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COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

PLAINTIFF

1056420 ALBERTA LTD.

DEFENDANT

HEAVY NORTH CONSTRUCTION LTD.

APPLICANT

**KPMG INC., IN ITS CAPACITY AS COURT-
APPOINTED RECEIVER AND MANAGER OF
HEAVY NORTH CONSTRUCTION LTD.**

DOCUMENT

**THIRD REPORT TO THE COURT
FEBRUARY 14, 2020**

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

RECEIVER

KPMG INC.
3100, 205 – 5 Ave. S.W.
Calgary, AB T2P 4B9
Attn: Neil Honess/Joe Sithole
Telephone: 403-691-8014/403-691-8070
Facsimile: 403-691-8008
Email: neilhoness@kpmg.ca/jsithole@kpmg.ca

COUNSEL

OSLER, HOSKIN & HARCOURT LLP
Suite 2500, TC Energy Tower, 450 – 1st Street SW
Calgary, AB T2P 5H1
Attn: Randal Van de Mosselaer
Telephone: 403-260-7060
Facsimile: 403-260-7024
Email: rvandemosselaer@osler.com

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1. INTRODUCTION AND PURPOSE OF REPORT

Introduction

1. Heavy North Construction Ltd. (“**Heavy North**” or the “**Company**”) was a construction services company specialising in general civil construction projects in the mining, oil and gas, power and transportation industries. The Company’s principal assets include heavy construction machinery such as graders, compactors, excavators and other equipment as well as vehicles, survey equipment and generators (together, the “**Equipment**”). All assets are located in Alberta.
2. The Company has two primary secured lenders: Alberta Treasury Branches (“**ATB**”) and 1056420 Alberta Ltd. (“**105**”). ATB advanced funds of approximately \$3.4 million (plus interest and fees) to Heavy North. These amounts were borrowed by Heavy North pursuant to the facility agreements between ATB and Heavy North dated November 10, 2017 and November 15, 2017. 105 has advanced funds of approximately \$2.4 million (plus interest and fees) pursuant to a General Security Agreement dated June 1, 2017 (the “**GSA**”).
3. As a result of the downturn in the oil and gas sector, growing competition and cost overruns experienced on certain projects, the Company experienced significant cash flow difficulties and ceased or demonstrated an intention to cease carrying on business. Furthermore, all employees were terminated in early February 2019 and the Company had exited all of its previously leased premises. By virtue of the foregoing, the Company was in default of the GSA.
4. On March 26, 2019, 105 issued a demand for payment and notice of intention to enforce security (the “**Demand Notice**”) pursuant to section 244 of the *Bankruptcy and Insolvency Act* (“**BIA**”).
5. Shortly after the Demand Notice, 105 brought an application to have KPMG Inc. (“**KPMG**”) appointed as receiver and manager of Heavy North (the “**Receiver**”) pursuant to section 243 of the BIA and section 13(2) of the *Judicature Act*, RSA 2000, c J-2 to, *inter alia*, take possession of and exercise control over the assets of the Company and any and all proceeds, receipts and disbursements arising out of or from the assets (the “**Property**”).
6. On April 16, 2019, the Court of Queen’s Bench of Alberta (“**Court**”) issued an order (the “**Receivership Order**”) appointing KPMG as the Receiver over all of the Property and undertakings of Heavy North.

7. On July 15, 2019 the Receiver filed its first report of the Receiver (the “**First Report**”), which described, among other things, the Company’s primary assets and liabilities, the Receiver’s activities to date, and the Company’s interim receipts and disbursements from April 16, 2019 to June 30, 2019.
8. In conjunction with the filing of the First Report, the Receiver filed a confidential supplemental report to the First Report (the “**First Supplemental Confidential Report**”) dated July 15, 2019 that further detailed the sales and marketing process (the “**Sales Process**”) undertaken by the Receiver to solicit offers from parties interested in acquiring the Equipment.
9. On November 18, 2019 the Receiver filed its second report of the Receiver (the “**Second Report**”), which detailed, among other things, the various liens against the Company, the advances made by 105 to the Company, and the proposed distributions.
10. For further background information on Heavy North and these receivership proceedings please refer to the Receiver’s website www.home.kpmg/ca/heavynorth.
11. In preparing this report, the Receiver has been provided with, and has relied upon, unaudited and other financial information, books and records (collectively, the “**Information**”) prepared by the Company and/or their representatives, and discussions with the Company’s management and/or representatives. The Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided and in consideration of the nature of evidence provided to this Honourable Court. However, the Receiver has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CAS**”) pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under the CAS in respect of the Information.
12. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Receiver.
13. All references to monetary amounts in this report are in Canadian dollars unless otherwise specified.

Purpose of the Receiver’s Third Report

14. This is the Receiver’s third report (the “**Third Report**”) and is filed to provide this Honourable Court with:
 - a) Information on the actions of the Receiver since the Second Report to the date of the Third Report;

- b) The Receiver's final statement of receipts and disbursements from April 16, 2019 to discharge;
 - c) The Receiver's and the Receiver's legal counsel's fees and disbursements from November 1, 2019 to January 31, 2020 and the estimated fees to discharge;
 - d) Details of a proposed holdback and distributions in respect of funds to allow the Receiver to conclude the estate; and
 - e) The Receiver's recommendation.
15. Defined terms not defined herein have the same meaning as defined in the First Report, the First Supplemental Confidential Report and the Second Report.

2. RECEIVER'S ACTIVITIES SINCE THE SECOND REPORT

Estate Funds

16. The Receiver invested the estate funds into a yearly GIC account on November 5, 2019 to earn interest. The GIC can be redeemed at any time after December 5, 2019, without penalties but including interest earned up until redemption date.

Sucker Creek North Limited Partnership

17. Prior to receivership Heavy North entered into a partnership with SCFN Holdings Limited Partnership (“**SCFN**”) to form Sucker Creek North Limited Partnership (“**Sucker Creek**”). Heavy North owns approximately 49% and SCFN owns 51% of Sucker Creek. The purpose of Sucker Creek was to service construction projects with First Nations clients.
18. The Receiver was contacted by Keyera Partnership (“**Keyera**”) in regards to a purported receivable due to Sucker Creek from Keyera in the approximate amount (on Keyera’s calculations) of \$298,600 (the “**Keyera AR**”). Keyera contacted both the Receiver and SCFN to seek direction as to how the Keyera AR should be distributed, noting that payment of the Keyera AR was subject to: (a) Keyera coming to an agreement with the lienholder with respect to the amount owing under the construction lien, and (b) SCFN and the Receiver coming to an agreement with respect to how the Keyera AR ought to be paid.
19. In consultation with its counsel, and as stated in the Second Report, the Receiver believed that a settlement would be reasonable as it could result in recoveries to the estate of approximately \$146,000 while at the same time resolving disputes with SCFN. Unfortunately, as at the date of this Report negotiations with SCFN have reached an impasse. Moreover, the Receiver has been contacted by parties claiming to be Sucker Creek creditors who take issue with the suggestion that the Keyera AR fund would be paid to the Sucker Creek partners in preference to Sucker Creek creditors. Accordingly, it has become clear that before the Heavy North estate would be able to access any portion of the Keyera AR, the Receiver would need to resolve claims with various Sucker Creek creditors (perhaps through litigation) and would also need to engage in litigation with SCFN. As a result, the Receiver and its counsel have determined a settlement is no longer possible, that no further progress in negotiations can be made, and that it would not be economic for the Receiver to pursue recovery of any portion of the Keyera AR. Furthermore, 105, as the possible ultimate beneficiary of any Keyera AR funds that would be recovered, has agreed that recovery of any portion of the Keyera AR is no longer worth pursuing.

105 Advances to Heavy North

20. On August 31, 2019 the Receiver was contacted by counsel to N.P.A. Ltd. operating under the business name of Wapiti Gravel Suppliers (“**Wapiti**”), a potential unsecured creditor of Heavy North. Wapiti’s counsel raised concerns in respect of the characterization of the funds advanced to Heavy North by 105 (the “**105 Advances**”) and the associated security position. Specifically, Wapiti’s counsel raised concerns with respect to whether the 105 Advances should be treated as, in substance, an equity claim rather than a debt claim, with the result that 105’s claim should be subordinated to all other debt claims.
21. The basis for Wapiti’s counsel’s concerns included the allegation that the advance from 105 to Heavy North was a non-arm’s length transaction. Wapiti’s counsel requested that the Receiver investigate the circumstances of the 105 Advances. Attached as **Appendix “A”** is a copy of the August 31, 2019 email from Wapiti’s counsel to Receiver’s counsel in this regard.
22. As a result, the Receiver undertook an investigation into the 105 Advances, which included:
 - a) Discussions with 105 and 105’s legal counsel;
 - b) A review of relevant case law with the Receiver’s legal counsel;
 - c) A review of the specific ownership structure of the Company;
 - d) A review of the loan agreement between Heavy North and 105; and
 - e) A review of the general ledger transaction detail for the individual loan advances.
23. Based on the foregoing investigations, the Receiver determined that:
 - a) 105 owns 32.5% of the common shares in Heavy North Holdings Ltd., which is the parent company of Heavy North. Attached as **Appendix “B”** are Alberta corporate searches for 105 and Heavy North;
 - b) Beginning in 2015, 105 made a number of advances to Heavy North which, 105 advises, were made on a demand basis and were to facilitate development of the business and to allow the business to continue so that value was maximized for all stakeholders;
 - c) Heavy North considered and accounted for the 105 Advances as long-term debt obligations of Heavy North. In its financial statements for the year ended January 31, 2017, Heavy North recorded long term debt obligations owing to 105 of \$499,293 in 2016 and \$477,017 in 2017,

paying interest to 105 of \$142,806 and \$162,040 in 2016 and 2017, respectively. Attached as **Appendix “C”** is Heavy North’s financial statements for the year ended January 31, 2017;

- d) The bank statements of Heavy North which the Receiver located in Heavy North’s files show various credits and debits to and from 105 throughout 2017 and early 2018. While the details of such debits and credits do not align entirely with the details of the investments listed in Exhibit 1 to the Breakell Affidavit, the Receiver does not have sufficient information to assess any discrepancies as the Receiver has no information regarding how Mr. Breakell compiled Exhibit 1 or any supporting information/documentation in respect of Exhibit 1. The Receiver makes no comment on the details of Exhibit 1, any discrepancies may simply be a matter of when Mr. Breakell recorded the investments in Exhibit 1, or how he recorded the various amounts. The Receiver is unable to further assess without additional information;
- e) 105 provided the Receiver with copies of correspondence between it and Heavy North discussing the 105 Advances made by 105 to Heavy North, interest accrued on such advances, and the timing and terms of repayment. In respect of the 105 Advances detailed in such correspondence, it appears that both 105 and Heavy North treated the 105 Advances as debt obligations. Attached as **Appendix “D”** are copies of correspondence provided by 105 to the Receiver;
- f) 105 was issued a T5 for the 2015 tax year showing receipt of interest from Heavy North of \$142,806.07. Attached as **Appendix “E”** is a copy of 105’s 2015 T5 form;
- g) On February 29, 2016, 105 executed a Subordination and Postponement Agreement (the “**Subordination and Postponement Agreement**”) subordinating and postponing all rights and claims against Heavy North on account of the \$1,449,993 indebtedness owed by Heavy North to 105 to any and all rights, claims or demands of Western Surety Company (the “**Surety**”) on account of loss, costs, damages, legal fees on a solicitor and client basis, administration costs and expenses and all other expenses whatsoever sustained or incurred by the Surety on account of one or more bonds issued by the Surety on behalf of Heavy North. Attached as **Appendix “F”** is a copy of the Subordination and Postponement Agreement;
- h) On June 1, 2017, Heavy North executed a General Security Agreement (the “**GSA**”) in favour of 105 granting 105 a mortgage, pledge, charge and security interest in all of Heavy North’s present and after acquired personal property and all proceeds thereof as continuing security for the payment and performance of all debts, liabilities and obligations of Heavy North to 105, howsoever arising, and whether present and future, absolute and contingent, direct and

indirect. A copy of the GSA is attached as Exhibit 2 to the Affidavit of Mark Breakell, sworn on December 3, 2019 (the “Breakell Affidavit”); and

- i) 105 registered a land charge and security agreement against all present and after acquired personal property of Heavy North in the Alberta Personal Property Registry on September 19, 2018. A copy of the PPR search results is attached Exhibit 3 to the Breakell Affidavit.

