

THE QUEEN'S BENCH
Winnipeg Centre

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

**AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR
ARRANGEMENT WITH RESPECT TO ARCTIC GLACIER INCOME FUND, ARCTIC
GLACIER INC., ARCTIC GLACIER INTERNATIONAL INC. and the ADDITIONAL
APPLICANTS LISTED ON SCHEDULE "A" HERETO**

(collectively, the "APPLICANTS")

**APPLICATION UNDER THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

MOTION BRIEF OF THE MONITOR
(Motion for Stay Extension)

**DATE OF HEARING: THURSDAY, SEPTEMBER 8, 2016, AT 10:00 A.M.
BEFORE THE HONOURABLE MADAM JUSTICE SPIVAK**

OSLER, HOSKIN & HARCOURT LLP
Barristers and Solicitors
P.O. Box 50, 100 King Street West
1 First Canadian Place
Toronto, ON M5X 1B8

Marc Wasserman (LSUC#44066M)
Tel: 416.862.4908
Email: mwasserman@osler.com

Mary Paterson (LSUC#51572P)
Tel: 416.862.4924
Email: mpaterson@osler.com

TAYLOR McCAFFREY LLP
9th Floor, 400 St. Mary Avenue
Winnipeg MB R3C 4K5

David R.M. Jackson
Tel: 204.988.0375
Email: djackson@tmlawyers.com

THE QUEEN'S BENCH
Winnipeg Centre

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

**AND IN THE MATTER OF A PROPOSED PLAN
OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO
ARCTIC GLACIER INCOME FUND, ARCTIC GLACIER INC., ARCTIC GLACIER
INTERNATIONAL INC. and the ADDITIONAL APPLICANTS LISTED ON
SCHEDULE "A" HERETO**

(collectively, the "APPLICANTS")

APPLICATION UNDER THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

MOTION BRIEF OF THE MONITOR

INDEX

	Page
PART I. List of Documents to be relied upon	1
PART II. Statutory Provisions and Authorities to be relied upon	2
PART III. List of Points to Be Argued	3
A Service Should Be Validated	3
B The Stay Of Proceedings Should Be Extended	4

PART I

LIST OF DOCUMENTS TO BE RELIED UPON

1. The Notice of Motion with the Proposed Order attached as Appendix “1”;
2. Twenty-Fourth Report of the Monitor dated August 30, 2016 (the “**Twenty-Fourth Report**”);
3. Such further and other materials as counsel may advise and this Court may permit.

PART II **STATUTORY PROVISIONS AND AUTHORITIES TO BE
RELIED UPON**

Tab

- 1 QBR 2.03, 3.02(1), 16.04, 16.08, 37.07(1) and 37.08(2)
- 2 *Companies' Creditors Arrangement Act*, R.S.C., c. C-36, as amended
(hereinafter "CCAA") ss. 11 and 11.02
- 3 *Worldspan Marine Inc. (Re)*, 2011 BCSC 1758

PART III LIST OF POINTS TO BE ARGUED

1. This motion is for Orders:
 - (a) validating and abridging the time for service of the Notice of Motion and supporting materials such that the motion is properly returnable on September 8, 2016, at 10:00 a.m. and dispensing with further service thereof; and
 - (b) extending the Stay Period until April 21, 2017;
2. The key points to be argued on this motion are as follows:
 - (a) *Validating Service*: An order validating and abridging the time for service should be granted because the service effected and notice provided has been sufficient to bring these proceedings to the attention of the recipients; and
 - (b) *Stay Of Proceedings*: An order extending the Stay Period is appropriate to enable the Monitor to continue implementing the steps contemplated by the Plan; working towards a resolution of the one remaining Unresolved Claim (the McNulty Claim); and working towards a resolution of the Brodski Proceeding.

A. Validating Service

3. Notwithstanding the ordinary requirements of service under the QBR, this Court has authority to abridge the time requirements, to validate defective service or even dispense with service where necessary in the interest of justice.

(**Tab 1** – QBR 2.03, 3.02(1), 16.04, 16.08, 37.07(1) and 37.08(2))

4. The Notice of Motion was served on all parties listed in the service list (prepared in accordance with paragraph 66 of the Initial Order) on August 30, 2016.

5. It is respectfully submitted that the service effected and notice provided has been sufficient to bring these proceedings to the attention of the recipients and it is appropriate in the circumstances for this Honourable Court to validate service and proceed with the hearing of the relief requested.

B. The Stay Of Proceedings Should Be Extended

6. The existing stay expires on September 30, 2016. It is necessary to extend the stay to enable the Monitor to continue to implement the steps contemplated by the Plan; work towards a resolution of the one remaining Unresolved Claim (the McNulty Claim); work towards a resolution of the Brodski Proceeding; and address other estate matters.

