

Form 49  
[Rule 13.19]

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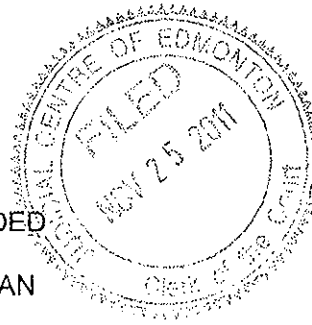
COURT

QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

IN THE MATTER OF THE  
**COMPANIES' CREDITORS**  
**ARRANGEMENT ACT**, R.S.C.  
1985, Chapter C-36, AS AMENDED



AND IN THE MATTER OF A PLAN  
OF COMPROMISE OR  
ARRANGMENT OF ARMAC  
INVESTMENTS LTD. (AB), LAKE  
EDEN PROJECTS INC. (AB),  
1204583 ALBERTA INC. (AB),  
1317517 ALBERTA INC. (AB),  
WESTRIDGE PARK LODGE  
DEVELOPMENT CORP (AB), and  
WESTRIDGE PARK LODGE AND  
GOLF RESORT LTD. (AB), HALF  
MOON LAKE RESORT LTD. (AB),  
NO. 50 CORPORATE VENTURES  
LTD. (BC), FISHPATHS RESORTS  
CORPORATION (BC), ARMAC  
INVESTMENT LTD. (BC), OSTROM  
ESTATES LTD. (BC), HAWKEYE  
MARINE GROUP LTD. (BC),  
JUBILEE MOUNTAIN HOLDINGS  
LTD. (BC), GIANT MOUNTAIN  
PROPERTIES LTD. (BC), and  
CHERRY BLOSSOM PARK  
DEVELOPMENT CORP (BC)

DOCUMENT

**AFFIDAVIT OF JOHN KENNETH  
PURDY (PART 1)**

ADDRESS FOR SERVICE  
AND  
CONTACT INFORMATION  
OF  
PARTY FILING THIS  
DOCUMENT

Taylor Law Office  
Suite 401, 10722 - 103 Avenue  
Edmonton, Alberta  
T5J 5G7  
Attention: Conan J. Taylor  
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Fax: (780) 428-7775

I, JOHN KENNETH PURDY (also known as "Jack Purdy"), businessman, of the County of Strathcona, in the Province of Alberta, MAKE OATH AND SAY THAT:

1. I, either directly or through holding companies, legally and beneficially own and control 100 percent of the voting shares, and I am the sole director, of all the Applicants in these proceedings, and as such I have personal knowledge of the facts and matters hereinafter deposed to save and except where stated to be on information and belief and where so stated I verily believe the same to be true.
2. Each of the Applicants are affiliated with one another within the meaning of the *Companies Creditors Arrangement Act*, R.S.C. 1985, Chapter C-36 as amended (the "Act" or "CCAA"). The main operating companies of the Applicant group of companies are Armac Investments Ltd. (Alberta), Half Moon Lake Resort Ltd. (AB), and Armac Investments Ltd. (British Columbia), with the balance being related/affiliated single purpose corporations, generally incorporated to hold and/or to develop specific property assets of the Applicants.
3. I currently reside in the manager's residence at one of the Applicants' property assets, Half Moon Lake Resort, in the County of Strathcona, in the Province of Alberta, from which head office location I manage the affairs of the Applicants.
4. Attached as **Exhibit "A"** to this my Affidavit is a schematic setting out the corporate organization structure of the Applicants.

#### **BACKGROUND AND BUSINESS OPERATIONS**

5. The Applicants have been involved for many years in property acquisition, development, and sale in the Provinces of Alberta and British Columbia, as well as running a variety of operating business on the purchased lands. Over the course of time, and in contemplation of future development, the Applicants acquired, and continue to hold, substantial real-property assets in both Provinces (the "Property Assets").
6. The Applicants' Property Assets continue to have substantial present value and development potential. However, a significant erosion of equity over the past 3 years as a result of the present downturn in the economy and the associated general diminishing of property market values, combined with the related general scarcity of development funding, and together also with some unanticipated other business challenges, have resulted in the Applicants ceasing to pay and meet their current obligations in the ordinary course of business as they have and continue to generally come due, and are therefore insolvent within the meaning of the Act.
7. The Applicants' development Property Assets are not limited to, but include:

##### Half Moon Lake Resort:

- a. Half Moon Lake Resort is the largest RV Resort in the Edmonton area, purchased by the Applicants in 2004. It is located ½ hour east of Edmonton, in the County of Strathcona. The Resort has ½ mile of lake frontage, and 139 acres of developable C6 (tourist commercial/recreational) zoned lands. The Resort has been in business for over 50 years. There are presently 216 serviced RV sites, a general store, a conference centre, a mini-golf course, ball-diamonds,

playing fields, laundry and shower facilities, and a large beach pavilion. Plans are presently submitted to the County for an additional 480 RV sites, and 50 cabin sites, to be developed in three phases. The Applicants have spent the past 7 years in negotiating development with the County, and most recently in finalizing permitting with Alberta Environment regarding the licensing of the Resort's water wells, registering a water treatment system for the resort, and licensing and upgrading a wetland waste water treatment system for the Resort's present and future needs regarding its effluent. Unfortunately, the Resort suffered a significant setback this year when Alberta Health purported to find unacceptable levels of contamination in the Resort's water system, and the matter was referred to Alberta Environment for further investigation. This resulted in the Resort being closed for the entire season, which would otherwise have significantly assisted in cash-flowing other of the Applicants' operations, and likely have stayed-off the need for the present Application. I believe that the concerns raised by Alberta Health and Alberta Environment have been satisfactorily addressed, and final approvals to allow the Resort to re-open to the public for the 2012 season are imminent.

Westridge Park Lodge and Golf Resort:

- b. Westridge Park Lodge consists of 129 acres of land, with approximately ½ mile of frontage on the North Saskatchewan River. This property is at the western end, close to Devon, along the River Valley Alliance, one of the largest park system in Canada, extending from Devon to Fort Saskatchewan. The property has a 50,000 square foot hotel and restaurant/convention facility, that is to be upgraded, and a number of the hotel rooms are being reconfigured to create self-contained strata title suites. The property has a beautiful mature executive 9-hole golf course, and development plans include reconfiguring of portions of the golf-course area to create 242 Park Model RV sites. Unfortunately, as a result of the current cash-flow challenges, the Applicants have been unable to move forward with development plans. The property is not currently operating, and has suffered some deterioration in the result. However, significant time and money has been spend creating operating Performa and sustaining on-going development planning, including the submission of a preliminary Development Plan to the County of Parkland by the Applicants' engineers, which has been positively received. I believe that with minimum further capital input and interaction with the County's Planning Department, this property could be presented to the market as a major residential/recreation show-piece of significant value for future development.

Hawkeye Marine Group:

- c. Hawkeye Marine Group consists of 2 hotels, 3 marinas, 7 lodges, an airport, and 6 other pieces of development lands, including 2600 feet of ocean frontage lands and 6 other oceanfront parcels (approximately 100 acres in total), located in Port Alberni, and at the western end of the Alberni Canal in the West Coast fishing town of Bamfield, Vancouver Island, British Columbia. 15 years have been spent by the Applicants in assembling, re-building, and master-planning the development of these properties. Currently, the Bamfield Trails Hotel and 3 of the smaller lodges continue to operate and provide some limited cash-flow. However, the Applicants' over-all present cash-flow circumstances have limited the ability to move forward with the over-all development plan in respect of these

properties, the intent being to re-create a West Coast eco-tourism hospitality based recreation destination development. This collection of unique property under single ownership represents, with minimum improvement and marketing, a significant asset if coherently dealt with under a Plan of Arrangement rather than piecemeal liquidated by competing creditors.

5611 Culverton Road, Duncan, British Columbia:

- d. This property consists of 18 acres located near Duncan, Vancouver Island, British Columbia, 45 minutes north of Victoria on the main Island Highway, formerly one of the Applicants' two timber-mill sites. Four years were spent negotiating with Cowichan Region District and the local community, resulting in the successful rezoning of this property into a 50 lot, centralized adult community project. Subject only to certain final engineering and servicing requirements, the site is ready to go to market for a current estimated market value in excess of \$5,000,000.00 (for the purposes of this Affidavit and determining an Estimated Property Assets Value of the Applicants Property Assets, the value of this property, based on 2010 property tax assessment value, has been put at \$1,000,000.00 – see below). In addition, arrangements are in place with a major manufacturer of pre-manufactured homes, which could result in an additional \$1,200,000.00 of profit for the Applicants. All market studies have been completed, showing significant demand for this product.