- 24. As discussed in the Second Report, in addition to the foregoing investigations, counsel for the Receiver requested that Wapiti’s counsel confirm whether Wapiti intended to challenge the advances made by 105 to Heavy North and, if so, the basis for the challenge. The Receiver’s counsel followed up on its request by emails to Wapiti’s counsel on December 16, 2019, December 23, 2019, January 9, 2020, January 17, 2020, and February 2, 2020. To date, the Receiver has not received any information from Wapiti which would support the suggestion that the 105 advances should be treated as equity rather than debt.
- 25. Based on the investigations undertaken by the Receiver, the Receiver has not identified any information to suggest that the 105 Advances should be treated as equity rather than debt.
- 26. The Receiver is seeking advice and direction from this Court in respect of whether the 105 Advances rank in priority to, or are subordinate to, Heavy North’s unsecured creditors.

Lien Actions against Heavy North in Saskatchewan

- 27. Heavy North has been named as a defendant in a number of builders’ lien actions in Saskatchewan relating to its involvement in two projects at the Belle Plaine Potash Mine and Mosaic Belle Plaine Railyard Project, both owned by Mosaic Canada ULC (“**Mosaic**”). The Receiver understands that the Saskatchewan Court of Queen’s Bench granted an order in one of these lien actions permitting Mosaic to pay the statutory holdback for the two projects, together with \$82,174 (the “**Mosaic Receivable**”) representing the remainder of unpaid invoices otherwise due and owing to Heavy North, into Court. The Receiver has had no involvement in the lien actions and is of the view that Heavy North has no claim to the Mosaic Receivable as this amount properly forms part of the lien fund.
- 28. All lienholders in the Saskatchewan lien actions were added to the Service List shortly after commencement of these proceedings and have received notice of steps taken by the Receiver within these proceedings.

Receivership Administrative Matters

- 29. Since the Second Report, the Receiver has carried out the following routine administrative tasks:

- a) Prepared and filed various statutory returns, which included GST returns;
- b) Reported to and liaised with ATB, 105 and other creditors and stakeholders on various matters;
- c) Attended to processing of monthly disbursements;
- d) Closed trade accounts and paid final invoices; and
- e) Prepared the required information in support of the Receiver's application for its discharge.

3. STATEMENT OF RECEIPTS AND DISBURSEMENTS

30. The estate’s operating costs to date have been financed by remaining Company funds on hand at the date of the receivership. The Receiver’s receipts and disbursements during the receivership have primarily related to proceeds from the Sales Process, collection of AR, locating and preserving the Equipment, insurance, contractor fees and appraisal fees.
31. Below is the Receiver’s interim statement of receipts and disbursements for the period April 16, 2019 to January 31, 2020 (the “SRD”). The Complete SRD is attached as **Appendix “G”**.

Interim Statement of Receipts and Disbursements - April 16, 2019 to January 31, 2020	
	Amount (CAD \$)
Total cash receipts	5,420,222
Cash disbursements	
Payment to secured creditors	3,562,339
Return deposit for sale of equipment	427,500
Receiver's fees	296,487
GST remitted	210,971
Legal fees	91,236
Payment to lien holders	84,079
Insurance	61,086
Storage of equipment	16,704
GST paid on Receiver's fees	14,824
Outside Consulting / Contractors	11,797
IT services	8,753
GST paid	6,122
GST on legal fees	4,555
Appraisal fees	2,500
Transfer to bankruptcy account	1,000
OSB filing fees	70
Total cash disbursements	4,800,022
Excess receipts over disbursements	\$ 620,200

32. The Receiver incurred professional fees and disbursements of \$296,487, and its legal counsel incurred professional fees and disbursements of \$91,236, for the period of April 15, 2019 to October 31, 2019, totalling \$387,723 (all excluding GST). These accounts were previously approved pursuant to the order granted on July 24, 2019 and the amended order granted on December 19, 2019 by this Honourable Court.
33. Below is the Receiver’s estimated final statement of receipts and disbursements from April 16, 2019 to discharge (“**Final SRD**”). The complete Final SRD is attached as **Appendix “H”**.

Final Statement of Receipts and Disbursements - April 16, 2019 to Discharge	
	Amount (CAD \$)
Total cash receipts	5,420,222
Cash disbursements	
Payment to secured creditors	3,987,324
Return deposit for sale of equipment	427,500
Receiver's fees	387,920
GST remitted	210,971
Legal fees	128,577
Payment to lien holders	84,079
Insurance	61,086
Holdback for deemed trust claim	60,000
GST paid on Receiver's fees	19,396
Storage of equipment	16,704
Outside Consulting / Contractors	11,797
IT services	8,753
GST on legal fees	6,423
GST paid	6,122
Appraisal fees	2,500
Transfer to bankruptcy account	1,000
OSB filing fees	70
Total cash disbursements	5,420,222
Excess receipts over disbursements	\$ -

34. From November 1, 2019 to January 31, 2020, the Receiver incurred professional fees and disbursements of \$31,434, and its legal counsel incurred professional fees and disbursements of \$25,355, totalling \$56,789 (exclusive of GST) (the “**Proposed Professional Fees**”). Professional fees incurred to January 31, 2020 total \$444,512.
35. The receiver and its counsel estimate the professional fees and disbursements to conclude the estate and that of the bankruptcy of Heavy North to be approximately \$60,000 and \$12,000 respectively (exclusive of GST) (the “**Completion Professional Fees**”). The Completion Professional Fees include an estimated amount of \$30,000 (exclusive of GST) in relation to the costs of the Heavy North bankruptcy estate; 105 has previously agreed that the cost of the bankruptcy estate can be funded from the Receivership estate.

Receivership Professional Fees Summary Table				
Service Period		Fees and		
		Disbursements	GST	Total
KPMG Inc.				
Amount disbursed	April 15, 2019 - June 30, 2019	187,636.68	9,381.83	197,018.51
	July 1, 2019 - October 31, 2019	108,850.00	5,442.50	114,292.50
Subtotal		296,486.68	14,824.33	311,311.01
Amount to be disbursed	November 1, 2019 - January 31, 2020	31,433.75	1,571.69	33,005.44
	Estimated completion fees	60,000.00	3,000.00	63,000.00
Subtotal		91,433.75	4,571.69	96,005.44
Total KPMG Inc.		387,920.43	19,396.02	407,316.45
Osler, Hoskin & Harcourt LLP				
Amount disbursed	April 1, 2019 - April 30, 2019	6,836.05	341.81	7,177.86
	May 1, 2019 - May 31, 2019	17,708.80	885.45	18,594.25
	June 1, 2019 - June 30, 2019	7,395.00	369.75	7,764.75
	July 1, 2019 - July 31, 2019	28,095.15	1,402.26	29,497.41
	August 1, 2019 - August 31, 2019	12,183.83	605.19	12,789.02
	September 1, 2019 - September 30, 2019	4,963.50	248.18	5,211.68
	October 1, 2019 - October 31, 2019	14,053.35	702.67	14,756.02
Subtotal		91,235.68	4,555.31	95,790.99
Amount to be disbursed	November 1, 2019 - January 31, 2020	25,355.00	1,267.75	26,622.75
	Estimated completion fees	12,000.00	600.00	12,600.00
Subtotal		37,355.00	1,867.75	39,222.75
Total Osler, Hoskin & Harcourt LLP		128,590.68	6,423.06	135,013.74
Proposed Professional Fees for approval		128,788.75	6,439.44	135,228.19
Total Receivership Professional Fees		516,511.11	25,819.08	542,330.19

36. The Receiver is seeking approval of the Proposed Professional Fees. Copies of the invoices described therein, including detailed time analysis, for the periods not already approved will be made available to this Honourable Court at the February 24, 2020 hearing upon request.
37. The Final SRD includes the Proposed Professional Fees and Completion Professional Fees.
38. The Receiver is of the view that the Proposed Professional Fees are fair and reasonable.

4. DISTRIBUTION TO SECURED CREDITORS AND DISCHARGE

Deemed Trust Claim

39. As described in the Second Report, the Receiver assisted the CRA with their source deduction audit. As a result of the audit, the Receiver was verbally informed by the CRA that there was a claim for unpaid source deductions. This claim represents a trust priority claim and therefore ranks ahead of all other secured creditors, including ATB and 105, in both receivership and bankruptcy proceedings.
40. The Receiver has yet to receive a proof of claim from CRA as of the date of this report. As indicated in the Final SRD, the Receiver will maintain a holdback for the deemed trust claim of \$60,000. Should the Receiver not require all of these holdback funds, the Receiver will issue a further distribution to 105 for the remaining funds.

Proposed Distribution to 105

41. ATB and 105 are the Company's primary secured creditors. Counsel to the Receiver has provided an opinion that, subject to the standard limitations, qualifications, and assumptions, the security granted by the Company to ATB and 105 is valid and enforceable. ATB's security ranks in priority over the 105 Advances.
42. The Receiver was provided a payout statement as of December 6, 2019 from ATB. On January 7 and January 15, 2020 the Receiver made a distribution to ATB of approximately \$3.562 million, and accordingly ATB has been paid in full.
43. As discussed in the Second Report, Pacesetter Equipment Ltd. ("**Pacesetter**") and Team Ford made registrations in the Alberta Personal Property Registry against certain pieces of Equipment, which registrations were discharged in accordance with an Approval and Vesting Order granted by this Court on July 24, 2019. The Receiver requested, but was not provided with, any information by Pacesetter or Team Ford to suggest that either company's PPR registrations were valid or that they had secured claims against Heavy North. The Receiver accordingly established a holdback of \$350,400 representing the funds required to pay Pacesetter and Team Ford in full should either or both parties subsequently provide proof that they have priority secured claims.
44. By order granted November 25, 2019 (the "**November 25 Order**"), this Court ordered that within 10 days of receipt of the order, Pacesetter and Team Ford were required to provide the Receiver with copies of, among other things, all security documents relating to the registrations detailed therein, failing which the respective claims of Pacesetter and Team were declared to be unsecured.

