

COURT FILE NUMBER

1103-18646

COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

APPLICANTS

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



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

DOCUMENT

FIFTH REPORT OF THE MONITOR

JUNE 27, 2012

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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INTRODUCTION

1. On December 1, 2011, the Purdy Group sought and obtained protection from its creditors under the Companies' Creditors Arrangement Act, R.S.C. 1985, c.C-36, as amended (the "CCAA") pursuant to an order of the Court of Queen's Bench of Alberta ("Court") (the "Initial Order").
2. Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. was appointed monitor of the Purdy Group (the "Monitor").
3. The purpose of this Fifth Report of the Monitor (the "Fifth Report") is to respond to the "Comments and Concerns of PDY Management Services Ltd., Byron Lowen and S&D International Group Ltd." delivered to the Monitor from their counsel, Mr. Bruce Mintz (the "Questions of the Monitor Letter"). A copy of the Questions of the Monitor Letter is attached as Appendix A to this report.
4. The Monitor's response to the "Questions of the Monitor Letter" is attached as Appendix B to this report (the "Monitor's Response").

All of which is respectfully submitted this 27th day of June, 2012.

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

A handwritten signature in black ink, appearing to be 'Tim Reid', written over a horizontal line.

Tim Reid, CA•CIRP
Senior Vice-President

A handwritten signature in black ink, appearing to be 'Orest Konowalchuk', written over a horizontal line.

Orest Konowalchuk, CA•CIRP
Senior Manager

APPENDIX A

**Re: In the matter of Companies' Creditors Arrangement Act, R.S.C. 1985, Chapter C-36, as Amended
And in the matter of a Plan of Compromise or Arrangement of Armac Investments Ltd. (AB) et al – Action No.: 1103 18646**

Comments and Concerns of PDY MANAGEMENT SERVICES LTD., BYRON LOWEN, and S & D INTERNATIONAL GROUP LTD.

On May 2, 2012, Mr. Justice Thomas directed that all creditors, interested parties and stakeholders that had concerns with the Monitors Report to direct their comments and concerns directly to the Monitor.

In a prior correspondence, Mr. Rutman advised that anything received from the Monitor shall be shared with Mr. Purdy. We have no objection to that process being followed regarding this submission. However, the parties for whom counsel acts in this matter are requesting that the comments below be included or attached in the next Monitor's report and that ½ day be scheduled when the next meeting with the Court is established in order to accommodate the interested parties.

In compliance with Mr. Justice Thomas' direction we have set out our comments, concerns and questions with respect to the documents relied on at the May 2, 2012 Application, namely the Third Report of the Monitor and the Affidavit of Jack Purdy filed April 30, 2012. We reserve the right to add further comments, concerns and questions based on the next report of the Monitor or any further affidavits provided by Mr. Purdy.

THE THIRD REPORT OF THE MONITOR

The Third Report of the Monitor ("Third Report") has been reviewed. It was provided only a few days before the May 2, 2012 application. Counsel wished to make submissions on May 2, 2012 but time did not permit for submissions. The Monitor ought to issue the report at least 7 days before the matter is scheduled so that counsel can have the opportunity to review the Report and to provide useful comments to the Court. In addition, it provides an opportunity for counsel to seek answers about the Report from the Monitor prior to Court.

The comments are as follows:

1. The property taxes on the BC properties have not been paid and the corporations are still treating the properties as if they were still owned by Purdy's corporations. There does not appear to be any schedule provided for payment out. When will those property taxes be paid out so that title will be restored and these properties will form part of the asset base of the Purdy Companies?
2. Monies were dedicated toward the opening of the Bamfield Trails Motel (para. 12) and two other properties (paragraph 15). The Report does not address how much money was expended or where the money came from or exactly what was paid for. Will the Monitor investigate this and provide further details?

