name Armac Investments Ltd, one is a British Columbia ("B.C.") corporation and the other is an Alberta corporation ("AB").
7. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

8. In preparing this Twelfth Report, the Monitor has relied upon unaudited financial information, company records and discussions with management of the Purdy Group. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook has not been performed. Future oriented financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

BACKGROUND

9. The Purdy Group is a group of privately-held companies engaged in the business of property acquisition, development and sale in the provinces of Alberta and British Columbia, as well as the management of operating businesses on the lands. The primary assets are geographically located mainly on the West Coast of Vancouver Island, British Columbia and in or around Edmonton, Alberta.
10. The Purdy Group entities are owned 100% by its sole owner, director and officer, Mr. John (Jack) Kenneth Purdy ("Jack Purdy"), either directly or through holding companies, legally and beneficially. Jack Purdy is operating under the proposal

provisions of the BIA and has presented a proposal to his creditors. Alvarez and Marsal Canada Inc. is also the Proposal Trustee. The meeting of creditors to consider the proposal was held on June 22, 2012 and the meeting was adjourned to October 9, 2012. At that meeting, the creditors voted to further adjourn the meeting to January 25, 2013 at the same time and place and at this meeting the creditors again adjourned the meeting for further investigation into the affairs of Jack Purdy to February 20, 2013 at 10:00 am at the offices Dentons Canada LLP ("Dentons"), formerly Fraser Milner Casgrain LLP. The February 20, 2013 meeting was further adjourned until May 16, 2013 at 4:00 pm at the offices of Dentons. The May 16, 2013 meeting was adjourned to within ten days of the next stay extension expiry of July 26, 2013 at 10:00 am at the offices of Dentons.

11. Further background to the Purdy Group and its operations and description of the Purdy Group properties are contained in the materials filed relating to the Initial Order including the various affidavits of Jack Purdy and in the previous ten reports of the Monitor. These documents, together with other information regarding this CCAA proceeding, have been posted by the Monitor on its website at: www.amcanadadocs.com/purdy.

RESTRUCTURING UPDATE

Status of Plan of Restructuring

12. In the Eleventh Report, the Monitor reported that it had been advised by the Applicants that they expected to obtain a financing commitment from an interested party by May 17, 2013 and that such financing, combined with the proceeds from the sale of Non Core For Sale Properties would be sufficient to fund a Plan to its creditors and stakeholders.
13. It was also reported that the Monitor had been working with the Applicants in assessing the options available to the Applicants in providing for the best possible payout to their creditors. The Monitor, without the benefit of any formal appraisals, has prepared on a preliminary basis a confidential analysis, which

compares a forced liquidation of all the Purdy Group properties to a refinancing and/or continuation of Half Moon Lake and the Hawkeye Group Properties. In summary, the Monitor's analysis indicates that in a forced liquidation scenario, all net sale proceeds would likely satisfy secured claims of creditors and minimal or no funds would be available for unsecured claims. In a restructuring scenario unsecured creditor claims will have to be compromised at less than 100 cents on the dollar but some dividend should be available, depending on the level of financing that can be obtained. As discussed below, the Applicants believe a dividend of 35% is achievable for the creditors. If so directed, the Monitor will provide this analysis to the Court.

14. In the Eleventh Report, the Monitor recommended that the Applicants prepare and submit to the Monitor a draft Plan acceptable to the Monitor, by June 7, 2013, including a financing commitment to fund payments to creditors anticipated in the plan. The Court has ordered that if a draft Plan was not prepared and submitted to the Monitor by June 7, 2013, the Monitor was authorized to take such steps as may be necessary to obtain appraisals to confirm the value of the properties and proposals for the orderly disposition of the properties and report to the Court its recommendations by the expiry of any stay period granted in the Stay Extension Order.
15. The Court requested, but did not order, the Monitor to return to Court on July 4, 2013 and advise the Court on the progress of the plan of arrangement to be proposed to the creditors.

Status of Plan of Arrangement and Compromise.

16. Since the Stay Extension Order, the Monitor and the Applicants have had a number of discussions and the Applicants have been developing a draft plan of arrangement and compromise (the "Draft Plan") which the Applicants believe will result in the greatest recovery to creditors and stakeholders.

17. A summary of the Draft Plan is as follows:

- a) The Applicants will establish a new corporation (“Holdco”). The shares of Holdco will be held in trust by the Applicants legal counsel, until such time as all distributions required under the Draft Plan are made. Such distributions will include distributions required to be made in the Proposal of John Purdy (collectively, the “Required Distributions”);
- b) When all Required Distributions are made, the shares of Holdco will be released to Jack Purdy;
- c) The Applicants and/or Jack Purdy will transfer to Holdco the shares Armac (BC) and the other B.C. Applicants owning real property (collectively the “BC Opco”) and the shares of Half Moon Lake. The BC Opco and Half Moon Lake are referred to herein, collectively as the “Opco’s”. Jack Purdy will have no direct involvement in the day to day management of the Opco’s;
- d) As previously reported, in September of 2012, LBVR was engaged to take over the continued development and management of the Hawkeye Group Properties and they continue to act in that role. Holdco and the Opco’s intend to retain the services of LBVR to manage and operate the ongoing business of the Holdco and the Opco’s for at least the next 48 months and so long as the shares of Holdco are held in trust. LBVR shall also be responsible for the sale of non-core properties and will continue to improve the Half Moon Property and the Hawkeye Group properties. It is understood that Mr. Sam Sidholm of LBVR and Mr. Conan Taylor of Taylor Law Offices will consent to act as the only directors of these companies;
- e) Holdco and the Opco’s will arrange financing of \$6.0 million for a period of 24 months to pay out priority CCAA charges, provide