45. Neither Team Ford nor Pacesetter provided the Receiver with copies of security documents relating to their respective registrations by the deadline provided in the November 25 Order and, as a result, were deemed to be unsecured creditors. Team Ford advised the Receiver by email on December 13, 2019 that it did not take issue with its designation as an unsecured creditor. Pacesetter advised the Receiver by email on December 17, 2019 that it accepted its position as an unsecured creditor of Heavy North. Copies of the Team Ford's and Pacesetter's respective emails to the Receiver are attached as **Appendix "I"**.
46. Subsequent to all the holdbacks and claims have been settled, paid, or otherwise dealt with, the Receiver intends to distribute any and all remaining residual funds to 105, subject to the advice and direction of this Court regarding the priority of the 105 Advances vis a vis Heavy North's unsecured creditors.
47. Upon the final distribution of available funds to 105 or, in the event the 105 Advances are determined by this Court to rank subordinate to Heavy North's unsecured creditors, to Heavy North's Trustee in Bankruptcy, the administration of the estate of the Company will be complete. As such, the Receiver is seeking its discharge.

5. RECOMMENDATIONS

48. This Third Report is submitted in support of the Receiver's application respectfully requesting this Honourable Court to:

- a) Approve the Third Report and the activities of the Receiver described herein;
- b) Approve the Receiver's Final SRD for the period April 16, 2019 to discharge;
- c) Approve the Proposed and Completion Professional Fees;
- d) Approve the Completion Professional Fees;
- e) Provide advice and direction in respect of whether the 105 Advances rank in priority, or are subordinate to, Heavy North's unsecured creditors;
- f) Approve the proposed Interim and final Distributions; and
- g) Approve the Receiver's discharge.

All of which is respectfully submitted this 14th day of February, 2020.

KPMG INC.
In its capacity as Court-appointed Receiver of
Heavy North Construction Ltd.
and not in its personal or corporate capacity



Per: Neil A. Honess
Senior Vice President

APPENDIX A

August 31, 2019 email from Wapiti's counsel to
Receiver's counsel

Pimienta, Cristina

From: Young, Christopher <cyoung@brownleelaw.com>
Sent: Saturday, August 31, 2019 5:33 PM
To: Honess, Neil; 'maclark@kpmg.ca'; Slocombe, David; Van de Mosselaer, Randal
Cc: Peskett, Dan; Campbell, Alexandra
Subject: Bankruptcy of Heavy North Construction Ltd. (Estate No. 24-2543547) - Objection to Distributions (our file no. 71403-0050)

We confirm that our office acts for N.P.A. Ltd. operating under the business name and style of Wapiti Gravel Suppliers ("Wapiti") in connection with the above-noted bankruptcy. We confirm that Wapiti is a creditor of the Bankrupt, Heavy North Construction Ltd., and will be preparing and submitting a Proof of Claim.

Further to my recent conversation with Mr. Slocombe of KPMG, we confirm that we have been advised that, notwithstanding that the Statement of Affairs issued by the Receiver on August 8, 2019 suggests significant assets and an expected deficiency of \$1,077,080.47, the actual expected deficiency will be significantly higher and that it is in fact expected that there will be no funds for any distributions to unsecured creditors after amounts are paid out to secured creditors.

We advise that we have concerns in relation to an anticipated distribution to the secured creditors which have been identified by the Trustee, and specifically, 1056420 Alberta Ltd. ("105"). **We therefore object to the release of any funds by the Trustee to the secured creditors and seek reasonable prior notice in advance of any such planned distribution.**

In particular, we object at this time to any distribution to 105 because we do not believe that it constitutes an arms-length entity to the Bankrupt and have little information as to the nature of its alleged secured claim. We believe that sections 137 and 140.1 of the *Bankruptcy and Insolvency Act* need to be reviewed by the Trustee along with the details of 105's non-arm's length claim, as it may be properly subject to being postponed and subordinated to the claims of other creditors under section 137, as an equity claim in substance under section 140.1, or otherwise. As an example, we note the recent decision of Justice Romaine in *Alberta Energy Regulator v. Lexin Resources Ltd.*, 2018 ABQB 590, in which a purported "debt claim" was found to in substance constitute an "equity claim" to be subordinated and which confirmed that a non-arm's length party bears the onus of proving that its alleged debt claim is proper. The fact that the 105 GSA is dated June 1, 2017 but was only registered in the PRR on September 19, 2018 further contributes to our concerns in this regard. We ask that you please provide us with copies of any documents which corroborate the alleged debt claim of 105 beyond the General Security Agreement.

We thank you for your attention to this matter and look forward to the Trustee reviewing this issue and providing us with information as to its review and findings. If agreement cannot be reached as to the priority or non-priority of 105's non-arm's length claim, an Application to the Court may be necessary in order to address and resolve the issue.

Regards,

Christopher Young



CHRISTOPHER M. YOUNG | ASSOCIATE | BROWNLEE LLP

LITIGATION

m. 780-497-4800 | **d.** 780-497-4865 | **f.** 780-424-3254 | cyoung@brownleelaw.com

2200 COMMERCE PLACE | 10155 - 102 STREET | EDMONTON, AB T5J 4G8

Toll-Free. 800-661-9069 | www.brownleelaw.com

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APPENDIX B

Alberta corporate searches for 105 and Heavy North

Government Corporation/Non-Profit Search of Alberta ■ Corporate Registration System

Date of Search: 2020/02/13
 Time of Search: 09:18 PM
 Search provided by: KPMG INC. (CALGARY)
 Service Request Number: 32515884
 Customer Reference Number:

Corporate Access Number: 2017314945

Legal Entity Name: HEAVY NORTH CONSTRUCTION LTD.

Name History:

Previous Legal Entity Name	Date of Name Change (YYYY/MM/DD)
BOLEN PAGDATO SAWH CONSTRUCTION LTD.	2015/10/20

Legal Entity Status: Active
Alberta Corporation Type: Named Alberta Corporation
Registration Date: 2013/02/21 YYYY/MM/DD

Registered Office:

Street: 2500-10220 103 AVE NW
City: EDMONTON
Province: ALBERTA
Postal Code: T5J 0K4

Records Address:

Street: 2500-10220 103 AVE NW
City: EDMONTON
Province: ALBERTA
Postal Code: T5J 0K4

Email Address: CORPORATE.EDMONTON@DENTONS.COM

Directors:

Last Name: BOLEN
First Name: STEVEN

Street/Box Number: 115-625 PARSONS RD

City: EDMONTON

Province: ALBERTA

Postal Code: T6X 0N9

Last Name: SAWH

First Name: RAJENDRA

Street/Box Number: 7740 20 AVE SW

City: EDMONTON

Province: ALBERTA

Postal Code: T6X 1W2

Voting Shareholders:

Legal Entity Name: HEAVY NORTH HOLDINGS LTD.

Corporate Access Number: 2019279138

Street: 115-625 PARSONS RD

City: EDMONTON

Province: ALBERTA

Postal Code: T6X 0N9

Percent Of Voting Shares: 100

Details From Current Articles:

The information in this legal entity table supersedes equivalent electronic attachments

Share Structure: SEE ELECTRONIC ATTACHMENT

Share Transfers Restrictions: SEE ELECTRONIC ATTACHMENT

Min Number Of Directors: 1

Max Number Of Directors: 10

Business Restricted To: NONE

Business Restricted From: NONE

Other Provisions: SEE ELECTRONIC ATTACHMENT

Associated Registrations under the Partnership Act:

Trade Partner Name	Registration Number
HEAVY NORTH	TN17573403

Other Information:**Last Annual Return Filed:**

File Year	Date Filed (YYYY/MM/DD)
2019	2019/04/01

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2013/02/21	Incorporate Alberta Corporation
2013/07/08	Name/Structure Change Alberta Corporation
2015/10/20	Name Change Alberta Corporation
2017/08/08	Change Director / Shareholder
2019/04/01	Enter Annual Returns for Alberta and Extra-Provincial Corp.
2019/06/22	Change Address

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Share Structure	ELECTRONIC	2013/02/21
Other Rules or Provisions	ELECTRONIC	2013/02/21
Restrictions on Share Transfers	ELECTRONIC	2013/02/21
Share Structure	ELECTRONIC	2013/07/08
Restrictions on Share Transfers	ELECTRONIC	2013/07/08
Other Rules or Provisions	ELECTRONIC	2013/07/08

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.



Government Corporation/Non-Profit Search of Alberta ■ Corporate Registration System

Date of Search: 2020/02/13
Time of Search: 10:01 PM
Search provided by: KPMG INC. (CALGARY)
Service Request Number: 32515887
Customer Reference Number:

Corporate Access Number: 2019279138

Legal Entity Name: HEAVY NORTH HOLDINGS LTD.

Legal Entity Status: Start

Alberta Corporation Type: Named Alberta Corporation

Registration Date: 2015/10/21 YYYY/MM/DD

Date of Last Status Change: 2019/12/02 YYYY/MM/DD

Registered Office:

Street: 2500-10220 103 AVE NW

City: EDMONTON

Province: ALBERTA

Postal Code: T5J 0K4

Records Address:

Street: 2500-10220 103 AVE NW

City: EDMONTON

Province: ALBERTA

Postal Code: T5J 0K4

Email Address: CORPORATE.EDMONTON@DENTONS.COM

Directors:

Last Name: BOLEN

First Name: STEVEN

Street/Box Number: 115-625 PARSONS RD

City: EDMONTON

Province: ALBERTA

Postal Code: T6X 0N9

Last Name: SAWH
First Name: RAJENDRA
Street/Box Number: 7740 20 AVE SW
City: EDMONTON
Province: ALBERTA
Postal Code: T6X 1W2

Voting Shareholders:

Legal Entity Name: 1056420 ALBERTA LTD.
Corporate Access Number: 2010564207
Street: 404-33 6A STREET NE
City: CALGARY
Province: ALBERTA
Postal Code: T2Z 4A2
Percent Of Voting Shares: 32.5

Legal Entity Name: 1757768 ALBERTA LTD.
Corporate Access Number: 2017577681
Street: 115-625 PARSONS RD
City: EDMONTON
Province: ALBERTA
Postal Code: T6X 0N9
Percent Of Voting Shares: 42.5

Legal Entity Name: HANUBEER HOLDINGS LTD.
Corporate Access Number: 2017539996
Street: 115-625 PARSONS RD
City: EDMONTON
Province: ALBERTA
Postal Code: T6X 0N9
Percent Of Voting Shares: 25

Details From Current Articles:

The information in this legal entity table supersedes equivalent electronic attachments

Share Structure: SEE ELECTRONIC ATTACHMENT

Share Transfers Restrictions: SEE ELECTRONIC ATTACHMENT

Min Number Of Directors: 1

Max Number Of Directors: 9

Business Restricted To: NONE

Business Restricted From: NONE

Other Provisions: SEE ELECTRONIC ATTACHMENT

Holding Shares In:

Legal Entity Name
HEAVY NORTH CONSTRUCTION LTD.
HEAVY NORTH ADMINISTRATION LTD.
HEAVY NORTH EQUIPMENT LTD.
HEAVY NORTH REAL ESTATE LTD.
HEAVYPIPE LTD.

Other Information:

Last Annual Return Filed:

File Year	Date Filed (YYYY/MM/DD)
2017	2017/11/17

Outstanding Returns:

Annual returns are outstanding for the 2019, 2018 file year(s).

