

**THE QUEEN'S BENCH**  
**Winnipeg Centre**  
**IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE *BANKRUPTCY AND***  
***INSOLVENCY ACT*, R.S.C. 1985,**  
**c. B-3, AS AMENDED**

**AND IN THE MATTER OF THE PROPOSAL OF**  
**5274398 MANITOBA LTD.**

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FOURTH REPORT OF TRUSTEE ON PROPOSAL

Dated: November 10, 2017

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LAZER GRANT INC., Licensed Insolvency Trustee  
Suite 300, 309 McDermot Avenue  
Winnipeg, Manitoba  
R3A 1T3  
204-942-0300

District of: Manitoba  
Division No.: 01  
Court No.: BK 17-01-04509  
Estate No.: 21-2281867

Report of Trustee  
(Section 50.4(9) of the *Bankruptcy and Insolvency Act*)

In the matter of the Proposal of  
5274398 Manitoba Ltd. o/a Cross Country Manufacturing, an Insolvent Person  
of the City of Morden, in the Province of Manitoba

We, Lazer Grant Inc., the Licensed Insolvency Trustee acting *in re* the Proposal of 5274398 Manitoba Ltd. o/a Cross Country Manufacturing., hereinafter referred to as the Debtor, hereby report to the Court as follows:

Introduction

1. On August 11, 2017, the Debtor signed a Notice of Intention to Make a Proposal (“**NOI**”) under Subsection 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**Act**”) and Lazer Grant Inc. was named as Licensed Insolvency Trustee (the “**Proposal Trustee**”).
2. On September 5, 2017, the Debtor filed a Notice of Motion (the “**Extension Motion**”) supported by the Affidavits of Jonathan Doerksen sworn September 5, 2017 and September 6, 2017 (the “**Doerksen Affidavits**”), the Report of the Proposal Trustee dated September 6, 2017 (the “**Trustee’s First Report**”) and the Confidential Affidavit of Samantha Dunn sworn September 6, 2017, in which the Debtor sought, among other things, an Order extending the time in which the Proposal Trustee may file a proposal with the Official Receiver in the within proposal proceedings to 11:59 PM Central Daylight Time on Monday, October 23, 2017, and an Order approving of a Sale Process described in the Doerksen Affidavits.
3. The Debtor’s Notice of Motion was heard before the Honourable Mr. Justice Dewar at 2:00 p.m. on September 7, 2017, and the relief sought was granted, save that the extension of time was approved to Friday October 20, 2017 (the “**First Extension Order**”). Pursuant to the First Extension Order, on September 13, 2017, the Proposal Trustee filed a second report providing an updated statement of projected cash flow (the “**Trustee’s Second Report**”).
4. On October 5, 2017, the Debtor filed a Notice of Motion returnable October 11, 2017 seeking a second extension of the time within which the Proposal Trustee may file a

Proposal with the Official Receiver to 11:59 p.m., (CST), Monday, December 4, 2017 (the “**Second Extension Motion**” and the “**Second Extension**”). The Debtor’s Notice of Motion was heard before the Honourable Mr. Justice Dewar on October 11, 2017, and the relief sought was granted, save that the extension of time was approved to 11:59 p.m. Central Standard Time on Friday, November 17, 2017 (the “**Second Extension Order**”).

5. The Second Extension Order further Ordered that a further motion to extend, if necessary, be scheduled for Wednesday, November 15, 2017 at 9:00 a.m. On or about November 9, 2017, the Debtor filed a Notice of Motion returnable November 15, 2017 at 9:00 a.m. seeking a third extension of the time within which the Proposal Trustee may file a Proposal with the Official Receiver to 11:59 p.m., (CST), Friday, December 8, 2017 (the “**Third Extension Motion**” and the “**Third Extension**”)

#### Purpose of Report

6. The purpose of this report (the “**Trustee’s Fourth Report**”) is to provide the Proposal Trustee’s comments and recommendations with respect to the Third Extension Motion, to update this Honourable Court on the Debtor’s operations, and to provide an updated projected cash flow statement for the period of the Third Extension for the consideration of this Honourable Court.