7. CCAA 11.02 gives the Court discretion to grant or extend a stay of proceedings. CCAA 11.02(2) applies when a stay of proceedings is requested other than on an initial application. It provides as follows:

11.02(2) A court may, on an application in respect of a debtor company other than an initial application, make an order, on any terms that it may impose,

(a) staying, until otherwise ordered by the court, for any period that the court considers necessary, all proceedings taken or that might be taken in respect of the company under an Act referred to in paragraph (1)(a);

(b) restraining, until otherwise ordered by the court, further proceedings in any action, suit or proceeding against the company; and

(c) prohibiting, until otherwise ordered by the court, the commencement of any action, suit or proceeding against the company.

8. According to CCAA 11.02(3), the Court must be satisfied that (a) circumstances exist that make the order appropriate; and (b) the applicant has acted and is acting in good faith and with due diligence.

(Tab 2 – CCAA, s. 11.02(3))

9. As set out in the Twenty-Fourth Report, the Monitor believes that the Applicants have acted and continue to act in good faith and with due diligence. In addition, since the date of the Twenty-Third Report of the Monitor, progress has been made in resolving the NYC Claim, resolving the U.S. Sales Tax Issue, implementing the Post-Plan Implementation Date Transactions and the Schedule “B” Steps (including winding up and dissolving many of the subsidiaries in the AGIF corporate group), advancing the resolution of the McNulty Claim, and advancing the resolution of the Brodski Claims.

10. In considering whether circumstances exist that make the order appropriate, the Court “must be satisfied that an extension of the Initial Order and stay will further the purposes of the CCAA.” The Monitor believes that an extension of the Stay Period until April 21, 2017, is appropriate, as it will allow needed time for the Monitor, in consultation with the Applicants, continue to implement the steps contemplated by the Plan; work towards a resolution of the one remaining Unresolved

Claim (the McNulty Claim); work towards a resolution of the Brodski Proceeding; and address other estate matters.

(**Tab 3** – *Worldspan Marine Inc. (Re)*, 2011 BCSC 1758 [Pearlman J.] at paras. 13-15)

CONCLUSION

11. It is respectfully submitted that this Honourable Court ought to grant the proposed order as it is consistent with the underlying purposes of the CCAA and will benefit the Applicants' estate and stakeholders.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 30th day of August, 2016.

OSLER, HOSKIN & HARCOURT LLP

P.O. Box 50, 100 King Street West
1 First Canadian Place
Toronto, ON M5X 1B8

Marc Wasserman (LSUC#44066M)

Tel: 416.862.4908

Email: mwasserman@osler.com

Mary Paterson (LSUC#51572P)

Tel: 416.862.4924

Email: mpaterson@osler.com

TAYLOR McCAFFREY LLP

9th Floor, 400 St. Mary Avenue
Winnipeg MB R3C 4K5

David R.M. Jackson

Tel: 204.988.0375

Email: djackson@tmlawyers.com

TAB 1

COURT MAY DISPENSE WITH COMPLIANCE

2.03 The court may, only where and as necessary in the interest of justice, dispense with compliance with any rule at any time.

EXTENSION OR ABRIDGMENT

General powers of court

3.02(1) The court may by order extend or abridge any time prescribed by these rules or an order, on such terms as are just.

SUBSTITUTED SERVICE OR DISPENSING WITH SERVICE

Where order may be made

16.04(1) Where it appears to the court that it is impractical for any reason to effect prompt service of an originating process or any other document required to be served personally or by an alternative to personal service the court may make an order for substituted service or, where necessary in the interest of justice, may dispense with service.

Effective date of service

16.04(2) In an order for substituted service, the court shall specify when service in accordance with the order is effective.

Service dispensed with

16.04(3) Where an order is made dispensing with service of a document, the document shall be deemed to have been served on the date the order is signed, for the purpose of the computation of time under these rules.

VALIDATING SERVICE

16.08 Where a document has been served in an unauthorized or irregular manner, the court may make an order validating the service where the court is satisfied that,

- (a) the document came to the notice of the person to be served; or
- (b) the document was served in such a manner that it would have come to the notice of the person to be served, except for the person's own attempts to evade service.

TIME FOR SERVICE

Where to master or other officer or uncontested

37.07(1) Where a motion is made on notice in any of the cases mentioned in clauses 37.05(2)(a) and (b), the notice of motion shall be served at least four days before the date on which the motion is to be heard.

Immediate hearing where urgent, etc.

37.08(2) In a case of urgency or where otherwise appropriate, the judge may proceed to hear the motion.

TAB 2

General power of court

11 Despite anything in the *Bankruptcy and Insolvency Act* (</eng/acts/B-3>) or the *Winding-up and Restructuring Act* (</eng/acts/W-11>), if an application is made under this Act in respect of a debtor company, the court, on the application of any person interested in the matter, may, subject to the restrictions set out in this Act, on notice to any other person or without notice as it may see fit, make any order that it considers appropriate in the circumstances.

R.S., 1985, c. C-36, s. 11; 1992, c. 27, s. 90; 1996, c. 6, s. 167; 1997, c. 12, s. 124; 2005, c. 47, s. 128.