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2015/10/21	Incorporate Alberta Corporation
2017/08/08	Change Director / Shareholder
2017/11/17	Enter Annual Returns for Alberta and Extra-Provincial Corp.
2019/06/22	Change Address
2019/12/02	Status Changed to Start for Failure to File Annual Returns

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Share Structure	ELECTRONIC	2015/10/21
Restrictions on Share Transfers	ELECTRONIC	2015/10/21
Other Rules or Provisions	ELECTRONIC	2015/10/21

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.



Government Corporation/Non-Profit Search of Alberta ■ Corporate Registration System

Date of Search: 2020/02/13
Time of Search: 09:17 PM
Search provided by: KPMG INC. (CALGARY)
Service Request Number: 32515883
Customer Reference Number:

Corporate Access Number: 2010564207
Legal Entity Name: 1056420 ALBERTA LTD.

Legal Entity Status: Active
Alberta Corporation Type: Numbered Alberta Corporation
Registration Date: 2003/07/11 YYYY/MM/DD

Registered Office:

Street: 400 3RD AVENUE S.W., SUITE 3700
City: CALGARY
Province: ALBERTA
Postal Code: T2P 4H2

Records Address:

Street: 400 3RD AVENUE S.W., SUITE 3700
City: CALGARY
Province: ALBERTA
Postal Code: T2P 4H2

Email Address: CANBUSANNUALS@NORTONROSEFULBRIGHT.COM

Directors:

Last Name: BREAKELL
First Name: MARK
Street/Box Number: 404, 33 6A STREET NE
City: CALGARY
Province: ALBERTA
Postal Code: T2Z 4A2

Voting Shareholders:

Last Name: BREAKELL
First Name: MARK
Street: 404, 33 6A STREET NE
City: CALGARY
Province: ALBERTA
Postal Code: T2Z 4A2
Percent Of Voting Shares: 100

Details From Current Articles:**The information in this legal entity table supersedes equivalent electronic attachments**

Share Structure: THE CORPORATION IS AUTHORIZED TO ISSUE AN UNLIMITED NUMBER OF COMMON SHARES.
Share Transfers Restrictions: NO SHARES OF THE CORPORATION SHALL BE TRANSFERRED TO ANY PERSON WITHOUT THE APPROVAL OF THE BOARD OF DIRECTORS BY RESOLUTION.
Min Number Of Directors: 1
Max Number Of Directors: 9
Business Restricted To: NONE
Business Restricted From: NONE
Other Provisions: THE ATTACHED SCHEDULE IS INCORPORATED INTO AND FORMS PART OF THE ARTICLES OF THE CORPORATION.

Holding Shares In:

Legal Entity Name
ADVANTAGE EQUIPMENT LTD.
MOJAVE VACUUM LTD.
HEAVY NORTH HOLDINGS LTD.

Other Information:

Last Annual Return Filed:

File Year	Date Filed (YYYY/MM/DD)
2019	2019/09/20

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2003/07/11	Incorporate Alberta Corporation
2013/03/11	Change Director / Shareholder
2019/09/20	Enter Annual Returns for Alberta and Extra-Provincial Corp.

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Other Rules or Provisions	ELECTRONIC	2003/07/11

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.



APPENDIX C

Heavy North's financial statements for the year ended
January 31, 2017



HEAVY NORTH CONSTRUCTION LTD.

Financial Statements

Year Ended January 31, 2017

(Unaudited)

HEAVY NORTH CONSTRUCTION LTD.

Index to Financial Statements

Year Ended January 31, 2017

(Unaudited)

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FINANCIAL STATEMENTS	
Statement of Income	2
Statement of Retained Earnings	3
Balance Sheet	4
Statement of Cash Flow	5
Notes to Financial Statements	6 - 17

REVIEW ENGAGEMENT REPORT

To the Shareholders of Heavy North Construction Ltd.

We have reviewed the balance sheet of Heavy North Construction Ltd. as at January 31, 2017 and the statements of income, retained earnings and cash flow for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the Company.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

Edmonton, Alberta
July 4, 2017



Hahn & Houle LLP
Chartered Accountants

HEAVY NORTH CONSTRUCTION LTD.**Statement of Income****Year Ended January 31, 2017***(Unaudited)*

	2017	2016
REVENUE	\$ 37,448,070	\$ 35,633,720
COST OF SALES		
Direct wages	9,256,797	7,592,981
Equipment preventative maintenance	938,724	876,500
Equipment rental	724,479	779,425
Materials and supplies	8,213,220	8,980,697
Sub-contracts	10,740,297	7,724,720
	29,873,517	25,954,323
GROSS PROFIT (20%; 2016 - 27%)	7,574,553	9,679,397
EXPENSES		
Advertising and promotion	39,858	37,420
Amortization	312,055	387,606
Amortization of capital lease assets	1,255,826	1,597,188
Computer/IT	126,752	96,598
Equipment leases	1,288,516	1,091,839
Insurance	127,568	127,882
Interest and bank charges	271,825	277,734
Interest on long term debt	19,449	23,867
Interest on obligations under capital lease	257,071	248,770
Life insurance on executives	1,810	1,678
Meals and entertainment	60,295	74,069
Memberships	35,488	19,049
Office	239,831	244,438
Professional fees	103,992	91,515
Rent	359,976	306,867
Repairs and maintenance	488,577	617,992
Salaries and wages	1,916,226	2,405,894
Telephone	70,126	54,242
Training	21,118	13,085
Travel	134,664	199,710
Vehicle	97,748	194,140
	7,228,771	8,111,583
INCOME FROM OPERATIONS	345,782	1,567,814
OTHER INCOME		
Gain on disposal of equipment	39,775	-
Partnership income	69,254	82,250
	109,029	82,250
INCOME BEFORE INCOME TAXES	454,811	1,650,064
INCOME TAXES		
Current	(328,767)	502,338
Future	459,558	3,036
	130,791	505,374
NET INCOME	\$ 324,020	\$ 1,144,690

HEAVY NORTH CONSTRUCTION LTD.

Statement of Retained Earnings

Year Ended January 31, 2017

(Unaudited)

	2017	2016
RETAINED EARNINGS - BEGINNING OF YEAR	\$ 2,914,576	\$ 1,694,892
NET INCOME FOR THE YEAR	<u>324,020</u>	<u>1,144,690</u>
	3,238,596	2,839,582
CANCELLATION OF DIVIDENDS DECLARED <i>(Note 9)</i>	-	75,000
PREMIUM ON REPURCHASE OF SHARES	<u>-</u>	<u>(6)</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 3,238,596</u>	<u>\$ 2,914,576</u>



HEAVY NORTH CONSTRUCTION LTD.

Balance Sheet

January 31, 2017

(Unaudited)

	2017	2016
ASSETS		
CURRENT		
Cash	\$ 7,054	\$ 7,054
Accounts receivable <i>(Note 3)</i>	9,307,029	7,622,552
Income taxes recoverable	328,767	-
Goods and services tax recoverable	27,117	2,654
Prepaid expenses and deposits	60,145	39,567
Holdbacks receivable	1,701,267	750,738
Unbilled revenue	1,857,866	312,927
	<u>13,289,245</u>	<u>8,735,492</u>
EQUIPMENT <i>(Note 4)</i>	10,144,829	9,820,420
DUE FROM RELATED PARTIES <i>(Note 5)</i>	359,323	8,630
LONG TERM INVESTMENT <i>(Note 6)</i>	33,905	131,250
	<u>\$ 23,827,302</u>	<u>\$ 18,695,792</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness <i>(Note 7)</i>	\$ 4,604,796	\$ 3,010,532
Accounts payable and accrued liabilities <i>(Note 8)</i>	5,333,615	1,690,475
Holdbacks payable	67,852	524
Income taxes payable	-	501,605
Current portion of long term debt <i>(Note 10)</i>	362,845	336,736
Current portion of obligations under capital lease <i>(Note 11)</i>	2,553,957	2,044,644
Future income taxes	441,022	202,558
	<u>13,364,087</u>	<u>7,787,074</u>
Obligations under capital lease due thereafter <i>(Note 11)</i>	1,700,173	2,257,377
	<u>15,064,260</u>	<u>10,044,451</u>
LONG TERM DEBT <i>(Note 10)</i>	557,957	858,788
OBLIGATIONS UNDER CAPITAL LEASE <i>(Note 11)</i>	2,875,674	2,979,841
PROMISSORY NOTE <i>(Note 9)</i>	1,122,403	1,104,713
FUTURE INCOME TAXES	491,393	270,299
DUE TO RELATED PARTIES <i>(Note 5)</i>	477,018	523,123
	<u>20,588,705</u>	<u>15,781,215</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 9)</i>	1	1
Retained earnings	3,238,596	2,914,576
	<u>3,238,597</u>	<u>2,914,577</u>
	<u>\$ 23,827,302</u>	<u>\$ 18,695,792</u>

CONTINGENT LIABILITY *(Note 12)*

LEASE COMMITMENTS *(Note 13)*

APPROVED BY THE DIRECTOR

_____ Director



HEAVY NORTH CONSTRUCTION LTD.

Statement of Cash Flow

Year Ended January 31, 2017

(Unaudited)

	2017	2016
OPERATING ACTIVITIES		
Net income	\$ 324,020	\$ 1,144,690
Items not affecting cash:		
Amortization of equipment	312,055	387,606
Amortization of capital lease assets	1,255,826	1,597,188
Gain on disposal of equipment	(39,775)	-
Future income taxes	459,558	3,036
Interest accrual on promissory note	17,690	104,713
Accrued revenue from Mikisew North Limited Partnership	(69,254)	(82,250)
	<u>2,260,120</u>	<u>3,154,983</u>
Changes in non-cash working capital:		
Accounts receivable	(1,684,477)	(3,102,370)
Work in progress	-	38,093
Accounts payable and accrued liabilities	3,643,138	(371,896)
Income taxes payable	(830,372)	434,021
Prepaid expenses and deposits	(20,578)	55,856
Goods and services tax payable	(24,463)	2,159
Holdbacks receivable	(950,529)	1,012,721
Unbilled revenue	(1,544,939)	608,681
Holdbacks payable	67,328	(605,466)
	<u>(1,344,892)</u>	<u>(1,928,201)</u>
Cash flow from operating activities	<u>915,228</u>	<u>1,226,782</u>
INVESTING ACTIVITIES		
Purchase of equipment	(79,511)	(667,440)
Repayment from partnership	166,600	-
Cash flow from (used by) investing activities	<u>87,089</u>	<u>(667,440)</u>
FINANCING ACTIVITIES		
Advances to related parties	(396,798)	(18,799)
Advances from line of credit	1,594,264	1,008,484
Proceeds from long term debt	48,507	-
Proceeds from sale of leased asset	243,000	535,370
Repayment of long term debt	(343,903)	(315,172)
Repayment of obligations under capital lease	(2,147,387)	(1,769,958)
Cash flow used by financing activities	<u>(1,002,317)</u>	<u>(560,075)</u>
INCREASE (DECREASE) IN CASH FLOW	-	(733)
Cash - beginning of year	<u>7,054</u>	<u>7,787</u>
CASH - END OF YEAR	<u>\$ 7,054</u>	<u>\$ 7,054</u>



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

1. DESCRIPTION OF BUSINESS

Heavy North Construction Ltd., is incorporated under the Business Corporations Act of Alberta. The Company's principal business activity is heavy civil construction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Accounting Standards for Private Enterprises.