7.22 Acres of Development Land in Onoway, Alberta:

- e. The Onoway property consists of 7.22 acres of development lands, located in the centre of the community. Submission has been made to develop 2 acres of the lands for two 3-story walk-up strata-titled condominium buildings totalling 98 units. In addition, the balance of the lands are proposed to be developed into 16 duplex sites.

3620 – 3<sup>rd</sup> Avenue, Port Alberni, British Columbia:

- f. This property is the former 14,000 square foot Revelstoke Lumber Building, in downtown Port Alberni, Vancouver Island, British Columbia. The Applicants operated a marine sales and repair facility for many years, and the upper mezzanine area is currently in the process of being developed into a packaged office complex with 7 offices and a central boardroom. Permits have been granted, separate entrance and fire-exits constructed, and plumbing and electrical and rough-framing has been completed.

3425 River Road, Chemanius, British Columbia:

- g. This property consists of 7.8 acres of industrial zoned property, located in Chemanius, Vancouver Island, British Columbia (near Nanaimo). The property has a 2 bedroom house, a 2000 square foot shop, and 900 feet of frontage on Island Highway. The Applicants have submitted plans to the Regional District to subdivide the lands into 3 separate parcels.

8335 Meshers Road, Port Alberni, British Columbia:

- h. This is an 80 acre, former farmstead property, with a 3 bedroom home and farm outbuildings. The Applicants successfully removed 40 acres of the land from the Agricultural Land Reserve, and have received preliminary approvals to develop 7, approximate 5 acre, country residential acreages on the removed portion of the lands.
8. The foregoing are put forward in this my Affidavit by way of example of some of the Property Assets and their continuing development potential, none of which development potential is presently reflected in the Estimated Property Assets Value set out below.

## **ASSETS AND LIABILITIES**

### **A. ASSETS**

9. A summary listing of the Applicants' Property Assets are attached to this my Affidavit as **Exhibit "B"**.
10. In the far right hand column of Exhibit "B" is set out: with respect to the British Columbia Property Assets, the 2010 property tax assessment values; and, with respect of the Alberta Property Assets, the estimated or current appraised values. Based on these value figures, the current total estimated Property Assets value is \$31,799,400.00 (the "Estimated Property Assets Value").
11. In support of the Estimated Property Assets Value set out for the British Columbia Property Assets, I attach as **Exhibit "C"** to this my Affidavit copies of the British Columbia Assessment Land Value Summaries, Residential Property Value Summaries, and Commercial Cost Property Value Summaries.
12. In support of the Estimated Property Assets Value set out for the Halfmoon Lake Resort property, I attached as **Exhibit "D"** to this my Affidavit the summary portion of an Appraisal Report dated August 11, 2011, undertaken by Robert Botten, B.Sc. (Agr.), P.Ag., AACI, of RLB Property Appraisals Ltd., valuing the property "as is" at \$8,675,000.00, and upon completion of the proposed development at \$43,775,000.00.
13. In support of what I believe to be the generally conservative nature of the British Columbia Property Assets tax assessment values, I attach as **Exhibit "E"** to this my Affidavit both the BC tax assessment at \$649,200.00, and the subsequent Contract of Purchase and Sale for Commercial Real Estate at \$860,000.00, in respect of one of the Applicants' Property Assets that was recently sold by way of CRA tax sale (all proceeds to CRA), evidencing a realized market value of approximately 25% greater than the British Columbia tax assessment value.
14. Attached as **Exhibit "F"** to this my Affidavit is an appraisal dated May 17, 2011, of one of the Applicants' British Columbia Property Assets, undertaken by Garry Doucette, AACI, P.App, of PCAG Property Advisors Inc.. Again, by way of comparison, the British Columbia tax assessment value as set out in Exhibit "C" is \$447,000.00, whereas the market appraisal attached at Exhibit "F" values the property at \$635,000.00 – evidencing a current market appraisal value of approximately 30% greater than the British Columbia tax assessment value.