[Previous Version \(/eng/acts/C-36/section-11-20021231.html\)](/eng/acts/C-36/section-11-20021231.html)

Rights of suppliers

11.01 No order made under section 11 or 11.02 has the effect of

(a) prohibiting a person from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided after the order is made; or

(b) requiring the further advance of money or credit.

2005, c. 47, s. 128.

Stays, etc. — initial application

11.02 (1) A court may, on an initial application in respect of a debtor company, make an order on any terms that it may impose, effective for the period that the court considers necessary, which period may not be more than 30 days,

(a) staying, until otherwise ordered by the court, all proceedings taken or that might be taken in respect of the company under the *Bankruptcy and Insolvency Act* (</eng/acts/B-3>) or the *Winding-up and Restructuring Act* (</eng/acts/W-11>);

(b) restraining, until otherwise ordered by the court, further proceedings in any action, suit or proceeding against the company; and

(c) prohibiting, until otherwise ordered by the court, the commencement of any action, suit or proceeding against the company.

Stays, etc. — other than initial application

(2) A court may, on an application in respect of a debtor company other than an initial application, make an order, on any terms that it may impose,

- (a) staying, until otherwise ordered by the court, for any period that the court considers necessary, all proceedings taken or that might be taken in respect of the company under an Act referred to in paragraph (1)(a);
- (b) restraining, until otherwise ordered by the court, further proceedings in any action, suit or proceeding against the company; and
- (c) prohibiting, until otherwise ordered by the court, the commencement of any action, suit or proceeding against the company.

Burden of proof on application

- (3) The court shall not make the order unless
 - (a) the applicant satisfies the court that circumstances exist that make the order appropriate; and
 - (b) in the case of an order under subsection (2), the applicant also satisfies the court that the applicant has acted, and is acting, in good faith and with due diligence.

Restriction

- (4) Orders doing anything referred to in subsection (1) or (2) may only be made under this section.

TAB 3

Case Name:
Worldspan Marine Inc. (Re)

**IN THE MATTER OF the Companies' Creditors Arrangement Act,
R.S.C. 1985, c. C-36, as amended
AND IN THE MATTER OF the Canada Business Corporations Act,
R.S.C. 1985, c. C-44, and the Business Corporations Act,
S.B.C. 2002, c. 57
AND IN THE MATTER OF Worldspan Marine Inc., Crescent Custom
Yachts Inc., Queenship Marine Industries Ltd., 27222
Developments Ltd., and Composite FRP Products Ltd.,
Petitioners**

[2011] B.C.J. No. 2467

2011 BCSC 1758

86 C.B.R. (5th) 119

211 A.C.W.S. (3d) 557

2011 CarswellBC 3667

Docket: S113550

Registry: Vancouver

British Columbia Supreme Court
Vancouver, British Columbia

P.J. Pearlman J.

Heard: December 16, 2011.

Judgment: December 21, 2011.

(54 paras.)

*Bankruptcy and insolvency law – Companies' Creditors Arrangement Act (CCAA) matters – Com-
promises and arrangements – Application by petitioner, Worldspan, for an extension of time to
work toward plan of arrangement, allowed – Worldspan had contracted with Sargeant to construct*

a 144-foot custom motor yacht -- Sargeant stopped making payments after dispute arose between parties -- Worldspan alleged Sargeant's failure to pay resulted in its insolvency -- Worldspan needed additional time to market yacht to find another buyer, to explore debtor-in-possession financing to complete construction of yacht, and to resolve priorities among in rem claims against yacht -- Court satisfied Worldspan had acted in good faith and with due diligence -- Restructuring still best option.

Bankruptcy and insolvency law -- Proceedings -- Practice and procedure -- Application by petitioner, Worldspan, for an extension of time to work toward plan of arrangement, allowed -- Worldspan had contracted with Sargeant to construct a 144-foot custom motor yacht -- Sargeant stopped making payments after dispute arose between parties -- Worldspan alleged Sargeant's failure to pay resulted in its insolvency -- Worldspan needed additional time to market yacht to find another buyer, to explore debtor-in-possession financing to complete construction of yacht, and to resolve priorities among in rem claims against yacht -- Court satisfied Worldspan had acted in good faith and with due diligence -- Restructuring still best option.

Application by the petitioner, Worldspan Marine Inc., for an extension of the initial order permitting them additional time to work toward a plan of arrangement. The proceedings had their genesis in a dispute between the Worldspan and one of its creditors, Sargeant. Sargeant had contracted with Worldspan to construct a 144-foot custom motor yacht. Construction on the yacht stopped after a dispute arose as to the cost of the vessel. Sargeant alleged he was being overcharged to offset funds that were being stolen from the company, and stopped making payments on the yacht. Sargeant claimed against Worldspan for the full amount he paid towards the yacht's construction, which amounted to almost \$21 million. Worldspan maintained that Sargeant's failure to pay monies due to them resulted in their insolvency and led to its application under the Companies' Creditors Arrangement Act (CCAA). Worldspan argued it needed additional time to work toward a plan of arrangement by continuing the marketing of the yacht for the purpose of finding another buyer, to explore potential debtor-in-possession (DIP) financing to complete construction of the yacht pending a sale, and to resolve priorities among in rem claims against the yacht. Parallel proceedings had been commenced in the Federal Court with respect to the in rem claims against the yacht. The application was supported by the monitor as the best option available to all the creditors and stakeholders, and was either supported or not opposed by all of the creditors besides Sargeant.