Contract revenue

Revenue from construction contracts is recognized on the percentage of completion basis for contracts at a significant stage of completion. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated cost of the contract.

Contract costs include all direct material and labour costs and those indirect costs related to contract performance. Selling, general and administration costs are charged to expense as incurred.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Equipment

Equipment is stated at cost or deemed cost less accumulated amortization. Equipment is amortized over its estimated useful life on a declining balance basis at the following rates and methods:

Assets under capital lease		hours used in the year divided by total expected usable hours
Computer equipment	55%	declining balance method
Computer software	30%	declining balance method
Equipment		hours used in the year divided by total expected usable hours
Furniture and fixtures	20%	declining balance method
Leasehold improvements	3 years	straight-line method
Vehicles	20%	declining balance method
Website costs	30%	declining balance method

The Company regularly reviews its equipment to eliminate obsolete items.

Equipment acquired during the year but not placed into use are not amortized until they are placed into use.

(continues)



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Preferred shares that would otherwise be classified as liabilities, are classified as equity when issued as part of certain tax planning arrangements.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of earnings.

Future income taxes

Income taxes are reported using the future income taxes method, as follows: current income tax expense is the estimated income taxes payable for the current year after any refunds or the use of losses incurred in previous years, and future income taxes reflect:

- the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes;
- the benefit of unutilized tax losses that will more likely than not be realized and carried forward to future years to reduce income taxes.

Future income taxes are estimated using the rates enacted by tax law and those substantively enacted for the years in which future income taxes assets are likely to be realized, or future income tax liabilities settled. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period when the change is substantively enacted.

Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under capital leases are amortized on a straight-line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

(continues)



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Long term investments

The Company's investments are recorded using the equity method. Under this method, the Company recognizes its proportionate share of the earnings from such investments earned during the year.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Unbilled revenue

Unbilled revenue represents revenue recognized under the percentage of completion method in excess of what has already been billed.

Work in progress

Work in progress represents costs, including direct costs and overhead allocation, on contracts that are not yet significantly complete less any anticipated losses.

3. ACCOUNTS RECEIVABLE

	<u>2017</u>	<u>2016</u>
Trade receivables	\$ 9,275,935	\$ 7,608,928
Receivable from employees	31,094	13,624
	<u>\$ 9,307,029</u>	<u>\$ 7,622,552</u>

Trade receivables include \$67,077.66 receivable from Heavy Norwest Ltd. (Note 5).

Trade receivables include \$2,153,119.41 receivable from Mikisew North Limited Partnership (Note 6).



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

4. EQUIPMENT

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Assets under capital lease	\$ 12,194,824	\$ 3,598,725	\$ 8,596,099	\$ 8,103,123
Computer equipment	89,786	77,134	12,652	28,117
Computer software	98,739	60,961	37,778	53,968
Equipment	2,154,335	698,732	1,455,603	1,570,581
Furniture and fixtures	8,404	4,374	4,030	5,038
Leasehold improvements	47,611	23,816	23,795	39,676
Vehicles	12,906	5,472	7,434	9,292
Website costs	25,512	18,074	7,438	10,625
	\$ 14,632,117	\$ 4,487,288	\$ 10,144,829	\$ 9,820,420

5. DUE FROM (TO) RELATED PARTIES

	2017	2016
Long term portion due from related parties		
Heavy North Equipment Ltd.	\$ 1,250	\$ 250
Steven Bolen	3,800	-
Hanubeer Holdings Ltd.	523	505
Heavy North Holdings Ltd.	1,250	250
Heavy North Administration Ltd.	1,250	-
Heavy Norwest Ltd.	350,000	7,625
Heavy North Real Estate Ltd.	1,250	-
	\$ 359,323	\$ 8,630

The amounts due to related parties are unsecured, non-interest bearing, and have no fixed terms of repayment.

(continues)



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

5. DUE TO RELATED PARTIES (continued)

Long term portion due to related parties		
1056420 Alberta Ltd.	\$ 477,017	\$ 499,293
1757768 Alberta Ltd.	1	1
Steven Bolen	-	23,829
	<u>477,018</u>	<u>523,123</u>

Heavy North Holdings Ltd. is the 100% parent company of Heavy North Construction Ltd., Heavy North Equipment Ltd., Heavy North Real Estate Ltd. and Heavy North Administration Ltd.

Hanubeer Holdings Ltd. owns 25% of the common shares of Heavy North Holdings Ltd.

1757768 Alberta Ltd. owns 42.5% of the common shares of Heavy North Holdings Ltd.

1056420 Alberta Ltd. owns 32.5% of the common shares of Heavy North Holdings Ltd. It has signed a Subordination and Postponement Agreement in favour of Western Surety Company, TD Bank, and Canadian Western Bank for the bonds, the demand operating facility disclosed in Note 7, and the leases disclosed in Note 11 in the amount of \$1,598,170.

Steven Bolen is a 100% owner of 1757768 Alberta Ltd. which owns 42.5% of Heavy North Holdings Ltd.

Heavy Norwest Ltd. is 50% owned by Heavy North Construction Ltd.

6. LONG TERM INVESTMENT

	2017	2016
Beginning of year	\$ 131,250	\$ 49,000
Payments from Mikisew North	(166,600)	-
Share of the current year's profits	69,254	82,250
End of year	<u>\$ 33,904</u>	<u>\$ 131,250</u>

The Company has a 48.99% interest in Mikisew North Limited Partnership.



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

7. BANK INDEBTEDNESS

The Company maintains a demand operating facility with TD bank with a credit limit of the lesser of \$5,000,000, or 75% of total net A/R for the Company and Mikisew North Limited Partnership, less over 90 days accounts, holdbacks, related party accounts, prepaids, priority payables and overbills. The demand operating facility bears interest at prime+2% (4.70%).

The security provided by the Company to support the operating facility are:

- a) General security agreement representing a first charge on all the Borrower's present and after acquired personal property;
- b) Corporate guarantee of unlimited advances executed by Heavy North Equipment Ltd., Heavy North Holdings Ltd., Heavy North GP Ltd., and Heavy North LP Ltd., supported by a General Security Agreement representing a first charge on all of each company's present and after acquired personal property;
- c) Assignment of accounts from Mikisew North Limited Partnership;
- d) Evidence of business insurance CAD\$1,000,000;
- e) Unlimited personal guarantee of advances and postponement and assignment of creditor's claim executed by Steven J. Bolen, Rajendra Sawh, and Mark A. Breakell.

As required in the banking agreement of the bank indebtedness, the covenants are to be calculated on a combined basis with Heavy North Construction Ltd. and Heavy North Equipment Ltd., a company owned 100% by the shareholder of Heavy North Construction Ltd. The Company's bank indebtedness is subject to the following covenants:

1. Maintain a debt to service coverage (DSC) ratio of not less than 120% at all times;
2. Maintain a combined tangible net worth of not less than \$5,000,000 (increased from \$3,000,000 by January 31, 2017 and maintained thereafter).

As of January 31, 2017, the Company was in violation of the tangible net worth covenant and debt service coverage ratio. The bank is aware of these breaches and has agreed to extend financing to July 31, 2017, at which time management expects that a new banking agreement will be put in place.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2017</u>	<u>2016</u>
Trade payables and accrued liabilities	\$ 5,291,214	\$ 1,613,628
Government remittances payable	42,400	76,847
	<u>\$ 5,333,614</u>	<u>\$ 1,690,475</u>

Trade payables include \$3,990 to Heavy Norwest Ltd. (Note 5).



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

9. SHARE CAPITAL

	<u>2017</u>	<u>2016</u>
Issued:		
100 Class A common voting shares	<u>\$ 1</u>	<u>\$ 1</u>

In the prior year, 1056420 Alberta Ltd. redeemed 1,000,000 Class F shares for a total of \$1,000,000 and accepted a promissory note in the amount of \$1,000,000, interest bearing at 10%, accruing quarterly, and repayable at the option of the Company. 1056420 Alberta Ltd. also waived its entitlement to outstanding unpaid cumulative dividends on the \$1,000,000 Class F shares (i.e. \$75,000). At year end, the promissory note and accrued interest totalled \$1,122,403.

10. LONG TERM DEBT

	<u>2017</u>	<u>2016</u>
Caterpillar Financial loan bearing interest at 0.00% per annum, repayable in monthly payments of \$3,219 and is secured by equipment with a net book value of \$81,651. The loan matures in November 2018.	\$ 59,266	\$ 73,240
Komatsu Financial loan bearing interest at 2.99% per annum, repayable in monthly blended payments of \$4,383 and is secured by equipment with a net book value of \$188,280. The loan matures in November 2019.	142,312	180,955
Komatsu Financial loan bearing interest at 0.00% per annum, repayable in monthly payments of \$4,597 and is secured by equipment with a net book value of \$119,160. The loan matures in July 2017.	28,505	74,270
Komatsu Financial loan bearing interest at 2.5% per annum, repayable in monthly payments of \$8,873 and is secured by equipment with a net book value of \$371,160. The loan matures in November 2019.	290,300	370,108
GE loan bearing interest at 3.95% per annum, repayable in monthly blended payments of \$396 and is secured by equipment with a net book value of \$9,654. The loan matures in February 7, 2017.	394	5,026
Canadian Western Bank promissory note bearing interest at prime+1.25% (3.95%) per annum, repayable in monthly blended payments of \$4,401 and is secured by equipment with a net book value of \$132,624. The loan matures in July 2019.	106,477	129,461

(continues)



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

10. LONG TERM DEBT *(continued)*

	<u>2017</u>	<u>2016</u>
Komatsu Financial loan bearing interest at 0.00% per annum, repayable in monthly payments of \$8,168 and is secured by equipment with a net book value of \$358,200. The loan matures in August 2019.	253,202	351,215
GE loan bearing paid off during the year.	-	11,249
Canadian Western Bank promissory note bearing interest at prime+1.25% (3.95%) per annum, repayable in monthly blended payments of \$2,025 and is secured by equipment with a net book value of \$52,218. The loan matures in Nov 2018.	40,346	-
	920,802	1,195,524
Amounts payable within one year	(362,845)	(336,736)
	\$ 557,957	\$ 858,788

Principal repayment terms are approximately:

2018	\$ 362,845
2019	340,035
2020	<u>217,922</u>
	\$ 920,802



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

11. OBLIGATIONS UNDER CAPITAL LEASE

	<u>2017</u>	<u>2016</u>
Capital leases with Canadian Western Bank and other entities, totalling \$7,129,804, bearing interest at rates ranging from 0% to 5.08%, repayable in monthly blended payments averaging \$2.8 million per year, secured by equipment with a net book value of \$8,822,817.	\$ 7,129,804	\$ 7,281,862
Demand lease obligations due beyond one year	<u>(1,700,173)</u>	(2,257,377)
	5,429,631	5,024,485
Amounts payable within one year	<u>(2,553,957)</u>	(2,044,644)
	\$ 2,875,674	\$ 2,979,841

Future minimum capital lease payments are approximately:

2018	\$ 2,777,543
2019	2,558,785
2020	1,461,815
2021	735,550
2022	<u>17,785</u>
Total minimum lease payments	7,551,478
Less: amount representing interest at various rates	<u>421,674</u>
	\$ 7,129,804

The Company maintains financing with Canadian Western Bank related to its equipment under capital leases to assist in the purchase of standard industrial equipment at various interest rates. This financing is in the form of demand non-revolving leases.