15. In respect of the Lake Eden Resort lands, listed in Exhibit "B" at \$1,400,000.00, this in fact reflects actual cash proceeds of sale for this property presently paid into this Honourable Court, Court File Number 1103 04022 (the "Lake Eden Funds").
16. I believe that the Estimated Property Assets Value of the Applicants' Property Assets totaling \$31,799,400.00, as set out in Exhibit "B" hereto, can be relied on as a reasonably likely forced sale value of the Applicants' current Property Assets.
17. In a letter dated October 18, 2011, from the office of Mr. Andrew Maciag, Borden Ladner Gervais, counsel for the Applicants' primary creditor, Axxcess Mortgage Fund Ltd. ("Axxcess"), written to counsel for the Applicants, Mr. Maciag states: "Axxcess has considered the property assets of the [Applicants] and is of the opinion (not as an appraiser but for its own business purposes) that such assets are likely worth about \$20,000,000.00." While I believe that this is an extremely conservative estimate of the value of the Property Assets, it nevertheless still evidences a Property Assets value well in excess of the Applicants' and my own personal current total estimated liabilities.

#### B. LIABILITIES

18. The approximate total balance owing to creditors of the Applicants (rounded) is \$10,850,000.00, as further set out and detailed in schedule attached to this my Affidavit as **Exhibit "G"**.
19. The primary creditor by far is Axxcess, owed approximately \$8,000,000.00. CRA is owed approximately \$1,100,000.00. Outstanding property taxes total another approximately \$650,000.00.
20. As a result of outstanding property taxes owing on British Columbia Property Assets, 22 of the Applicants' Property Assets have presently reverted to the Crown. However, I am advised by my counsel, and believe it to be true that, in respect of 12 of these Property Assets the Applicants have until November 30<sup>th</sup>, 2012, in respect of 7 of these Property Assets the Applicants have until November 30<sup>th</sup>, 2013, and in respect of 3 of these Property Assets the Applicants have until November 30<sup>th</sup>, 2014, to pay the property taxes and upon so doing the Property Assets will be re-vested back into the name of the Applicants. The issue of unpaid property taxes does, however, need the immediate attention of the Applicants, the payment of which (or, at least some of which), will be fundamental to any Plan of Arrangement moving forward.
21. Attached to this my Affidavit as **Exhibit "H"**, are copies of PPR searches, both Alberta and British Columbia, conducted in respect of each of the Applicants.
22. Attached to this my Affidavit as **Exhibit "I"**, are copies of title to each of the Property Assets listed in Exhibit "B" attached hereto.

#### **FINANCIAL STATEMENTS**

23. Attached as **Exhibit "J"** to this my Affidavit are Financial Statements in respect of the following Applicants:

- a. Armac Investments Ltd. (AB)
- b. Armac Investments Ltd. (BC)
- c. 1204583 Alberta Inc.
- d. No. 50 Corporate Ventures Ltd.
- e. Hawkeye Marine Group Ltd.
- f. Fishpaths Resort Corporation
- g. Half Moon Lake Resort Ltd.

24. There are no Financial Statements for the balance of the Applicants. Each of these Applicants only hold development property, and have no significant liabilities other than to Axxess, property tax, and related party loans to other of the Applicants. The Applicants have requested the assistance of the Monitor in working forward with the Applicants' accountants in the preparation of outstanding Financial Statements and correction of recognized present accounting deficiencies, which will be provided to the Court in due course.

#### **EVENTS LEADING TO THE PRESENT APPLICATION**

25. Notwithstanding the economic realities of the last 3 years as described in paragraph 6 above, the Applicants debt to equity ratio has always remained positive. In the result, I have generally been very successful on both my own and the Applicants' behalf in working with CRA to address the CRA indebtedness situation (over the past few years in excess of \$3,600,000.00 has been repaid to CRA, significantly reducing amounts owing). During this same period, I have also been working very successfully with Axxess, who through-out these challenging times have remained "friendly" and indeed have been prepared to extend additional funding.
26. Given my consistent experience with both CRA and Axxess over the past 3 years (who represent over 90% of both my personal and corporate indebtedness), I believe that there has been a great deal of confidence evidenced by my major creditors in both my own and the Applicants' abilities, backed by substantial Property Assets with continuing positive equity and excellent development potential, to successfully work through the Applicants' present insolvency circumstances without the involvement of the courts by way of any formal bankruptcy/ insolvency/CCAA process.
27. On February 18<sup>th</sup>, 2011, however, I had filed against me personally an Application for Bankruptcy Order, Alberta Bankruptcy Action Number BK03115478 (the "Bankruptcy Action"). The applicants in the Bankruptcy Action were an individual, Orest Rusnak, and PDY Management Services Ltd., an Alberta corporation wholly owned by Mr. Rusnak's wife. In the Application material, Orest Rusnak/PDY Management set out debts owing to them by me personally in the amount of \$15,734.86. Other non-CRA non-Axxess personal creditors total less than \$150,000.00.