working capital and pay a dividend to the creditors on plan approval, other than CRA and Axxess Group creditors (the "Dividend Creditors") as follows:

<u>Use of Financing Proceeds</u>	
Interim Financing	\$ 2,100,000
Existing Administration Charge	500,000
Proposed increase in Administration Charge	300,000
Property Taxes	300,000
Working capital for the Opco's	900,000
Borrowing fees and 18-month interest reserve	1,300,000
Proposed distribution to the Dividend Creditors	600,000
Total use of financing proceeds	<u>\$ 6,000,000</u>

- f) The new financing will have a first charge over the real and personal property of the B.C. Opco;
- g) Upon all necessary approvals being in place approving the Draft Plan ("Plan Approval"):
 - i. \$600,000 will be made available to fund a distribution to the Dividend Creditors. It is anticipated this will result in a payment in the range of 35 cents on the dollar;
 - ii. CRA and Axxess will each receive a Promissory Note in the full amount of their indebtedness as agreed to between those parties and the Applicants;
 - iii. The Promissory Notes will be secured, but subordinate to the security of the new financing;
 - iv. The Promissory Notes will be non interest bearing and paid out within 24 months of Plan Approval, except that at the option of Holdco, up to 30% of the amount payable can be deferred for a

further period of 24 months. Any amount deferred will be subject to interest at an annual rate of 5%;

- h) It is anticipated that a minimum of \$8.0 million will be available in the first 24 months to distribute to Axxess and CRA from the sale of the following properties:

167 Half Moon Lake Lots at \$35,000/lot (premised on a 35-year lease terms)	\$ 6,000,000
Non Core For Sale Properties	1,000,000
Ocean Front Property in Bamfield	1,000,000
	<u>\$ 8,000,000</u>

- i) Amounts owed to CRA and Axxess Group creditors in excess of \$8.0 million will be paid through internally generated cash flow over 48 months or from the sale of additional properties;
- j) The rights of Axxess and CRA, in the event of default, will be set out in the Promissory Note and Security agreements.
18. There are three key matters to resolve prior to circulating a final plan to the Applicants creditors:
- a) CRA and Axxess, the two largest creditors need to agree to the concept of taking payment over time. It is the intention of the Applicants and the Monitor to meet with each of CRA and Axxess prior to the next stay extension application to provide further details and determine their preliminary position;
- b) The Applicants must secure the \$6.0 million in new financing. The Applicants are having discussions with two potential lenders in this

regard and expect to have a firm commitment by the end of July. Any such commitment will be conditional on Plan Approval;

- c) The Half Moon litigation with the County of Strathcona needs to be resolved. That matter has been before the Court for some time and was heard by Justice Burrows June 4 and 5, 2013. Justice Burrows advised he may have a decision by the end of July, 2013.

- 19. The Applicants expect to be in a position to circulate a plan to creditors by the beginning of August 2013.

THE MONITOR'S REQUEST FOR AN INCREASE IN THE ADMINISTRATION CHARGE

- 20. The Administration Charge under the Initial Order was established at \$500,000. In the Eleventh Report, the Monitor advised the Court of a material adverse change in the cash flows as the Applicants failed to generate the projected amount from the sale of Non Core For Sale Properties. The proceeds from the Non Core For Sale Properties were to be utilized to pay professional fees.
- 21. Since the Eleventh Report, none of the Non Core For Sale Properties have been sold; however, the Monitor is advised by the Applicants that the Applicants are seeking a Sale Approving Vesting Order to finalize the sale of 3203-2 avenue, Port Alberni, BC. As a result, professional fees have remained unpaid for a significant period of time and the total professional fees covered by the Administration Charge are now approximately \$525,000, which is \$25,000 over the current Administration Charge. Further, the professionals continue to incur fees and the Applicants, until the new financing is obtained may not be in a position to pay arrears or ongoing professional fees. In order to ensure that the professionals are secured for its unpaid fees, an increase in the Administration Charge of \$300,000 is requested.

22. Accordingly, the Monitor is requesting this Court to approve the proposed Revised Administration Charge to \$800,000.

RECOMMENDATION


23. The Monitor recommends this Court to approve the Revised Administration Charge.

All of which is respectfully submitted this 28th day of June, 2013.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as court-appointed Monitor of
the Purdy Group**



Tim Reid, CA•CIRP
Senior Vice-President



Orest Konowalchuk, CA•CIRP
Director