The security provided by the Company to support the drawdown of funds are:

- a) Master lease agreement and associated schedules to the master lease agreement where the lessor is Canadian Western Bank Leasing Inc. and the lessee is Heavy North Construction Ltd.;
- b) Certificate of completion and acceptance certifying that all equipment, including attachments, accessories and replacement parts have been delivered to, inspected and accepted by the Company;
- c) General security agreement providing a first security interest in specific serial numbered assets, and a second security interest in all present and after acquired property to be registered in all appropriate jurisdictions;
- d) Full liability guarantee from Steven Bolen and Rajendra Sawh in favour of the bank guaranteeing all indebtedness of the Company to the bank;

(continues)

HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

11. OBLIGATIONS UNDER CAPITAL LEASE *(continued)*

e) Assignment and postponement of creditors claim provided by 1056420 Alberta Ltd., 1757768 Alberta Ltd., and Steven Bolen;

f) Acknowledged assignment of insurance coverage for full insurable values of all assets of the Company taken as security by the bank with first loss payable to the bank.

One of the key covenants is to maintain (on an annual basis) a debt to tangible net worth ratio not greater than 4:1. As of January 31, 2017, the Company was in violation of the ratio.

12. CONTINGENT LIABILITY

The Company has provided a limited indemnification for the bonding of certain projects that may be performed by the Mikisew North Limited Partnership, in which the Company has a 48.99% interest. At year end, the Partnership had no projects underway that were covered by the bonding agreement.

13. LEASE COMMITMENTS

The Company has a long term lease with respect to its premises, as well as equipment classified under an operating lease. Future minimum lease payments as at January 31, 2017, are as follows:

2018	\$	846,797
2019		587,199
2020		333,965
2021		212,778
2022		<u>116,127</u>
	\$	<u>2,096,866</u>

14. NON-CASH TRANSACTIONS

During the year the Company purchased \$1,986,870 (2016 - \$3,428,741) of capital assets by way of capital leases.



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

15. RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions:

	<u>2017</u>	<u>2016</u>
Steve Bolen <i>50% shareholder of 1757768 Alberta Ltd.</i>		
Interest paid	\$ 607	\$ 11,794
Rent paid	63,000	84,000
Equipment sale	<u>(52,218)</u>	-
	<u>\$ 11,389</u>	<u>\$ 95,794</u>
1056420 Alberta Ltd. <i>Shareholder of Heavy North Holdings Ltd.</i>		
Interest paid	<u>\$ 162,040</u>	<u>\$ 142,806</u>
Mikisew North Limited Partnership <i>48.99% ownership</i>		
Partnership income	\$ 186,840	\$ 82,250
Revenue	20,240,633	10,192,022
Cost of goods sold	<u>(18,896,680)</u>	-
	<u>\$ 1,530,793</u>	<u>\$ 10,274,272</u>
Heavy Norwest Ltd. <i>50% ownership</i>		
Revenue	\$ 267,450	\$ -
Cost of goods sold	<u>(287,641)</u>	-
	<u>\$ (20,191)</u>	<u>\$ -</u>

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.



HEAVY NORTH CONSTRUCTION LTD.

Notes to Financial Statements

Year Ended January 31, 2017

(Unaudited)

16. FINANCIAL INSTRUMENTS

The Company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Company's risk exposure and concentration as of January 31, 2017.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. As at January 31, 2017, 99% of the Company's accounts receivable is due from fifteen customers (2016 - 99% due from eight customers).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, and the payment of its accounts payable and accrued liabilities, long-term debt, and obligations under capital leases.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The Company is not exposed to currency risk or other price risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities. Based on the year end balances, a 1% change in the prime interest rate would change the Company's income by \$76,227 (2016 - \$63,941) on an annual basis.

17. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.



APPENDIX D

Correspondence provided by 105

Pimienta, Cristina

From: Mark Breakell <markb@advequip.com> <markb@advequip.com>
Sent: Thursday, February 13, 2020 2:18 PM
To: Ken Lenz; Honess, Neil
Subject: FW: Dec 2016 Heavy North Interim Financials
Attachments: RE: Revised Short Term Cash Forecasts and Investor Payments; Mark Breakell T5.pdf; Mark Breakell SHL Entries Feb 1 2016 to Jan 31, 2017.pdf; SHL Jan 31 2016 Interest Calculations .xlsx

From: Tom Wilson [mailto:tom.wilson@heavynorth.com]
Sent: February 9, 2017 4:04 PM
To: Mark Breakell
Cc: Steve Bolen; Rajendra Sawh
Subject: RE: Dec 2016 Heavy North Interim Financials

Hi Mark. I have dug into this and explained in this email the reason the SHL balances are what they are and why I believe (the aggregate) of them to be correct. I will make a small adjustment between the SHL account that originally captured the \$450K and the \$1M Promissory note but only because they have different interest calculations and moving the money from one to the other is beneficial to you, as well as more accurate. I have attached all supporting documents and will explain why I believe the balances are correct and the adjustment I am going to make between both accounts.

The T5 for interest issued to you for interest earned up to December 31, 2015 was for \$142,806.07 (attached). This is the number I used to pay you the interest we owed to you when I wired back your loan of \$350,000 plus interest in early November (email to you outlining wire transfer amount attached). Last year, interest to you was recognized and expensed but never paid to you so it increased the SHL balance owing to you. From the T4 interest of \$142,806.07, \$104,713.07 was applicable to the \$1M promissory note and I deducted that portion of the payment from that account, bringing the promissory note balance back to an even \$1M. I then deducted the remaining amount of what we owed you from last year to your other SHL account that captures your \$450K loan (T5 of \$142,806.07 – Promissory Interest of \$104,713.07 = \$38,093).

The adjusting entries from last year for interest to you totalled \$154,007.67 but this was to January 31, 2016 while the T5 only captured interest to December 31, 2015. The difference between the two amounts is \$11,201.60 which really represents interest expensed but not paid to you in January of 2016. In my entries above, I removed all interest from the Jan 31 entry against the Promissory note and reduced the amount owing to you to \$1M but this should not be the case (the promissory note has a higher interest calculation than the SHL account). My explanation is wordy so I will summarize below;

	Original Loan Amount	Interest booked on Jan 31, 2016	Payment to you for T5	
Interest Closing Balance				
SHL				
Loan	\$450,000	\$49,294.60	\$38,093.00	
	\$461,201.60			
Promissory				
Note	\$1,000,000	\$104,713.07	\$104,713.07	\$1,
000,000.00				

For the \$11,201.60 of interest expensed and captured in SHL for January 2016, I have determined that \$9129.86 should be applied to the Promissory note loan and \$2,071.74 should be applied to the SHL account. I will make that adjustment now and calculate the interest that we owe to you on both accounts in my next email. The correct balances on the Dec 31 Balance sheet (prior to this years interest) should be as follows;

	Original Loan Amount	Interest booked on Jan 31, 2016	Payment to you for T5	
Interest Closing Balance				
SHL				
Loan	\$450,000	\$49,294.60	\$47,227.87	
	\$452,066.73			
Promissory				
Note	\$1,000,000	\$104,713.07	\$95,578.20	\$1
,009,134.87				

I hope this clears everything up but if you do have any questions, please let me know and I will answer them right away. I will send you the interest calculations for this year very shortly sir.

Tom Wilson
Chief Financial Officer

Heavy North™
 #9, 400 TaigaNova Cres.
 Fort McMurray, AB, T9K 0T4
 Phone: 780.742.2094
 Fax: 780.743.2097
 Cell: 403.330.6698
www.heavynorth.com

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From: Mark Breakell [mailto:markb@advequip.com]
Sent: February-09-17 7:47 AM
To: Tom Wilson <tom.wilson@heavynorth.com>
Subject: FW: Dec 2016 Heavy North Interim Financials

Sent last week

From: Mark Breakell [mailto:markb@advequip.com]
Sent: January 31, 2017 11:47 PM
To: 'Tom Wilson'
Subject: RE: Dec 2016 Heavy North Interim Financials

Tom, things near and dear to my heart (my wallet). Amount owed to me of 461k is wrong, the number is 499k, think the bust will be in the interest on the short term loan. Interest should be expensed not applied against the amounts owing. We have not calculated any interest for 2016. Rough numbers including compound on most is probably 150k, I can update my spreads, but lets have you take the first cut.

Thanks
Mark

From: Tom Wilson [<mailto:tom.wilson@heavynorth.com>]
Sent: January 30, 2017 1:35 PM
To: Mcgonigal, Jason J; Mceachern, Shauna
Cc: Steve Bolen; Rajendra Sawh; Mark Breakell
Subject: Dec 2016 Heavy North Interim Financials

Good afternoon. Please find attached the Interim Financial Statements for Heavy North for December 2016 along with all supporting documents. Please let me know if you have any questions or need any additional information. Thank you.

Tom Wilson
Chief Financial Officer
Heavy North™
#9, 400 TaigaNova Cres.
Fort McMurray, AB, T9K 0T4
Phone: 780.742.2094
Fax: 780.743.2097
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Pimienta, Cristina

From: Tom Wilson <tom.wilson@heavynorth.com>
Sent: Friday, November 4, 2016 1:42 PM
To: Mark Breakell
Cc: Doiron, V; Steve Bolen; Rajendra Sawh
Subject: RE: Revised Short Term Cash Forecasts and Investor Payments

Good afternoon Mark. I have just wire transferred \$516,680.07 to your Canadian account with TD. The breakdown that makes up that payment is as follows;

Short Term Investment	\$350,000.00
Interest and Fee on Short Term Investment	\$ 23,874.00
<u>Interest stated on 2015 T5</u>	<u>\$142,806.07</u>
Total Wire Transfer	\$516,680.07

I have been informed the funds should be in your account immediately. If you have any questions or need anything else, please let me know sir. Thank you.

Tom Wilson
Chief Financial Officer
Heavy North™
#9, 400 TaigaNova Cres.
Fort McMurray, AB, T9K 0T4
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From: Mark Breakell [mailto:markb@advequip.com]
Sent: November-03-16 7:56 PM
To: Tom Wilson <tom.wilson@heavynorth.com>; Steve Bolen <steve.bolen@heavynorth.com>; Rajendra Sawh <rajendra.sawh@heavynorth.com>
Subject: RE: Revised Short Term Cash Forecasts and Investor Payments

Tom, that would be great, I have put my sheet together with the interest calc. will send the offer email, but it was 2% stamping fee and 2% a month.

From: Tom Wilson [mailto:tom.wilson@heavynorth.com]
Sent: November 3, 2016 1:46 PM
To: Mark Breakell; Steve Bolen; Rajendra Sawh
Subject: Revised Short Term Cash Forecasts and Investor Payments

Good afternoon gentlemen. I have updated the bank recs and revised the short term cash forecast appropriately. We have received payment on all Keyera work and EllisDon NWR earlier than previously forecasted which has improved our cash position. I have been communicating with Hillview and have confirmed that payment for invoice PRC022-001 in the amount of \$843,596.70 is scheduled for Monday of next week. I will also be cutting cheques from the Mikisew Partnership tomorrow to distribute gains as per the request of the Mikisew Group. TCPL is always very consistent with the payment terms of the contract and I am anticipating that payment for \$2.7M on November 14th. I am comfortable now with releasing Mark's interest payment from the attached T5 from the 2015 tax year as well as returning his \$350,000 injection with appropriate fees and interest.