3. There appears to be repairs to three other properties but we do not see where the money came from to effect those repairs (paragraph 19). Will the Monitor investigate this and provide further details including estimates to repair and cost breakdowns?
4. The financial statements including those for Lake Eden Projects Inc. are not ready but expected to be ready by the end of May 2012 (paragraph 25 and paragraph 28). It appears there is difficulty obtaining some financial information due to lack of co-operation from an accounting firm (paragraph 26). Is the reason that Purdy and his companies have failed to pay the outstanding accounts. If so, how much is outstanding and for what year or years?
5. Mr. Purdy is still some distance away from putting forth a viable plan to its creditors (paragraph 37) but feels if everything goes right creditors will be paid in full (paragraph 103). Who is making the determination of which Creditors will be paid? It appears that Mr. Purdy is in control and the Monitor is merely receiving one way input from Purdy. What is the role of the Monitor in that regard and what duties do the Monitor owe to the Court and to the interested parties.
6. Purdy claims that a Water Act diversion license for Half Moon Lake has been granted to operate a waterworks system and wastewater system at Half Moon Lake and that the Enforcement Order previously issued under the EPEA has been "closed". (Paragraph 46). Furthermore Purdy claims that the systems are not being installed (paragraph 47). However, Purdy has received estimates of about \$90,000 to install the equipment (paragraph 48). Has the Monitor received copies of the Water Act diversion licence and certain other approvals or is the Monitor just relying upon the word of Mr. Purdy?
7. The property on 156 street in Edmonton is listed for sale but the property is subject to an ownership dispute. (paragraph 72). There is no identification of who is involved in the dispute. Are the parties related or unrelated? Furthermore, Axxcess Capital has obtained a foreclosure order regarding the property to enforce its mortgage security but has not entered the order. Is Axxcess withdrawing its security against those lands ?
8. 196 Proofs of Claim were submitted to the Monitor valued at \$190,000,000 (Paragraph 108). The Monitor expects that \$12-16 million worth of the claims will be declared valid (paragraph 112). On what basis does the Monitor have that expectation? Is that an expectation influenced by Mr. Purdy? There is no disclosure at this time as to the claims and the amounts that have been filed. When will there be disclosure of the filed Proofs of Claims and the amounts being claimed?

THE AFFIDAVIT OF JACK PURDY FILED APRIL 30, 2012

1. In the financial Statement of Armac Investments Ltd. (AB) (Exhibit C) there is no disclosure of the CRA claim which is in the sum of \$196,312.00 (see pages 6 and 7 of Appendix A of the Monitor's Third Report). What comment does the Monitor have on the accuracy of the draft financial statement prepared? What do the working papers of the author of that draft financial statement disclose about the CRA claim?
2. In the financial Statement of Armac Investments Ltd. (AB) (Exhibit C) Note 3 LONG TERM INVESTMENTS discloses that Armac AB "holds an investment or development interest in the following projects" with a list provided as of December 31, 2011. It is represented that

these are actual assets and that the values are as stated. The question to be raised is whether these listed assets are accurate reflections of the actual values of these assets. Does the Court Monitor agree with these values for these assets?

3. A further concern is that there is a reference in Note 4 LONG-TERM DEBT concerning financing by Axcess Capital. Has this financing, as well as other claims on title been accurately reflected in the equity valuations of these properties to Armac Investments Ltd. (Alberta)? In other words the reality is the liabilities exceed the assets by almost \$3,000,000 and any suggestion that the assets are worth \$10,000,000.00 without regard to secured debt is misleading. Has Axcess Capital waived its entire security and is advancing its total claim as an unsecured creditor?
4. In summary, is Jack Purdy representing to this court that there is over \$9 million in realizable asset value in these assets, as claimed by Armac Investments Ltd. (Alberta) in these financial statements? If not, then why has he not clarified this to the court?
5. In the financial statement of 1317517 Alberta Ltd. there is no disclosure of the security of Axcess Capital which obtained an order for foreclosure against that property. The appraised value of that property was less than the amount due under the Axcess Mortgage. Has the Monitor reviewed those proceedings and does the Monitor agree with this draft financial statement.? Is there any evidence that there is any equity or more equity that can be realized for the benefit of creditors.
6. In the financial statement of Half Moon Lake Resort Ltd. marked as an exhibit B to the Jack Purdy Affidavit there is reference to Revenues for the years 2009 and 2010. However on the Statement of Earnings there is an operating deficit. There is no financial statement for 2011. The facility was closed during the summer of 2011. It appears clear that there was no realizable income for that year. Will a financial statement for 2011 be prepared and when?
7. With respect to Half Moon Lake Mr. Purdy is now asking to spend \$100,000.00 to make this facility operational for the 2012 fiscal year. Is there any evidence that the expenditure of \$100,000 on Half Moon Lake Resort will be sufficient to repair all the deficiencies to enable the opening of the resort? If there is a risk of cost over-runs, as there was on the Bamfield Inn, then the money spent will be lost due to the inability to complete the repairs, and will not create any benefit for the general creditors of Jack Purdy and his companies.
8. Regarding the request for more time to manage the facilities and to upgrade them with monies that would otherwise be available to creditors this presents a number of concerns and objections. There is no evidence that spending this money will be more beneficial to the creditors than simply liquidating the assets at this time. Jack Purdy has demonstrated that he is unable to operate these businesses to make a profit (at least based on the financial statements). During his administration over the many years that he owned these properties, Jack Purdy has allowed them to fall into serious disrepair, thereby showing his inability to properly maintain these properties.
9. Based on the significant amount of claims that were filed, it is most likely that the proven claims will exceed the equity now claimed by Jack Purdy in all of his properties. Therefore, further repairs and operations to these two properties will not likely benefit the creditors based on what has been presented to date.