28. On the basis of personal guarantees given in respect of the Applicants' indebtedness to Axxess, I provided to Axxess by way of further assurance consent judgments in the full amount of the Applicants' indebtedness. I owe CRA personally approximately \$2,100,000.00, although this is on the basis of assessments which I believe, once challenged, will reduce this amount to potentially zero. As indicated above, however, my relationship with CRA and Axxess has consistently remained cooperative in terms of dealing with this outstanding indebtedness, while still allowing the Applicants to continue in business with a view to realizing the substantial development potential on at least some of the Applicants' more valuable Property Assets.
29. I have few personal assets aside from my share holdings in the Applicants. I believe it to be true that Mr. Rusnak is a disbarred lawyer, formerly sentenced to jail, who appears in my opinion to be a committed litigant and financial predator. I had the misfortune of meeting Mr. Rusnak during my negotiations for the purchase of the Lake Eden property in which he held an option agreement that I subsequently purchased from him. Since that time, I feel as if both myself and the Applicants have become a target: he seems to have delved into my business affairs at every opportunity, interfered in my business relationships, and purposefully set out to "stir things up" and take advantage of any financial vulnerability he can exploit in an effort to do harm to me and find personal gain in it for himself.
30. I know Mr. Rusnak to have contacted leaseholders at Half Moon Lake Resort, and to have contacted and sent material to a reporter of the *Victoria Times Columnist* in regard to the Applicants' British Columbia Property Assets, all in an effort to disparage me and the Applicants. Mr. Rusnak has taken every opportunity to chase-up anyone he can find with an alleged grievance against me, and then have them file affidavits in support of the Bankruptcy Action, or have them commence actions or threaten to commence actions against the Applicants and myself. I cannot turn around without seeming to confront a new effort by Mr. Rusnak to disrupt and damage the Applicants' business undertakings, and force me to spend money on legal fees. I believe that Mr. Rusnak's sole intention is to try and force me and the Applicants into bankruptcy in an effort to acquire the Property Assets at distressed values or get me to "settle" with him on ridiculous terms.
31. The actions of Mr. Rusnak have got to the point where the Applicants can no longer move forward without the intervention of this Court and the relief the Applicants are now seeking. This will allow the Applicants reasonable time, with the assistance of the Monitor, to reorganize their financial affairs and propose a Plan of Arrangement to their creditors without constantly battling the apparent unrelenting efforts of Mr. Rusnak to thwart and/or interfere with such re-organization efforts and the otherwise good working relationship that both the Applicants and myself have with our major creditors, whom I am optimistic will be supportive of the present relief being sought by the Applicants.
32. It is my intention, concurrent to the within Application, to file my own personal Notice of Intention to file a Proposal pursuant to the section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, Chapter B-3, as my personal circumstances and the Applicants' circumstances are inextricably linked.