Instead of making a partial payment for the tax portion of Marks' T5, I would prefer if we just pay out the full amount of \$142,806.07 as per the T5. This amount also matches to the attached SHL interest calculation for December of 2016 to the penny. I have created another tab on the SHL Interest Calculation sheet to determine the interest owed to Mark on the additional \$350,000 investment.

Mark, I am not able to locate the offer that you sent to us outlining the fee and interest rate associated with borrowing the \$350,000. If I am not mistaken, I thought the interest rate was 10% compounded monthly which I have calculated but can not recall the one time fee you identified for the transaction. Please confirm the 10% figure and let me know the fee amount and I will adjust the spreadsheet before making payment. I am prepared to make the wire transfer for all funds owed immediately upon your confirmation.

Regarding the billing, I am in complete agreement with you that being as delinquent as we have is not acceptable. The two projects that were delinquent were the TCPL jobs and both had reasons, although there is not good reason not to get our billing done on time. This has been communicated very strongly to the Project teams which have stepped back and refocused on what is important. I can confirm that all Edmonton area projects are very close to being formally billed for October and that both TCPL jobs are already working on their progress claims. I will continue to monitor this, as I always do, and inform you if things are not meeting my expectations on timing.

Tom Wilson
Chief Financial Officer
Heavy North™
#9, 400 TaigaNova Cres.
Fort McMurray, AB, T9K 0T4
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APPENDIX E

105's 2015 T5 form

T5 Statement of Investment Income / État des revenus de placement

Year / Année: 2015

Protected B / Protégé B
when completed / une fois rempli

AMENDED

Dividends from Canadian corporations – Dividendes de sociétés canadiennes		Federal credit – Crédit fédéral		Interest from Canadian sources		Capital gains dividends					
24	Actual amount of eligible dividends Montant réel des dividendes déterminés	25	Taxable amount of eligible dividends Montant imposable des dividendes déterminés	26	Dividend tax credit for eligible dividends Crédit d'impôt pour dividendes déterminés	13	142,806.07 Intérêts de source canadienne	18	Dividendes sur gains en capital		
10	Actual amount of dividends other than eligible dividends Montant réel des dividendes autres que des dividendes déterminés	11	Taxable amount of dividends other than eligible dividends Montant imposable des dividendes autres que des dividendes déterminés	12	Dividend tax credit for dividends other than eligible dividends Crédit d'impôt pour dividendes autres que des dividendes déterminés	21	Report Code A Code du feuillet	22	Recipient identification number 878435205 Numéro d'identification du bénéficiaire	23	Recipient type 3 Type de bénéficiaire
Other information / Autres renseignements		Box / Case	Amount / Montant	Box / Case	Amount / Montant	Box / Case	Amount / Montant	Box / Case	Amount / Montant		

Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire
 1056420 Alberta Ltd.
 #404, 33 6A Street NE
 Calgary AB T2E 4A2

Payer's name and address – Nom et adresse du payeur
 Heavy North Construction Ltd.
 9-400 TaigaNova Crescent
 Fort McMurray AB T9K 0T4

Currency and identification codes / Codes de devise et d'identification
 27 Foreign currency / Devises étrangères
 28 Transit – Succursale
 29 Recipient account / Numéro de compte du bénéficiaire

T5 Statement of Investment Income / État des revenus de placement

Year / Année: 2015

Protected B / Protégé B
when completed / une fois rempli

AMENDED

Dividends from Canadian corporations – Dividendes de sociétés canadiennes		Federal credit – Crédit fédéral		Interest from Canadian sources		Capital gains dividends					
24	Actual amount of eligible dividends Montant réel des dividendes déterminés	25	Taxable amount of eligible dividends Montant imposable des dividendes déterminés	26	Dividend tax credit for eligible dividends Crédit d'impôt pour dividendes déterminés	13	142,806.07 Intérêts de source canadienne	18	Dividendes sur gains en capital		
10	Actual amount of dividends other than eligible dividends Montant réel des dividendes autres que des dividendes déterminés	11	Taxable amount of dividends other than eligible dividends Montant imposable des dividendes autres que des dividendes déterminés	12	Dividend tax credit for dividends other than eligible dividends Crédit d'impôt pour dividendes autres que des dividendes déterminés	21	Report Code A Code du feuillet	22	Recipient identification number 878435205 Numéro d'identification du bénéficiaire	23	Recipient type 3 Type de bénéficiaire
Other information / Autres renseignements		Box / Case	Amount / Montant	Box / Case	Amount / Montant	Box / Case	Amount / Montant	Box / Case	Amount / Montant		

Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire
 1056420 Alberta Ltd.
 #404, 33 6A Street NE
 Calgary AB T2E 4A2

Payer's name and address – Nom et adresse du payeur
 Heavy North Construction Ltd.
 9-400 TaigaNova Crescent
 Fort McMurray AB T9K 0T4

Currency and identification codes / Codes de devise et d'identification
 27 Foreign currency / Devises étrangères
 28 Transit – Succursale
 29 Recipient account / Numéro de compte du bénéficiaire

APPENDIX F

Subordination and Postponement Agreement



SUBORDINATION AND POSTPONEMENT AGREEMENT

THIS AGREEMENT, made this 29TH DAY OF FEBRUARY, 2016 between **HEAVY NORTH CONSTRUCTION LTD.** (hereinafter called Contractor) and **1056420 ALBERTA LTD.** (hereinafter called Creditor whether there be one or more); and **WESTERN SURETY COMPANY** (hereinafter called Surety), witnesseth:

WHEREAS, the contractor has entered and expects to enter, from time to time, into contracts with various persons, and the Surety, at the request of the Contractor and the Creditor but upon the express condition, inter alia, that this agreement be entered into, has executed, or is about to execute, a bond for the performance of such contracts and such other bond or bonds including labour and material bonds as the Contractor may be required to give in connection with or growing out of the said contracts, each or all of the said bonds being hereinafter called bond or bonds:

WHEREAS, the Contractor is indebted to the Creditor in the aggregate sum of **ONE MILLION FOUR HUNDRED FORTY-NINE THOUSAND NINE HUNDRED NINETY-THREE -----00/100 (\$1,449,993.00)** Dollars as evidenced by **SHAREHOLDER LOAN AT DECEMBER 31, 2015.**

NOW, THEREFORE, in consideration of the premises and of the execution by the Surety of such bond or bonds, it is agreed by all the parties hereto, their respective heirs, administrators, successors and assigns as follows:

1. The Creditor agrees to subordinate and postpone and does hereby subordinate and postpone all rights and claims against the Contractor on account of the said indebtedness to any and all rights, claims or demands of the Surety on account of loss, costs, damages, legal fees on a solicitor and client basis, administration costs and expenses and all other expenses whatsoever sustained or incurred by the Surety on account of its said bond or bonds so that any such rights, claims or demands of the Surety under the said bond or bonds will be paid out of the assets of the Contractor before any payment is made to the Creditor on account of the aforesaid indebtedness.
2. That in the event of receivership, bankruptcy or insolvency of the Contractor, the Creditor agrees to assign, and does hereby assign, any claim or claims that he may have on account of said indebtedness, to the Surety, so that the Surety may receive dividends thereon as well as on any claim or claims that the Surety itself may have against said Contractor, until the Surety is reimbursed in full for all such loss, costs, damages, legal fees on a solicitor and client basis, administration costs and expenses.
3. That prior to the receipt by the Creditor and the Contractor of written notice from the Surety to the effect that the Contractor has performed all the conditions of said bond or bonds and that the Surety has not sustained any loss, costs, damages, legal fees on a solicitor and client basis, administration costs and expenses under said bond or bonds, Creditor and Contractor agree that said indebtedness shall remain unchanged and unliquidated and that neither will do any act or thing directly or indirectly which may result in reducing said indebtedness and, among other things, Creditor will neither demand nor accept from Contractor or others and Contractor will not make or cause others to

make any payment on account of principal of said indebtedness; nor will Creditor withhold or cause others to withhold payment of any sum, due or to become due Contractor, as an offset against said indebtedness; nor will Creditor take or receive or cause others to take or receive any property of Contractor, as security or otherwise, for application to said indebtedness; nor will Creditor sell, assign, transfer, dispose of, hypothecate or pledge to any person, firm or corporation whatsoever, any right, title or interest in and to said indebtedness or evidence thereof; nor will the Creditor sue for, or institute proceedings against the Contractor, directly or indirectly, for the recovery of the amount due on said indebtedness or any part thereof.

4. That the rights afforded the Surety under this agreement are in addition to, and not in lieu of, any and all other rights which the Surety may have or acquire against the Creditor, the Contractor or others, whether by the terms of any other agreement or by operation of law, and all such rights, including the right afforded hereunder, shall inure to the benefit of the Surety and any of its co-sureties or reinsurers.

5. That in the event of the breach of any of the agreements and covenants on the part of the Creditor to be performed under this instrument, the Creditor will indemnify the Surety from and against any and all liability, loss, costs, damages, legal fees on a solicitor and client basis, administration costs and expenses of whatsoever kind or nature which the Surety may sustain or incur by reason of or in consequence of having executed said bond or bonds, in defending or prosecuting, any action, suit or other proceeding which may be brought in connection therewith, in making any investigation on account thereof, and in enforcing any agreements herein contained.

6. It is understood and agreed by and between the parties hereto that the word "bond" or "bonds" appearing in this agreement shall include the bond or bonds mentioned herein as well as any and all alterations, renewals, extensions and modifications thereof.

Signed, sealed and dated the day and year first above written.

HEAVY NORTH CONSTRUCTION LTD.