HELD: Application allowed. The Court found that an extension of the stay would not materially prejudice any of the creditors or other stakeholders. The petitioners were simultaneously pursuing both the marketing of the yacht and efforts to obtain DIP financing that, if successful, would have enabled them to complete the construction of the yacht. Worldspan could not have finalized a restructuring plan until the yacht was sold and terms were negotiating for completing the yacht. All its creditors, other than Sargeant, shared the view that the best course of action was to have the yacht marketed and sold through an orderly process supervised by the courts. While the CCAA proceedings could not be extended indefinitely, at this stage restructuring was still the best option. The Court was satisfied that Worldspan had acted in good faith and with due diligence in the proceedings.

Statutes, Regulations and Rules Cited:

Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, s. 11.02(2), s. 11.02(3)(a), s. 11.02(3)(b), s. 36

Counsel:

Counsel for the Petitioners Worldspan Marine Inc., Crescent Custom Yachts Inc., Queenship Marine Industries Ltd., 27222 Developments Ltd. and Composite FRP Products: J.R. Sandrelli and J.D. Schultz.

Counsel for Wolrige Mahon (the "VCO"): K. Jackson and V. Tickle.

Counsel for the Respondent, Harry Sargeant III: K.E. Siddall.

Counsel for Ontrack Systems Ltd.: J. Leathley, Q.C.

Counsel for Mohammed Al-Saleh: D. Rossi.

Counsel for Offshore Interiors Inc., Paynes Marine Group, Restaurant Design and Sales LLC, Arrow Transportation Systems and CCY Holdings Inc.: G. Wharton and P. Mooney.

Counsel for Canada Revenue Agency: N. Beckie.

Counsel for Comerica Bank: J. McLean, Q.C.

Counsel for The Monitor: G. Dabbs.

Reasons for Judgment

P.J. PEARLMAN J.:—

INTRODUCTION

1 On December 16, 2011, on the application of the petitioners, I granted an order confirming and extending the Initial Order and stay pronounced June 6, 2011, and subsequently confirmed and extended to December 16, 2011, by a further 119 days to April 13, 2012. When I made the order, I informed counsel that I would provide written Reasons for Judgment. These are my Reasons.

POSITIONS OF THE PARTIES

2 The petitioners apply for the extension of the Initial Order to April 13, 2012 in order to permit them additional time to work toward a plan of arrangement by continuing the marketing of the Vessel "QE014226C010" (the "Vessel") with Fraser Yachts, to explore potential Debtor In Possession ("DIP") financing to complete construction of the Vessel pending a sale, and to resolve priorities among *in rem* claims against the Vessel.

3 The application of the petitioners for an extension of the Initial Order and stay was either supported, or not opposed, by all of the creditors who have participated in these proceedings, other than the respondent, Harry Sargeant III.

4 The Monitor supports the extension as the best option available to all of the creditors and stakeholders at this time.

5 These proceedings had their genesis in a dispute between the petitioner Worldspan Marine Inc. and Mr. Sargeant. On February 29, 2008, Worldspan entered into a Vessel Construction Agreement with Mr. Sargeant for the construction of the Vessel, a 144-foot custom motor yacht. A dispute arose between Worldspan and Mr. Sargeant concerning the cost of construction. In January 2010 Mr. Sargeant ceased making payments to Worldspan under the Vessel Construction Agreement.

6 The petitioners continued construction until April 2010, by which time the total arrears invoiced to Mr. Sargeant totalled approximately \$4.9 million. In April or May 2010, the petitioners ceased construction of the Vessel and the petitioner Queenship laid off 97 employees who were then working on the Vessel. The petitioners maintain that Mr. Sargeant's failure to pay monies due to them under the Vessel Construction Agreement resulted in their insolvency, and led to their application for relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, ("CCAA") in these proceedings.

7 Mr. Sargeant contends that the petitioners overcharged him. He claims against the petitioners, and against the as yet unfinished Vessel for the full amount he paid toward its construction, which totals \$20,945,924.05.

8 Mr. Sargeant submits that the petitioners are unable to establish that circumstances exist that make an order extending the Initial Order appropriate, or that they have acted and continue to act in good faith and with due diligence. He says that the petitioners have no prospect of presenting a viable plan of arrangement to their creditors. Mr. Sargeant also contends that the petitioners have shown a lack of good faith by failing to disclose to the Court that the two principals of Worldspan, Mr. Blane, and Mr. Barnett are engaged in a dispute in the United States District Court for the Southern District of Florida where Mr. Barnett is suing Mr. Blane for fraud, breach of fiduciary duty and conversion respecting monies invested in Worldspan.