#### Restrictions

7. In preparing this report, conducting its analysis and making the comments herein, the Proposal Trustee has obtained and relied upon certain unaudited, draft and/or internal financial information of the Debtor, its books and records, discussions with management and other employees of the Debtor, and information from other sources. The Proposal Trustee has also been provided with and relied upon information provided by Jonathan Doerksen in the **Doerksen Affidavits**, and has relied upon information provided by the Debtor’s counsel, MLT Aikins LLP, the Financial Advisor, PwC, and information otherwise available to the Proposal Trustee and its counsel, Fillmore Riley LLP (collectively, the “**Information**”).
8. Except as otherwise described in this report:
  - a) the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Professional Accountants Handbook; and

- b) the Proposal Trustee has not conducted an examination or review of the financial forecast and projections in a manner that would comply with the procedures described in the aforesaid Handbook.
9. Future-oriented financial information referred to in this report is based on estimates and assumptions. Actual results may vary from forecast, even if the assumptions materialize, and such variations may be significant.
10. The Proposal Trustee also bases its report on the Debtor's cash flow projections and underlying assumptions and notes that its review and commentary thereon were performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals' Standards of professional Practice No. 99-5 (Trustee's Report on Cash Flow Statement). Certain of the information referred to in this report consists of financial forecasts and/or projections. Readers are cautioned that, since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variations could be material.

#### Background Information

11. Substantial background information related to the business and operations of the Debtor, as well as background material describing the Debtors obligations, assets and the reasons for these proceedings are provided in the Doerksen Affidavits. These details are not repeated in this report. To the best of the Proposal Trustee's knowledge, the background information provided therein, as well as the information describing the assets, debts and liabilities of the Debtor, are accurate.

#### Status of Operations

12. Since the NOI, the Debtor has largely been able to carry on business in the normal course. In particular, so far as the Proposal Trustee is aware, all obligations incurred by the Debtor since the NOI was filed have been honoured and the Debtor continues to operate largely on a C.O.D. basis with its suppliers.
13. The challenges described in paragraph 13 of the Trustee's Third Report, arising from the actions of a shipper who has issued invoices in relation to pre-NOI shipping claims to certain of the Debtor's suppliers have re-emerged to a degree, but the Debtor has been able to largely mitigate the impact of the shipper's actions.

#### Prior Cash Flow Projections vs. Actual Cash Flow

14. In Appendix "A" to the Trustee's Third Report, cash flows projections for the period from October 9, 2017 – December 15, 2017 were provided, which projected that the Debtor would operate within its line of credit until the week of November 13-17, 2017.
15. Following the Second Extension Motion, the Debtor and Proposal Trustee monitored and managed actual cash flows to ensure that the Debtor continually operated within its authorized line of credit.

#### Status of Sale Process

16. The Trustee's Third Report attached, as Appendix "A", a report from PwC summarizing the status of the Sale Process. As the report indicated, the Sale Process resulted in PwC and the Debtor continuing discussions with one potential bidder on an exclusive basis. PwC had expected to have reached a final purchase agreement, and sought Court approval of a sale based on that final agreement, prior to the end of October, 2017 (the "**Pending Transaction**").
17. Unfortunately, the Debtor has not, as of the date of this report, reached a final agreement on the form of a purchase agreement with the potential bidder. The Debtor's counsel has provided regular updates to the Proposal Trustee and the Debtor's lenders, BDC and BMO, and those updates indicate that:
  - a) progress continues to be made towards finalizing the form of the purchase agreement and ancillary agreements with the potential bidder;
  - b) there do not appear to be any significant unresolved differences between the parties;
  - c) the process to finalize the form of the agreements has proceeded more slowly than expected.
18. The Proposal Trustee is concerned about the delay in finalizing the agreements for the Pending Transaction. The Proposal Trustee does not believe that the delay is attributable to the Debtor. Despite the delay, the Debtor's counsel and the Debtor have expressed their ongoing confidence that the potential bidder remains committed to the Pending Transaction, and the Proposal Trustee has no information, other than the delay itself, to contradict their assessment.
19. Until the Pending Transaction becomes a final agreement, the Proposal Trustee is not able to provide details about its terms. That said, the Proposal Trustee reiterates its conclusions in the Trustee's Third Report, that the Proposal Trustee believes that the Sale Process adequately tested the market and that it does not believe that a sale of the

Blenheim plant and assets, if conducted through a bankruptcy or receivership process, would be likely to yield a better result than is presently anticipated.