Per _____
Contractor

Per _____
(Seal)

1056420 ALBERTA LTD.

Witness

Per _____
Creditor

WESTERN SURETY COMPANY

Attest:

Per _____
Kevin Bach, Attorney-in-fact. (Seal)

APPENDIX G

Interim Statement of Receipts and Disbursements from
April 11, 2019 to January 31, 2020

**IN THE MATTER OF THE RECEIVERSHIP OF
HEAVY NORTH CONSTRUCTION LTD.
RECEIVER'S INTERIM STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
APRIL 16, 2019 TO JANUARY 31, 2020**

RECEIPTS	AMOUNT (CAD \$)
Sale of equipment	4,444,257
Deposit for sale of equipment	427,485
GST Collected	222,214
Transfer from pre-receivership bank account	148,007
Accounts receivable collected re pre-receivership	72,387
Refund from Leased Vehicle - Ford Credit Canada	54,538
Interest earned from bank	37,154
Insurance refund	11,599
Refund from pre-receivership account with vendor	2,581
TOTAL RECEIPTS	5,420,222
DISBURSEMENTS	
Payment to secured creditors	3,562,339
Return deposit for sale of equipment	427,500
Receiver's fees	296,487
GST remitted	210,971
Legal fees	91,236
Payment to lien holders	84,079
Insurance	61,086
Storage of equipment	16,704
GST paid on Receiver's fees	14,824
Outside Consulting / Contractors	11,797
IT services	8,753
GST paid	6,122
GST on legal fees	4,555
Appraisal fees	2,500
Transfer to bankruptcy account	1,000
OSB filing fees	70
TOTAL DISBURSEMENTS	4,800,022
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 620,200.36

APPENDIX H

Final Statement of Receipts and Disbursements from
April 11, 2019 to discharge

**IN THE MATTER OF THE RECEIVERSHIP OF
HEAVY NORTH CONSTRUCTION LTD.
RECEIVER'S FINAL STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
APRIL 16, 2019 TO DISCHARGE**

RECEIPTS	AMOUNT (CAD \$)
Sale of equipment	4,444,257
Deposit for sale of equipment	427,485
GST Collected	222,214
Transfer from pre-receivership bank account	148,007
Accounts receivable collected re pre-receivership	72,387
Refund from Leased Vehicle - Ford Credit Canada	54,538
Interest earned from bank	37,154
Insurance refund	11,599
Refund from pre-receivership account with vendor	2,581
TOTAL RECEIPTS	5,420,222
DISBURSEMENTS	
Payment to secured creditors	3,987,324
Return deposit for sale of equipment	427,500
Receiver's fees	387,920
GST remitted	210,971
Legal fees	128,577
Payment to lien holders	84,079
Insurance	61,086
Holdback for deemed trust claim	60,000
GST paid on Receiver's fees	19,396
Storage of equipment	16,704
Outside Consulting / Contractors	11,797
IT services	8,753
GST on legal fees	6,423
GST paid	6,122
Appraisal fees	2,500
Transfer to bankruptcy account	1,000
OSB filing fees	70
TOTAL DISBURSEMENTS	5,420,222
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ -

APPENDIX I

Team Ford's and Pacesetter's emails to the Receiver

Pimienta, Cristina

From: Simran Mehta <simran@pacesetterequipment.com>
Sent: Tuesday, December 17, 2019 3:11 PM
To: Lowell Wattie; Van de Mosselaer, Randal
Cc: Paplawski, Emily; Honess, Neil; Sithole, Joe
Subject: RE: Heavy North - in Receivership

Good afternoon,

After reviewing the documentation and phone conversations with KPMG and Osler, Pacesetter Equipment Ltd. accepts its position as unsecured creditor in this matter.

Please feel free to contact myself for any questions or concerns.

Thank you,
Simran Mehta

Simran Mehta, CPA,CGA
CFO/Controller
Pacesetter Equipment Ltd.
(403) 619-4307 Cell
(403) 242-6522 Office
simran@pacesetterequipment.com
www.pacesetterequipment.com



From: Lowell Wattie <lowell@pacesetterequipment.com>
Sent: December 13, 2019 9:13 AM
To: Van de Mosselaer, Randal <rvandemosselaer@osler.com>; Simran Mehta <simran@pacesetterequipment.com>
Cc: Paplawski, Emily <EPaplawski@osler.com>; neilhoness@kpmg.ca; Sithole, Joe <jsithole@kpmg.ca>
Subject: Re: Heavy North - in Receivership

Simran,
Please review and respond.

Thanks.

Lowell Wattie
PACESETTER EQUIPMENT LTD
403-968-4468 cell

On Dec 13, 2019, at 9:01 AM, Van de Mosselaer, Randal <rvandemosselaer@osler.com> wrote:

Further to my email of November 27 (below) and paragraphs 3 and 4 of the attached Order, as we have not heard anything further from you and have not received any documents supporting your security registration within the time required by this Order, Pacesetter is deemed to be an unsecured creditor in this estate.

Please contact the writer if you should have any questions.

Regards,

<image001.gif>

Randal Van de Mosselaer

403.260.7060 DIRECT
403.260.7024 FACSIMILE
rvandemosselaer@osler.com

Osler, Hoskin & Harcourt LLP
Suite 2500, TransCanada Tower
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1
<image002.gif>

From: Van de Mosselaer, Randal <rvandemosselaer@osler.com>

Sent: Wednesday, November 27, 2019 10:26 AM

To: lowell@pacesetterequipment.com

Cc: Paplawski, Emily <EPaplawski@osler.com>; neilhonest@kpmg.ca; Sithole, Joe <jsithole@kpmg.ca>

Subject: Heavy North - in Receivership

Lowell,

Further to the application materials provided to your office last week, attached please find the Order granted by the Alberta Court of Queen's Bench on November 25.

We wish to draw your attention to paragraphs 3 and 4 of this Order in particular, given that they pertain specifically to Pacesetter and require that the specified information be provided to our office within 10 days of today's date, failing which Pacesetter's claim shall be treated as unsecured.

We look forward to receiving that information from Pacesetter as soon as possible.

Please let us know if you have any questions.

Regards,

<image001.gif>

Randal Van de Mosselaer

403.260.7060 DIRECT
403.260.7024 FACSIMILE
rvandemosselaer@osler.com

Osler, Hoskin & Harcourt LLP
Suite 2500, TransCanada Tower
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1
<image002.gif>

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de le divulguer sans autorisation.

<Order pronounced November 25, 2019 by Madam Justice K. M. Horner and filed November 26,
2019.PDF>

Pimienta, Cristina

From: Kyle Runzer <KRunzer@goauto.ca>
Sent: Friday, December 13, 2019 9:07 AM
To: Van de Mosselaer, Randal
Cc: Honess, Neil; Sithole, Joe; Paplawski, Emily
Subject: RE: QB Action No. 1901-05010 (Heavy North Construction)

Hi Randal,

Team Ford does not take issue with its designation as an unsecured creditor.

Thank you,

Kyle Runzer
General Counsel



Direct: 780.733.0650 ext. 25304 | **Cell:** 780.708.4499

From: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Sent: December 13, 2019 9:04 AM
To: Kyle Runzer <KRunzer@goauto.ca>
Cc: neilhoness@kpmg.ca; Sithole, Joe <jsithole@kpmg.ca>; Paplawski, Emily <EPaplawski@osler.com>
Subject: RE: QB Action No. 1901-05010 (Heavy North Construction)

Kyle,

Further to our email below, kindly advise if Team Ford takes any issue with its designation as an unsecured creditor in this estate.

As no documents were provided by the deadline in the November 25 Order which supported the security registration, Team Ford is deemed to be an unsecured creditor. Please confirm that you agree.

Regards,

OSLER

Randal Van de Mosselaer

403.260.7060 DIRECT
403.260.7024 FACSIMILE
rvandemosselaer@osler.com

Osler, Hoskin & Harcourt LLP
Suite 2500, TransCanada Tower
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1

From: Paplawski, Emily <EPaplawski@osler.com>
Sent: Monday, December 09, 2019 10:10 PM
To: KRunzer@goauto.ca
Cc: Van de Mosselaer, Randal <rvandemosselaer@osler.com>; neilhonest@kpmg.ca; Sithole, Joe <jsithole@kpmg.ca>
Subject: RE: QB Action No. 1901-05010 (Heavy North Construction)

Kyle,

We have reviewed Team Ford's registrations in the PPR and confirm that Team Ford registered a security agreement, and not a garagekeeper's lien, in the registry. I have attached a copy of Team Ford's registrations for your reference.

In light of the foregoing, can you please confirm that Team Ford is an unsecured creditor of Heavy North?

Regards,

OSLER

Emily Paplawski
Associate
403.260.7071 | EPaplawski@osler.com
Osler, Hoskin & Harcourt LLP | osler.com

From: Kyle Runzer <KRunzer@goauto.ca>
Sent: Monday, December 09, 2019 10:02 AM
To: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Subject: RE: QB Action No. 1901-05010 (Heavy North Construction)

Hi Randal,

Attached are the unpaid ROs underlying the garagekeeper's liens registered by Team Ford. These ROs remain wholly-outstanding.

The only other relevant documentation in Team Ford's possession in this regard would be the proof of registration of the liens, which we assume the Receiver is already in possession of.

I look forward to hearing from you.

Kind regards,

Kyle Runzer
General Counsel



Direct: 780.733.0650 ext. 25304 | **Cell:** 780.708.4499

From: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Sent: November 27, 2019 10:28 AM
To: Kyle Runzer <KRunzer@goauto.ca>
Cc: Paplawski, Emily <EPaplawski@osler.com>; neilhonest@kpmg.ca; lexing@kpmg.ca; Sithole, Joe <jsithole@kpmg.ca>; Pratt, Elena <EPratt@osler.com>
Subject: RE: QB Action No. 1901-05010 (Heavy North Construction)

Hello Kyle,

Attached is the Order we obtained on Monday. Please note paragraphs 3 and 4.

We look forward to hearing from you once you have determined whether Team Ford has a claim, and what or not any such claim is secured.

Regards,

OSLER

Randal Van de Mosselaer

403.260.7060 DIRECT
403.260.7024 FACSIMILE
rvandemosselaer@osler.com

Osler, Hoskin & Harcourt LLP
Suite 2500, TransCanada Tower
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1

osler.com

From: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Sent: Monday, November 25, 2019 11:50 AM
To: Kyle Runzer <KRunzer@goauto.ca>
Cc: Paplawski, Emily <EPaplawski@osler.com>; neilhonest@kpmg.ca; lexing@kpmg.ca; Sithole, Joe <jsithole@kpmg.ca>; Pratt, Elena <EPratt@osler.com>
Subject: RE: QB Action No. 1901-05010 (Heavy North Construction)

Hello Kyle,

Further to your email below and our subsequent telephone conversation, I confirm that Team Ford will not be taking a position on our application this afternoon, and that you will be confirming over the coming days whether or not Team Ford is owed anything by Heavy North. Your preliminary advice from the GM is that Team Ford was paid in full, but you will be making a final determination and advising me given that you only just became aware of this matter.

In the meantime, the only relief we are seeking against Team Ford is a requirement that Team Ford provide us with its security documents and a statement of the amount it is owed. Obviously, if Team Ford is not owed anything, we won't need to review any of your documents. In the meantime, we are seeking to hold back \$48,000 for Team Ford's claim, an amount which you have confirmed is well in excess of any amount that Team Ford might be owed if it is in fact owed anything.

We will add you to the Service List and look forward to hearing from you further once you have had an opportunity to look into this matter.

Regards,

OSLER

Randal Van de Mosselaer

403.260.7060 DIRECT
403.260.7024 FACSIMILE
rvandemosselaer@osler.com

Osler, Hoskin & Harcourt LLP
Suite 2500, TransCanada Tower
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1

osler.com

From: Kyle Runzer <KRunzer@goauto.ca>
Sent: Monday, November 25, 2019 11:18 AM
To: Van de Mosselaer, Randal <rvandemosselaer@osler.com>
Subject: QB Action No. 1901-05010 (Heavy North Construction)

Hi Randal,

I am counsel to Team Ford Sales Limited. This morning, I received a copy of your application returnable this afternoon at 3pm.

I am advised by Team Ford's management that Team Ford does not take any position in relation to this application.

When you have a moment, I would appreciate hearing from you regarding Team Ford's continued involvement in this matter as a creditor of Heavy North, as I'm advised Team Ford has received payment in respect of its claims.

Thank you.

Kyle Runzer
General Counsel



16830 – 107 Avenue | Edmonton AB | T5P 4C3
Direct: 780.733.0650 ext. 25304 | **Cell:** 780.708.4499

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