9 Mr. Sargeant drew the Court's attention to Exhibit 22 to the complaint filed in the United States District Court by Mr. Barnett, which is a demand letter dated June 29, 2011 from Mr. Barnett's Florida counsel to Mr. Blane stating:

Your fraudulent actions not only caused monetary damage to Mr. Barnett, but also caused tremendous damage to WorldSpan. More specifically, your taking Mr. Barnett's money for your own use deprived the company of much needed capital. Your harm to WorldSpan is further demonstrated by your conspiracy with the former CEO of WorldSpan, Lee Taubeneck, to overcharge a customer in order to offset the funds you were stealing from Mr. Barnett that should have gone to the company. Your deplorable actions directly caused the demise of what could have been a successful and innovative new company" (underlining added)

10 Mr. Sargeant says, and I accept, that he is the customer referred to in the demand letter. He submits that the allegations contained in the complaint and demand letter lend credence to his claim that Worldspan breached the Vessel Construction Agreement by engaging in dishonest business practices, and over-billed him. Further, Mr. Sargeant says that the petitioner's failure to disclose this dispute between the principals of Worldspan, in addition to demonstrating a lack of good faith, reveals an internal division that diminishes the prospects of Worldspan continuing in business.

11 As yet, there has been no judicial determination of the allegations made by Mr. Barnett in his complaint against Mr. Blane.

DISCUSSION AND ANALYSIS

12 On an application for an extension of a stay pursuant to s. 11.02(2) of the *CCAA*, the petitioners must establish that they have met the test set out in s. 11.02(3):

- (a) whether circumstances exist that make the order appropriate; and
- (b) whether the applicant has acted, and is acting, in good faith and with due diligence.

13 In considering whether "circumstances exist that make the order appropriate", the court must be satisfied that an extension of the Initial Order and stay will further the purposes of the *CCAA*.

14 In *Century Services Inc. v. Canada (Attorney General)*, [2010] 3 S.C.R. 379 at para. 70, Deschamps J., for the Court, stated:

... Appropriateness under the *CCAA* is assessed by inquiring whether the order sought advances the policy objectives underlying the *CCAA*. The question is whether the order will usefully further efforts to achieve the remedial purpose of the *CCAA* -- avoiding the social and economic losses resulting from liquidation of an insolvent company. I would add that appropriateness extends not only to the purpose of the order, but also to the means it employs. Courts should be mindful that chances for successful reorganizations are enhanced where participants achieve common ground and all stakeholders are treated as advantageously and fairly as the circumstances permit.

15 A frequently cited statement of the purpose of the *CCAA* is found in *Chef Ready Foods Ltd. v. Hongkong Bank of Canada* (1990), 51 B.C.L.R. (2d) 84, [1990] B.C.J. No. 2384 at p. 3 where the Court of Appeal held:

The purpose of the C.C.A.A. is to facilitate the making of a compromise or arrangement between an insolvent debtor company and its creditors to the end that the company is able to continue in business. It is available to any company incorporated in Canada with assets or business activities in Canada that is not a bank, a railway company, a telegraph company, an insurance company, a trust company, or a loan company. When a company has recourse to the C.C.A.A. the court is called upon to play a kind of supervisory role to preserve the status quo and to move the process along to the point where a compromise or arrangement is approved or it is evident that the attempt is doomed to failure. Obviously time is critical. Equally obviously, if the attempt at compromise or arrangement is to have any prospect of success there must be a means of holding the creditors at bay, hence the powers vested in the court under s. 11.

16 In *Pacific National Lease Holding Corp. (Re)*, [1992] B.C.J. No. 3070 (S.C.) Brenner J. (as he then was) summarized the applicable principles at para. 26:

- (1) The purpose of the C.C.A.A. is to allow an insolvent company a reasonable period of time to reorganize its affairs and prepare and file a plan for its continued operation subject to the requisite approval of the creditors and the Court.
- (2) The C.C.A.A. is intended to serve not only the company's creditors but also a broad constituency which includes the shareholders and the employees.
- (3) During the stay period the Act is intended to prevent manoeuvres for positioning amongst the creditors of the company.
- (4) The function of the Court during the stay period is to play a supervisory role to preserve the status quo and to move the process along to the point where a compromise or arrangement is approved or it is evident that the attempt is doomed to failure.
- (5) The status quo does not mean preservation of the relative pre-debt status of each creditor. Since the companies under C.C.A.A. orders continue to operate and having regard to the broad constituency of interests the Act is intended to serve, preservation of the status quo is not intended to create a rigid freeze of relative pre-stay positions.
- (6) The Court has a broad discretion to apply these principles to the facts of a particular case.