OTHER SIGNIFICANT COMMENTS

1. There has been no disclosure of the names of the claimants and the amounts being claimed by each claimant. To date there has been no disclosure on the website. When will disclosure of the names and amounts being claimed occur?
2. What is the role of the Monitor in these proceedings? It appears that the proceedings are "Purdy driven" and that the Monitor really has a passive role in this matter. The best the Monitor can do is take whatever information it receives from Mr. Purdy and assume it is correct. At least that is the impression that is given.
3. The recent set of Court Orders that were filed referred in their respective preambles to UPON HAVING HEARD COUNSEL FOR THE APPLICANTS AND COUNSEL FOR THE MONITOR AND OTHER INTERESTED PARTIES, CREDITORS AND STAKEHOLDERS. At the recent hearing the opportunity to speak was not provided because insufficient time was allotted. The Court was not prepared to hear from interested parties who wished to speak to the Monitors Report and other relevant matters. The Applicants' solicitor did not arrange for sufficient time perhaps not knowing there was going to be greater participation. The Monitor submitted the report on April 27 which was after the matter was scheduled for the limited time period. Will the Monitor agree to make sure the next date will allot extra time for all submissions and ensure that the next report will be filed at least 7 days in advance?

APPENDIX B

Re: In the matter of the Companies' Creditors Arrangement Act, R.S.C. 1985, Chapter C-36, as Amended

And in the matter of a Armac Investments Ltd. (AB) et al

Responses to Comments and Concerns of PDY Management Services Ltd., Byron Lowen, and S&D International Group Ltd. provided by their counsel Bruce Mintz.

With respect to the preamble to the comments and concerns:

- A. The second paragraph of the preamble suggests that counsel for the Monitor advised that anything received from the Monitor will be shared with Mr. Purdy. With respect, this is a somewhat inaccurate summary of what had been conveyed. The position of the Monitor was outlined in an email from Mr. Rutman to Mr. Mintz January 25, 2012, the applicable excerpt being:

“Lastly, I request that absent unusual circumstances you not restrict my ability (or the monitor’s ability) to forward to the debtor or its counsel information respecting the debtor companies (or accusations against the debtor companies) which you relay to my office. It can be quite unfair to the debtor companies or their counsel for the monitor to formulate an opinion respecting the companies’ or their conduct if the monitor cannot ask the debtor or its counsel for a response to the conveyed information or accusation. Perhaps more importantly, it is very difficult for the monitor to properly report to the court if it cannot discuss information with the debtor companies. I realize there are special circumstances that may present themselves that could prove to be an exception to the general rule but, with respect, I do not believe the information conveyed in the email below would fall into such a category.”
- B. It was requested their comments be included in the Monitor’s next report.
 - We will include the comments and our responses as an appendix to our report.
- C. It was requested that our report be provided 7 days prior to a scheduled court application.
 - We will file our report as soon as practically possible. We want to provide up to date information to the court and interested parties but timing of receipt by the Monitor of information from the Applicant and third parties occasionally prevents the Monitor from filing the report as early as it would like. The Monitor is conscious of the need to balance the necessity to provide the court and interested persons with up to date information and the importance of reasonable notice being given of that information.

The Monitor’s responses to Comments and Questions on the Third Report of the Monitor are as follows:

1. As disclosed in our reports, most of the B.C. properties of the Applicants are in the name of the B.C. crown as in B.C. the crown takes the properties into their own name when taxes are in arrears. The Applicants still have the right to pay the taxes and restore title to the name of the Applicants and accordingly the Applicants take the position they can deal with the properties as though still in their name. A schedule of the properties and outstanding property taxes was included as Appendix A to the Monitor's Second Report. The forecasted cash flow attached as Appendix D to the Monitor's Third Report provides for property tax arrears payments of \$110,000. These payments were budgeted for the Non Core properties to be listed and sold. The property taxes have not yet been paid, as budgeted funds from the sale of the Sherwood Park property have not been received (see paragraph 71 of the Third Report). Property taxes on the other properties will be paid as funds become available or from DIP financing if funds are not available prior to the property irrevocably vesting in the crown (see paragraph 57 of the Third Report).
2. Appendix C of the Third report and Appendix C of the Second Report disclose aggregate preservation and repair costs to April 30, 2012 of \$119,669. Paragraphs 81 to 84 of the Third Report indicate expenditures to that time were \$55,000 on the Bamfield Trails Motel. Other expenditures have been made at Half Moon Lake Resort on systems required to open the resort and on replacing and repairing roves at various lodges in Bamfield. Monies to complete repairs came from the Lake Eden Funds, as disclosed in the actual cash flow and budgeted cash flows contained as appendices to the Monitor's first three reports.
3. Answered in 2 above.
4. The financial statements continue to be outstanding. The Monitor advised the company to send out a demand notice to Purdy's former accountants requesting them to release any / all accounting information pertaining to the Applicant companies. The Monitor understands that this accounting information continues to be outstanding and has not been received by the Purdy Companies. The monitor is following up with the Company on this matter.
5. "The determination of which creditors will be paid" is set out in the claim proving process approved by the court. The Claims Procedure Order and related documentation was sent to all known creditors and is posted on our website. The Claims Procedure Order addresses the Monitor's roll in the process.
6. The Monitor has been provided copies of the Water Act diversion license and correspondence from the EPEA advising the Enforcement Order has been closed.
7. The dispute over ownership of the property on 156 street concerns a claim by Mr. Orest Rusnak. The Applicant is disputing the claim of Mr. Rusnak. We have no information indicating Axxcess is withdrawing its security against the land. At the time of the CCAA the foreclosure proceedings were in place but not complete and Axxcess is now stayed from taking further action as a result of the CCAA proceedings.
8. The next report of the Monitor will address the claims that have been filed and the results of the review of claims under the Claims Procedure Order by the Monitor.

The Monitor's responses to questions and comments to the Affidavit of Jack Purdy Filed April 30, 2012 are as follows:

1. If a valid claim is not properly recorded on the financial statement it remains a valid claim notwithstanding it is an unrecorded liability. While the Monitor does not audit the financial statement, the Monitor has read the financial statement of Armac Investments Ltd. (AB) and has posed questions to the Applicant's accountants about the accuracy of certain disclosures. The Monitor is reviewing the claim of CRA in connection with the claim proving process to determine whether it is a valid claim.
2. The Financial Statement of Armac Investments Ltd. disclosed as Exhibit C has not been audited or reviewed by the Monitor. Values recorded in financial statements are generally the depreciated cost of the asset and are not necessarily indicative of the fair market value of the asset.
3. As noted above, the Monitor has not audited or reviewed the financial statements of the applicant. The amount and validity of claims against the Applicant are determined through the claims procedure process. It is proper accounting treatment to record assets separate from liabilities. We are not aware that Axxess has waived any of its debt or security.
4. This question was referred to Mr. Purdy.
5. Axxess and/or its mortgage investees have filed a secured claim against 1317517 Alberta Ltd in the approximate amount of \$1.87 million. The Monitor is reviewing the claim in connection with the claim procedure process.
6. The Monitor has advised the Applicant that (while it is not urgent as the resort was closed during 2011) it needs to update its financial statement.
7. It is not expected that there will be any significant cost overruns to complete repairs and maintenance sufficient to open Half Moon Lake Resort, and the Applicants have sufficient monies to fund small cost overruns.
8. This appears to be an expression of opinion on behalf of your client and therefore no response is provided.
9. This appears to be an expression of opinion on behalf of your client and therefore no response is provided.

The Monitor's responses to other significant comments are as follows:

1. A summary of the results of the claims procedure review process will be provided in the next Monitor's report to the Court to be filed in connection with the next Court application, which, is currently scheduled for June 29, 2012.
2. The role of the Monitor is set out in the Act, the initial Order and certain subsequent Orders. All Orders are posted on the Monitor's web site. CCAA proceedings are debtor in possession proceedings and are generally driven by the debtors under the supervision of the Court. The Monitor does not agree with concluding expression of opinion.
3. We have passed on your comments regarding the time allotted for court applications to the Applicants' counsel. We would urge you to discuss this issue with the Applicant's counsel who is responsible for scheduling the applications. The Monitor has commented on filing dates earlier in this response.