

**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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THIRD REPORT OF TRUSTEE ON PROPOSAL

Dated: October 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**”).
4. 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**”).

5. 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**”).

### Purpose of Report

6. The purpose of this report (the “**Trustee’s Third Report**”) is to provide the Proposal Trustee’s comments and recommendations with respect to the Second 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 Second 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 First Extension Order, 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 Debtor has encountered some difficulties with certain suppliers, due to one of the Debtor's shipper having issued invoices to those suppliers for deliveries made, at the Debtor's request, prior to the NOI. Those claims are stayed by the filing of the NOI and have therefore not been paid for by the Debtor. At present, the complications have been surmounted, and the Proposal Trustee does not believe that the one shipper's actions will materially affect the Debtor's ability to continue to purchase necessary products from the affected suppliers during the Second Extension.

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

14. In Appendix "A" to the Trustee's Second Report, cash flows projections for the period from September 4, 2017 – October 27, 2017 were provided, which projected that the Debtor would operate within its line of credit until the week of October 23-27, 2017.

15. Following the 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. Attached hereto as **Appendix “A”** is a report from PwC summarizing the status of the Sale Process. As the report indicates, the Sale Process has resulted in PwC and the Debtor continuing discussions with one potential bidder on an exclusive basis and PwC expects 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. 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 believes that the Sale Process adequately tested the market. Further, as matters stand as of the date of this report, the Proposal Trustee 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

18. 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 formulate 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 initial 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.
19. The Proposal Trustee remains of the view that the likelihood that the Debtor is able to present a meaningful and viable proposal to its creditors will be enhanced by a further extension. Based on PwC’s advice, while it is possible that a final deal will be reached within the current extension period, it does not appear to be likely that a final agreement will be reached soon enough to allow the Debtor to also reach an agreement with its lenders on post-sale support, and to prepare a proposal to its creditors within the current extension.
20. At the same time, it remains the Proposal Trustee’s considered opinion that a further 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 Second Extension

21. 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 Second Extension. Rather, the Proposal Trustee and Debtor have projected the cash-flow through to the end of the Second 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 Second Extension. A copy of this updated cash-flow projection is attached hereto as **Appendix "B"**.
22. The Proposal Trustee believes that the projections in Appendix "B" are reasonable, but the projections are based on a number of assumptions, which are specified on the notes to Appendix B.
23. The Proposal Trustee observes that the new cash-flow projections project that the Debtor will moderately exceed its \$3,500,000.00 authorized line of credit with the Bank of Montreal in or about the week of November 13-17, 2017, and that it will therefore require further accommodation from one of its lenders or a fresh injection of working capital. That said, based on discussions with the Debtor's counsel, it is anticipated that the sale of Blenheim will have closed prior to then, which will materially alter the projections. While sales will begin to fall, expenses will as well, including the elimination of operating costs associated with Blenheim, reductions in interest payments for the BDC term loans and the BMO line of credit, and reductions in professional fees associated with these proceedings.

### Recommendations

24. The Proposal Trustee supports the relief sought by the Debtor in the Second Extension Motion.
25. 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 Second 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 identified by PwC, the Proposal Trustee anticipates that the Debtor should be in a position to present a proposal to its creditors prior to the expiration of the Second Extension; however, it remains possible that a third 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 Extension;
- f) the Proposal Trustee is not aware of any major stakeholder which is opposed to the request for the Second Extension;
- g) the Proposal Trustee does not believe that the requested 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 October, 2017.

LAZER GRANT INC. – Licensed Insolvency Trustee

Per:



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300 – 309 McDermot Avenue  
Winnipeg, MB R3A 1T3  
Phone: 204-942-0300



**Strictly Private & Confidential**

October 7, 2017

Mr. Jonathan Doerksen  
5274398 Manitoba Ltd. d/b/a Cross Country Manufacturing  
418 South Railway St.  
Morden MB R6M 2G2

Mr. Collin LeGall  
Lazer Grant Inc.  
300 – 309 McDermot Ave.  
Winnipeg MB R3A 1T3

Dear Mr. Doerksen and Mr. LeGall:

**Subject: Cross Country Manufacturing – Sale of Blenheim Business – Sale Process Update**

Further to our sale process update report as appended to the “Confidential Affidavit of Samantha Dunn Sworn September 6, 2017” (Redacted), please find below our further update on our activities since the September 6<sup>th</sup> report and the status of the ongoing sale process related to Cross Country Manufacturing’s Blenheim business.

1. We have continued to deal with potential bidders on an individual basis, which has involved facilitating site tours, meetings with management, and follow-up question & answer opportunities.
2. On September 11, 2017, to ensure that all potential bidders had sufficient time to receive and review relevant information related to the sale process and matters impacting submission of a qualified offer to purchase, the offer deadline date was further extended from Monday, September 18, 2017 to Monday, September 25, 2017 (in consultation with the company, its senior lenders and the Proposal Trustee).
3. Based on submissions and feedback received on the September 25, 2017 offer deadline date, the Financial Advisor continued to dialogue and follow-up with potential bidders on an Offer to Purchase.
4. Based on review and discussions with the company and its legal counsel, it was recently agreed to continue discussions with one potential bidder on an exclusive basis in order to work towards finalizing terms of a qualified offer that would be a recommendable offer to be presented to the Court for approval.
5. Based on the ongoing dealings with the potential bidder, we would expect that the timeframe for reaching an agreement on the form of Final Purchase Agreement and a motion to seek Court approval would occur prior to October 31, 2017.

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October 7, 2017

5274398 Manitoba Ltd. d/b/a Cross Country Manufacturing  
Lazer Grant Inc.

It would be our intention to provide full details of the sale process, bid results and the basis for our recommendation of the offer at the time of the motion for Court approval.