17 In *Cliffs Over Maple Bay Investments Ltd. v. Fisgard Capital Corp.*, 2008 BCCA 327, the Court of Appeal set aside the extension of a stay granted to the debtor property development company. There, the Court held that the CCAA was not intended to accommodate a non-consensual stay of creditors' rights while a debtor company attempted to carry out a restructuring plan that did not involve an arrangement or compromise on which the creditors could vote. At para. 26, Tysoe J.A., for the Court said this:

In my opinion, the ability of the court to grant or continue a stay under s. 11 is not a free standing remedy that the court may grant whenever an insolvent company wishes to undertake a "restructuring", a term with a broad meaning including such things as refinancings, capital injections and asset sales and other downsizing. Rather, s. 11 is ancillary to the fundamental purpose of the CCAA, and a stay of proceedings freezing the rights of creditors should only be granted in furtherance of the CCAA's fundamental purpose.

18 At para. 32, Tysoe J.A. queried whether the court should grant a stay under the CCAA to permit a sale, winding up or liquidation without requiring the matter to be voted upon by the creditors if the plan or arrangement intended to be made by the debtor company simply proposed that the net proceeds from the sale, winding up or liquidation be distributed to its creditors.

19 In *Cliffs Over Maple Bay Investments Ltd.* at para. 38, the court held:

... What the Debtor Company was endeavouring to accomplish in this case was to freeze the rights of all of its creditors while it undertook its restructuring plan without giving the creditors an opportunity to vote on the plan. The CCAA was not intended, in my view, to accommodate a non-consensual stay of creditors' rights while a debtor company attempts to carry out a restructuring plan that does not involve an arrangement or compromise upon which the creditors may vote.

20 As counsel for the petitioners submitted, *Cliffs Over Maple Bay Investments Ltd.* was decided before the current s. 36 of the *CCAA* came into force. That section permits the court to authorize the sale of a debtor's assets outside the ordinary course of business without a vote by the creditors.

21 Nonetheless, *Cliffs Over Maple Bay Investments Ltd.* is authority for the proposition that a stay, or an extension of a stay should only be granted in furtherance of the *CCAA*'s fundamental purpose of facilitating a plan of arrangement between the debtor companies and their creditors.

22 Other factors to be considered on an application for an extension of a stay include the debtor's progress during the previous stay period toward a restructuring; whether creditors will be prejudiced if the court grants the extension; and the comparative prejudice to the debtor, creditors and other stakeholders in not granting the extension: *Federal Gypsum Co. (Re)*, 2007 NSSC 347, 40 C.B.R. (5th) 80 at paras. 24-29.

23 The good faith requirement includes observance of reasonable commercial standards of fair dealings in the *CCAA* proceedings, the absence of intent to defraud, and a duty of honesty to the court and to the stakeholders directly affected by the *CCAA* process: *Re San Francisco Gifts Ltd.*, 2005 ABQB 91 at paras. 14-17.

Whether circumstances exist that make an extension appropriate

24 The petitioners seek the extension to April 13, 2012 in order to allow a reasonable period of time to continue their efforts to restructure and to develop a plan of arrangement.

25 There are particular circumstances which have protracted these proceedings. Those circumstances include the following:

- (a) Initially, Mr. Sargeant expressed an interest in funding the completion of the Vessel as a Crescent brand yacht at Worldspan shipyards. On July 22, 2011, on the application of Mr. Sargeant, the Court appointed an independent Vessel Construction Officer to prepare an analysis of the cost of completing the Vessel to Mr. Sargeant's specifications. The Vessel Construction Officer delivered his completion cost analysis on October 31, 2011.
- (b) The Vessel was arrested in proceedings in the Federal Court of Canada brought by Offshore Interiors Inc., a creditor and a maritime lien claimant. As a result, The Federal Court, while recognizing the jurisdiction of this Court in the *CCAA* proceedings, has exercised its jurisdiction over the vessel. There are proceedings underway in the Federal Court for the determination of *in rem* claims against the Vessel. Because this Court has jurisdiction in the *CCAA* proceedings, and the Federal Court exercises its maritime law jurisdiction over the Vessel, there have been applications in both Courts with respect to the marketing of the Vessel.
- (c) The Vessel, which is the principal asset of the petitioner Worldspan, is a partially completed custom built super yacht for which there is a limited market.

26 All of these factors have extended the time reasonably required for the petitioners to proceed with their restructuring, and to prepare a plan of arrangement.

27 On September 19, 2011, when this court confirmed and extended the Initial Order to December 16, 2011, it also authorized the petitioners to commence marketing the Vessel unless Mr. Sargeant paid \$4 million into his solicitor's trust account on or before September 29, 2011.

28 Mr. Sargeant failed to pay the \$4 million into trust with his solicitors, and subsequently made known his intention not to fund the completion of the Vessel by the petitioners.