## **CASH FLOW / INTERIM and DIP FINANCING**

33. With the assistance of the Monitor, a Cash Flow Statement has been prepared, which Cash Flow Statement, together with my representation letter on behalf of the Applicants is attached hereto as **Exhibit "K"**.
34. The Cash Flow Statements are premised on the Applicants' access to the Lake Eden monies, as referenced in paragraph 15 above. These monies were paid into Court in that action pursuant to Order of this Honourable Court dated June 22, 2011, attached hereto as **Exhibit "L"**. I am advised by my counsel and believe it to be true that Parkland County has no interest in this money, nor does Lake Eden Projects Inc. have any creditors of its own who claim an interest in this money, other than its parent, Armac Investment Ltd. (AB), by way of repayment of shareholder loans.
35. I am aware that an Order for Judgment against Garnishee was obtained on November 1, 2011, in the amount of \$316,034.13 plus costs in the amount of \$4,777.42, which Order is attached hereto as **Exhibit "M"**. This Garnishee was obtained by an unsecured creditor of Armac Investments Ltd. (BC), on his own behalf (approximately \$100,000.00 in respect of a judgment writ), with the balance of garnishee monies to the best of my knowledge being related only to a writ filed by CRA against Armac Investments Ltd. (AB). To the best of my knowledge no subsequent steps have been taken by the Garnishor to have garnishee monies pursuant to the reference Order paid out of Court.
36. The Lake Eden monies will allow the Applicants sufficient funds to continue operating, and to reorganize their financial affairs with the assistance of a Monitor pursuant to the terms of the form of Initial Order herein being sought, without the need for any interim and/or DIP financing. I do not believe that the use of the Lake Eden monies in this manner will result in any significant prejudice to the Applicants' creditors, and in fact I believe that the contemplated use of the Lake Eden money as set out in the Cash Flow Statement will be of significant benefit to the Applicants' creditors.

## **PLAN OF ARRANGEMENT**

37. Based on the Cash Flow Statement and the other financial information set out in this Affidavit, I believe that given a reasonable period of time to reorganize the financial affairs of the Applicants, that there is a strong likelihood that the Applicants will be able to file a viable Plan of Arrangement, acceptable to their creditors, contemplating among other things: (i) selling-off a multiple of "non-essential" Property Assets in order to reduce debt and pay-off/pay-down creditors; (ii) finalizing certain minor improvements and development steps on Property Assets of the Applicants that will substantially increase their marketability as development properties; and (iii), putting in place sustainable replacement financing as may be necessary in furtherance of successfully maintaining the Applicants as on-going viable business undertakings able to pay all their obligations as they come due.

### **ADMINISTRATION CHARGE**

38. The Applicants need the assistance of counsel and the Monitor in connection with the proposed CCAA proceedings, and these critical services need to be paid for.
39. I believe that it is appropriate in the circumstances for the Court to grant the Monitor, counsel to the Monitor, and Applicants counsel, as security for the professional fees and disbursements incurred both before and after the granting of the Initial Order, a charge on the property of the Applicants as set out in the form of Initial Order attached as Schedule "A" to the Originating Application.
40. I further believe that the Administration Charge will in fact result in a significant cost-benefit to the Applicants' creditors, and will not result in any undue prejudice to them.

### **MONITOR**

41. Attached to this my Affidavit as **Exhibit "N"**, is a copy of Consent to Act as Monitor in this matter, endorsed by Mr. Tim Reid on behalf of Alvarez & Marsal Canada Inc..
42. I believe that Alvarez & Marsal Canada Inc. is qualified and competent to act as Monitor, and brings with it significant experience in these matters.

### **ORDER OF REGISTRAR W. BREITKREUZ IN THE BANKRUPTCY ACTION**

43. By way of Order of Registrar W. Breitkreuz dated March 17, 2011, in the Bankruptcy Action (the "Breitkreuz Order"), it was ordered at paragraph 2 thereof that: "Jack Purdy is hereby prevented from alienating any property which he either owns or controls until this matter is determined." At paragraph 6 thereof it was ordered that: "... the parties are at liberty on five days notice to apply to Registrar W. Breitkreuz for an amendment or modification of paragraph 2 of this Order."
44. The **Breitkreuz Order** is attached hereto as **Exhibit "O"**, for this Honourable Court's information and reference.

### **RELIEF REQUESTED**

45. Under the circumstances, I believe it is appropriate that this Court grant an order, in the form attached as Schedule "A" to the Originating Application, including, among other things:
- a. Staying all proceedings taken or that might be taken against the Applicants;
  - b. Restraining any further proceedings in any action, suit or proceeding against the Applicants;
  - c. Prohibiting the commencement of proceedings with any other action, suit or proceeding against the Applicants;
  - d. Appointment of Alvarez & Marsal Canada Inc. as Monitor;

- SWORN BEFORE ME at Edmonton, Alberta,  
this 25<sup>th</sup> day of November, 2011.

John Kenneth Purdy