In the meantime, if you have any questions please let us know.

Yours very truly

PricewaterhouseCoopers LLP

A handwritten signature in black ink, appearing to read "B. Jeffrey Johnson". The signature is written in a cursive, slightly slanted style.

B. Jeffrey Johnson, CPA, CIRP, LIT  
Partner

**5274398 MANITOBA LTD. O/A  
CROSS COUNTRY MANUFACTURING  
Statement of Projected Cash-flow for  
the period of Sept 4, 2017 - Dec 15, 2017**

	Notes	ACTUAL					PROJECTED									
		Sep 4-8	Sep 11-15	Sept 18-22	Sep 25-29	Oct 2 - 6	Oct 9-13	Oct 16-20	Oct 23-27	Oct 30-Nov 3	Nov 6 - 10	Nov 13 - 17	Nov 20 - 24	Nov 27- Dec 1	Dec 1 - 8	Dec 11 - 15
LINE OF CREDIT	1	3,391,183	3,208,904	3,273,879	3,202,080	3,388,815	3,387,558	3,463,558	3,485,108	3,447,832	3,499,782	3,454,873	3,517,588	3,504,588	3,523,129	3,560,853
Cash Receipts																
Sales	3	284,186	630,594	733,653	566,060	804,126	525,000	650,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Rental & Miscellaneous		20,306	1,863	6,334		18,546			18,500		25,000	18,500				18,500
BMO & BDC Additional Financing	2	250,000	245,750													
<b>Total Cash Receipts</b>		<b>554,492</b>	<b>878,206</b>	<b>739,987</b>	<b>566,060</b>	<b>822,672</b>	<b>525,000</b>	<b>650,000</b>	<b>618,500</b>	<b>600,000</b>	<b>625,000</b>	<b>618,500</b>	<b>600,000</b>	<b>600,000</b>	<b>600,000</b>	<b>618,500</b>
Cash Disbursements																
Line of Credit - Interest		2,531	4,545	12,879	135	21,500				20,400				20,400		
BDC - interest	4		20,500	24,932		731		25,000				25,000				25,000
Plant Payroll Morden	5	28,243	51,178	32,736	54,804	30,404	50,000	30,000	50,000	30,000	50,000	30,000	50,000	30,000	50,000	30,000
Plant Payroll Blenheim	5	35,178	53,215	32,883	41,031	28,898	41,000	33,000	41,000	33,000	41,000	33,000	41,000	33,000	41,000	33,000
Office payroll Morden	5	9,526		18,822		17,963		18,800		18,800		18,800		18,800		18,800
Office payroll Blenheim	5	12,977		9,754		9,762		9,750		9,750		9,750		9,750		9,750
Health & Education Tax			5,259						5,259							5,259
Source deductions current payroll	5		71,319		70,554	72,763		75,000		75,000		75,000		75,000		75,000
Freight & Warehouse Expenses	6	14,649	26,500	36,782	29,645	25,066	27,500	27,500	27,500	27,500	27,500	27,500	27,500	27,500	27,500	27,500
Suppliers - trailer parts	6	258,793	577,830	451,905	510,973	529,696	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000	420,000
Vehicle lease payments				1,463	1,462				1,465			1,465			1,465	1,465
Insurance IFS & Intact			22,817			22,660					22,660			22,660		
Workers Compensation MB							15,000						15,000			
Provincial sales tax MB			8,000	1,450					2,500					2,500		
Employee Benefits				2,446				15,000						15,000		
Hydro & Gas - Morden				10,000			5,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Hydro & Gas - Blenheim				21,932				15,000				20,000				20,000
Ontario Workers Compensation						4,027			16,000				16,000			16,000
Telephone, Internet and cells			339					2,000				2,700				
Water & Sewage								500				500				
RCAP - equipment lease											671			671		
Blue Chip Server lease						1,520					760			760		
Professional fees	7	10,316	102,019	9,865	44,191	56,425	25,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
<b>Total Cash Disbursements</b>		<b>372,213</b>	<b>943,182</b>	<b>668,188</b>	<b>752,795</b>	<b>821,415</b>	<b>601,000</b>	<b>671,550</b>	<b>581,224</b>	<b>651,950</b>	<b>580,091</b>	<b>681,215</b>	<b>587,000</b>	<b>618,541</b>	<b>637,724</b>	<b>619,015</b>
LINE OF CREDIT	1	3,208,904	3,273,879	3,202,080	3,388,815	3,387,558	3,463,558	3,485,108	3,447,832	3,499,782	3,454,873	3,517,588	3,504,588	3,523,129	3,560,853	3,561,368

**Notes to the Statement of Projected Cashflow**

1 The Bank of Montreal ("BMO") line of credit limit is \$3,500,000.

2 BMO and BDC each agreed to finance \$250,000 in new loans to assist the company during the restructuring.

3 Sales are based on management's best estimates of the quantity of units that can be produced with current inventory levels and the line of credit available. Trailers are completed and payment is generally received within 2-3 days of delivery.

Cross Country has been unable to source product from its premium suppliers due to insufficient cashflow. The NOI combined with the additional funding provided by BMO & BDC will permit Cross Country to return to buying from premium suppliers.

4 During the NOI period, the Business Development Bank of Canada will only receive interest payments on its loans.

5 Payroll has been calculated based on management's best estimate of the current staff complement and the hours being worked to complete production orders.

6 Suppliers - trailer parts & Freight costs are based on management's best estimates of the product needs of production, the ability to source from premium suppliers and the related additional freight costs to complete the transfer.

All purchases post NOI are being made on a COD basis including any purchases from related parties.

7 Professional fees of MLT Aikins, PWC and Lazer Grant Inc. are estimated based on the fees expected during the reporting period.