29 On October 7, 2011, the Federal Court also made an order authorizing the petitioners to market the Vessel and to retain a leading international yacht broker, Fraser Yachts, to market the Vessel for an initial term of six months, expiring on April 7, 2012. Fraser Yachts has listed the Vessel for sale at \$18.9 million, and is endeavouring to find a buyer. Although its efforts have attracted little interest to date, Fraser Yachts have expressed confidence that they will be able to find a buyer for the Vessel during the prime yacht buying season, which runs from February through July. Fraser Yachts and the Monitor have advised that process may take up to 9 months.

30 On November 10, 2011, this Court, on the application of the petitioners, made an order authorizing and approving the sale of their shipyard located at 27222 Lougheed Highway, with a leaseback of sufficient space to enable the petitioners to complete the construction of the Vessel, should they find a buyer who wishes to have the Vessel completed as a Crescent yacht at its current location. The sale and leaseback of the shipyard has now completed.

31 Both this Court and the Federal Court have made orders regarding the filing of claims by creditors against the petitioners and the filing of *in rem* claims in the Federal Court against the Vessel.

32 The determination of the *in rem* claims against the Vessel is proceeding in the Federal Court.

33 After dismissing the *in rem* claims of various creditors, the Federal Court has determined that the creditors having *in rem* claims against the Vessel are:

Sargeant	\$20,945,924.05
Capri Insurance Services	\$45,573.63
Cascade Raider	\$64,460.02
Arrow Transportation and CCY	\$50,000.00

Offshore Interiors Inc. \$659,011.85

Continental Hardwood Co. \$15,614.99

Paynes Marine Group \$35,833.17

Restaurant Design and Sales LLC \$254,383.28

34 The petitioner, Worldspan's, *in rem* claim in the amount of \$6,643,082.59 was dismissed by the Federal Court and is currently subject to an appeal to be heard January 9, 2012.

35 In addition, Comerica Bank has asserted an *in rem* claim against the Vessel for \$9,429,913.86, representing the amount it advanced toward the construction of the Vessel. Mr. Mohammed Al-Saleh, a judgment creditor of certain companies controlled by Mr. Sargeant has also asserted an *in rem* claim against the Vessel in the amount of \$28,800,000.

36 The Federal Court will determine the validity of the outstanding *in rem* claims, and the priorities amongst the *in rem* claims against the Vessel.

37 The petitioners, in addition to seeking a buyer for the Vessel through Fraser Yachts are also currently in discussions with potential DIP lenders for a DIP facility for approximately \$10 million that would be used to complete construction of the Vessel in the shipyard they now lease. Fraser Yachts has estimated that the value of the Vessel, if completed as a Crescent brand yacht at the petitioners' facility would be \$28.5 million. If the petitioners are able to negotiate a DIP facility, resumption of construction of the Vessel would likely assist their marketing efforts, would permit the petitioners to resume operations, to generate cash flow and to re-hire workers. However, the petitioners anticipate that at least 90 days will be required to obtain a DIP facility, to review the cost of completing the Vessel, to assemble workers and trades, and to bring an application for DIP financing in both this Court and the Federal Court.

38 An extension of the stay will not materially prejudice any of the creditors or other stakeholders. This case is distinguishable from *Cliffs Over Maple Bay Investments Ltd.*, where the debtor was using the CCAA proceedings to freeze creditors' rights in order to prevent them from realizing against the property. Here, the petitioners are simultaneously pursuing both the marketing of the Vessel and efforts to obtain DIP financing that, if successful, would enable them to complete the construction of the Vessel at their rented facility. While they do so, a court supervised process for the sale of the Vessel is underway.

39 Mr. Sargeant also relies on *Encore Developments Ltd. (Re)*, 2009 BCSC 13, in support of his submission that the Court should refuse to extend the stay. There, two secure creditors applied

successfully to set aside an Initial Order and stay granted *ex parte* to the debtor real estate development company. The debtor had obtained the Initial Order on the basis that it had sufficient equity in its real estate projects to fund the completion of the remaining projects. In reality, the debtor company had no equity in the projects, and at the time of the application the debtor company had no active business that required the protection of a CCAA stay. Here, when the petitioners applied for and obtained the Initial Order, they continued to employ a skeleton workforce at their facility. Their principal asset, aside from the shipyard, was the partially constructed Vessel. All parties recognized that the CCAA proceedings afforded an opportunity for the completion of the Vessel as a custom Crescent brand yacht, which represented the best way of maximizing the return on the Vessel. On the hearing of this application, all of the creditors, other than Mr. Sargeant share the view that the Vessel should be marketed and sold through an orderly process supervised by this Court and the Federal Court.

40 I share the view of the Monitor that in the particular circumstances of this case the petitioners cannot finalize a restructuring plan until the Vessel is sold and terms are negotiated for completing the Vessel either at Worldspan's rented facility, or elsewhere. In addition, before the creditors will be in a position to vote on a plan, the amounts and priorities of the creditors' claims, including the *in rem* claims against the Vessel, will need to be determined. The process for determining the *in rem* claims and their priorities is currently underway in the Federal Court.