#### Update on Proposal

20. Until the Pending Transaction has been finalized, it is not possible for the Proposal Trustee and the Debtor to conclusively determine whether a viable proposal to the unsecured creditors can be made, or to provide draft terms of a proposal. In addition to uncertainty around the actual final deal terms, uncertainty exists around the extent of continued support the Debtor can expect to receive from the lenders after the sale of Blenheim. Based on discussions with the lenders and with the Debtor, the Proposal Trustee believes that the lenders' support will depend in part on the proceeds they receive from the sale, and their assessment of the value of the Debtor's remaining assets and operations.
21. Based on updates from the Debtor's counsel, the Proposal Trustee believes that final agreement for the Pending Transaction will be reached within the currently sought extension period, and that the Debtor can file for court approval within the currently sought extension. Whether the Debtor and Proposal Trustee will also be able to prepare a proposal within the currently sought extension, is not clear at this time.
22. It remains the Proposal Trustee's considered opinion that the requested Third Extension will likely allow the Debtor to make a proposal to its unsecured creditors which is better than the outcome they could expect in the event of a bankruptcy.

#### Updated Cash-Flow Projections for Third Extension

23. Given the present uncertainty around the final terms of the Pending Transaction, and lender support for the Debtor post-sale, the Proposal Trustee and the Debtor have not attempted to factor in the effect of a sale of Blenheim on the projected cash-flow covering the period of the requested Third Extension. Rather, the Proposal Trustee and Debtor have projected the cash-flow through to the end of the Third Extension as if the Blenheim plant and business is not sold during that period. As such, these projections allow the Court to assess the Debtor's likely financial position in the event (considered unlikely to the Proposal Trustee) that the Pending Transaction fails to result in a final agreement prior to the expiration of the Third Extension. A copy of this updated cash-flow projection is attached hereto as **Appendix "A"**.
24. The Proposal Trustee believes that the projections in Appendix "A" are reasonable, but the projections are based on a number of assumptions, which are specified on the notes to Appendix A.

25. The Proposal Trustee observes that the current cash-flow projection projects that the Debtor will not exceed its \$3,500,000.00 authorized line of credit during the Third Extension, although it will be operating near the limit of the line by the end of the week of December 4-8. The Proposal Trustee further notes that the Debtor has managed to exceed prior projections in so far as the credit limit is concerned, in that the projections in the Trustee's Second Report had projected that the authorized line of credit would be exceeded in the week ending October, 27, 2017, and the projections in the Trustee's Third Report had projected that the authorized line of credit would be exceeded by the end of the week of November 13-17.

### Recommendations

26. The Proposal Trustee supports the relief sought by the Debtor in the Third Extension Motion.

27. In making this recommendation, the Proposal Trustee has considered the following factors:

- a) in the Proposal Trustee's view, the Debtor has acted and is continuing to act in good faith;
- b) in the Proposal Trustee's view, there is a reasonable likelihood that the Pending Transaction will result in an unconditional offer which can be presented to the Court for final approval prior to the expiration of the Third Extension;
- c) in the Proposal Trustee's view, the Sale Process continues to be in the best interests of the unsecured creditors as it maximizes the probability that a successful proposal, which will be better for the unsecured creditors than a bankruptcy, can be presented;
- d) if the Pending Transaction is finalized and presented for approval of this Honourable Court within the timeframe presently anticipated by the Debtor, there is a chance that the Proposal Trustee and the Debtor may be in a position to present a proposal to its creditors prior to the expiration of the Third Extension; however, it remains possible that a fourth extension may be requested;
- e) the Proposal Trustee is not aware of any major creditor or stakeholder having objected, after the fact, to the First or Second Extensions;
- f) the Proposal Trustee is not aware of any major stakeholder which is opposed to the request for the Third Extension;

- g) the Proposal Trustee does not believe that the requested Third Extension will materially prejudice any significant creditor of the Debtor; and
- h) the Proposal Trustee is satisfied that, to date, no creditors have been materially prejudiced by the stay of proceedings currently in effect by the operation of Section 69 of the Act.

DATED at the City of Winnipeg, in the Province of Manitoba, this 10<sup>th</sup> day of November, 2017.

LAZER GRANT INC. – Licensed Insolvency Trustee

Per:



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