41 The Monitor has recommended the Court grant the extension sought by the petitioners. The Monitor has raised one concern, which relates to the petitioners' current inability to fund ongoing operating costs, insurance, and professional fees incurred in the continuation of the CCAA proceedings. At this stage, the landlord has deferred rent for the shipyard for six months until May 2012. At present, the petitioners are not conducting any operations which generate cash flow. Since the last come back hearing in September, the petitioners were able to negotiate an arrangement whereby Mr. Sargeant paid for insurance coverage on the Vessel. It remains to be seen whether Mr. Sargeant, Comerica Bank, or some other party will pay the insurance for the Vessel which comes up for renewal in January, 2012.

42 Since the sale of the shipyard lands and premises, the petitioners have no assets other than the Vessel capable of protecting an Administration Charge. The Monitor has suggested that the petitioners apply to the Federal Court for an Administration Charge against the Vessel. Whether the petitioners do so is of course a matter for them to determine.

43 The petitioners will need to make arrangements for the continuing payment of their legal fees and the Monitor's fees and disbursements.

44 The CCAA proceedings cannot be extended indefinitely. However, at this stage, a CCAA restructuring still offers the best option for all of the stakeholders. Mr. Sargeant wants the stay lifted so that he may apply for the appointment of Receiver and exercise his remedies against the Vessel. Any application by Mr. Sargeant for the appointment of a Receiver would be resisted by the other creditors who want the Vessel to continue to be marketed under the Court supervised process now underway.

45 There is still the prospect that through the CCAA process the Vessel may be completed by the petitioners either as a result of their finding a buyer who wishes to have the Vessel completed at its present location, or by negotiating DIP financing that enables them to resume construction of the

Vessel. Both the marine surveyor engaged by Comerica Bank and Fraser Yachts have opined that finishing construction of the Vessel elsewhere would likely significantly reduce its value.

46 I am satisfied that there is a reasonable possibility that the petitioners, working with Fraser Yachts, will be able to find a purchaser for the Vessel before April 13, 2012, or that alternatively they will be able to negotiate DIP financing and then proceed with construction. I find there remains a reasonable prospect that the petitioners will be able to present a plan of arrangement to their creditors. I am satisfied that it is their intention to do so. Accordingly, I find that circumstances do exist at this time that make the extension order appropriate.

Good faith and due diligence

47 Since the last extension order granted on September 19, 2011, the petitioners have acted diligently by completing the sale of the shipyard and thereby reducing their overheads; by proceeding with the marketing of the Vessel pursuant to orders of this Court and the Federal Court; and by embarking upon negotiations for possible DIP financing, all in furtherance of their restructuring.

48 Notwithstanding the dispute between Mr. Barnett and Mr. Blane, which resulted in the commencement of litigation in the State of Florida at or about the same time this Court made its Initial Order in the CCAA proceedings, the petitioners have been able to take significant steps in the restructuring process, including the sale of the shipyard and leaseback of a portion of that facility, and the applications in both this Court and the Federal Court for orders for the marketing of the Vessel. The dispute between Mr. Barnett and his former partner, Mr. Blane has not prevented the petitioners from acting diligently in these proceedings. Nor am I persuaded on the evidence adduced on this application that dispute would preclude the petitioners from carrying on their business of designing and constructing custom yachts, in the event of a successful restructuring.

49 While the allegations of misconduct, fraud and misappropriation of funds made by Mr. Barnett against Mr. Blane are serious, at this stage they are no more than allegations. They have not yet been adjudicated. The allegations, which are as yet unproven, do not involve dishonesty, bad faith, or fraud by the debtor companies in their dealings with stakeholders in the course of the CCAA process.

50 In my view, the failure of the petitioners to disclose the dispute between Mr. Barnett and Mr. Blane does not constitute bad faith in the CCAA proceedings or warrant the exercise of the Court's discretion against an extension of the stay.

51 This case is distinguishable from *Re San Francisco Gifts Ltd.*, where the debtor company had pleaded guilty to 9 counts of copyright infringement, and had received a large fine for doing so.

52 In *Re San Francisco Gifts Ltd.*, at paras 30 to 32, the Alberta Court of Queen's Bench acknowledged that a debtor company's business practices may be so offensive as to warrant refusal of a stay extension on public policy grounds. However, the court declined to do so where the debtor company was acting in good faith and with due diligence in working toward presenting a plan of arrangement to its creditors.

53 The good faith requirement of s. 11.02(3) is concerned primarily with good faith by the debtor in the CCAA proceedings. I am satisfied that the petitioners have acted in good faith and with due diligence in these proceedings.

Conclusion

54 The petitioners have met the onus of establishing that circumstances exist that make the extension order appropriate and that they have acted and are acting in good faith and with due diligence. Accordingly, the extension of the Initial Order and stay to April 13, 2012 is granted on the terms pronounced on December 16, 2011.

P.J. PEARLMAN J.

cp/e/qlrxg/qlvxw/qlhcs
