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COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE EDMONTON

PLAINTIFF (APPLICANT) BANK OF MONTREAL

DEFENDANT (RESPONDENT) **LADACOR AMS LTD.,
NOMADS PIPELINES CONSULTING LTD.,
2367147 ONTARIO INC., and
DONALD KLISOWSKY**

DOCUMENT **THIRD REPORT OF THE RECEIVER**

December 10, 2018

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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ALVAREZ & MARSAL

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INTRODUCTION

1. On May 18, 2018 (the “**Receivership Date**”), pursuant to an order of the Court of Queen’s Bench of Alberta (the “**Court**”) granted in these proceedings (the “**Receivership Order**”), Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed receiver and manager (the “**Receiver**”), without security, of all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (the “**Property**”), in respect of Ladacor AMS Ltd. (“**Ladacor**”), Nomads Pipelines Consulting Ltd. (“**Nomads**”) and 2367147 Ontario Inc. (“**236 Inc.**”) (collectively, the “**Debtors**” and each individually a “**Debtor**”) pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended (the “**BIA**”), section 13(2) of the *Judicature Act*, RSA 2000, c J-2 and 65(7) of the *Personal Property Security Act*, R.S.A. 2000, c.P-7 (“**PPSA**”).
2. The Receivership Order empowers and authorizes, but does not obligate, the Receiver to, among other things, manage, operate and carry on the business of the Debtors and to take possession and control of the Property (as defined in the Receivership Order) of Debtors and any and all proceeds, receipts and disbursements arising out of or from the Debtors, and to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business.
3. The purpose of this Third Report of the Receiver (the “**Third Report**” or “**this Report**”) is to provide this Honourable Court with the Receiver’s comments on:
 - a) ongoing activities of the Receiver since the Second Report dated October 16, 2018;
 - b) the details of the Hotel Stalking Horse Sales Process (as defined in the Second Report) and the winning bid being the SLFNHA Stalking Horse APA (as defined in the Second Report);

- c) the Receiver's sale approval and vesting order application for approval of the SLFNHA Stalking Horse APA transaction;
 - d) the Receiver's application for the sealing of Confidential Appendix 1 to this Report (the "**Sealing Order**");
 - e) the cash flow results for the period from May 18, 2018 to November 30, 2018;
 - f) the approval of a proposed second interim distribution ("**Second Interim Distribution**") of funds recovered by the Receiver to Bank of Montreal ("**BMO**"); and
 - g) the Receiver's conclusions and recommendations.
3. Capitalized words or terms not defined or ascribed a meaning in the Third Report are as defined or ascribed a meaning in the Receivership Order, the First Report or Second Report of the Receiver to the Court (the "**First Report**" and the "**Second Report**", respectively).
4. All references to dollars are in Canadian currency.

TERMS OF REFERENCE

5. In preparing this Third Report, the Receiver has relied upon information obtained prior to the Receivership Proceedings by Alvarez & Marsal Canada ULC, in its role as financial advisor (as discussed in the First Report and Second Report), representations of certain former management and former employees of the Debtors; and financial and other information contained in the Debtors' books and records, which were produced and maintained principally by the Debtors. The Receiver has not performed an audit, review or other verification of such information.

BACKGROUND

6. Nomads' principal business is investments and the manufacturing and production of advanced modular buildings and structures. These advanced modular buildings and structures were constructed from sea cans. Nomads is owned by Mr. Donald Klisowsky (97.28%) and Mr. Sam Klisowsky (2.72%) through the issuance of Class A common shares.
7. Ladacor is a wholly-owned subsidiary of Nomads and is also in the business of manufacturing and production of advanced modular buildings and structures. For accounting and financial reporting purposes, the Receiver understands that Nomads and Ladacor combined their financial records and did not separate their assets and liabilities but were in the process of doing so prior to the Receivership Date.
8. Ladacor is the borrower of funds from BMO of approximately \$4.7 million as at the Receivership Date and each of Nomads, 236 Inc. and Donald Klisowsky have guaranteed to BMO the indebtedness of Ladacor.
9. 236 Inc. is a corporation registered to do business in the Province of Ontario. 236 Inc.'s principal business activity is operating a hotel, which is part of the Days Inn franchise and is currently operating as the Days Inn Sioux Lookout (the "**H**otel") in Sioux Lookout, Ontario. The Hotel opened on December 8, 2014 and is a 60-room, limited-service type hotel, that includes a 2,200 sq. ft. meeting space, a fitness facility and approximately 95 outdoor surface parking spaces. Nomads owns 90% of the Class A common shares of 236 Inc. as an investment and the remaining 10% are owned by J. Steenhof & Associates Ltd.
10. Further background to each of the Debtors and their operations are contained in the materials filed in support of the Receivership Order. These documents and other publicly filed Court materials in these proceedings, including the First Report and Second Report, have been posted on the Receiver's website at: www.alvarezandmarsal.com/ladacor (the "**R**eceiver's Website").

ACTIVITIES OF THE RECEIVER

11. Since the Second Report, the Receiver's activities with respect to the Debtors are as follows:

- a) completion and collection of the net sale proceeds from the sale of the residual equipment and inventory as outlined in the First Report and proceeds reflected in the statement of receipts and disbursements below;
- b) exiting the existing office lease of Ladacor/Nomads effective November 15, 2018 and entering into a new month to month lease with the landlord to store the remaining Hythe modules (as discussed below) at a significantly reduced rent of approximately \$3,000 per month;
- c) completion of the Banff Project and collection of all remaining receipts from the Banff Project Owner pursuant to the Amended Accommodation Agreement; communicate with the HPH Project Owners with a letter dated November 30th, 2018 with respect to the status of Hythe Project and requesting of information. Counsel for the Hythe Project responded with a letter dated December 7th, 2018. A further discussion on the Hyth Project matters is discussed below;
- d) entering into a settlement and release agreement with Step Ahead dated October 23rd, 2018 with respect to an outstanding account receivable on the Westgate Project for and amount agreed to be owing to Nomads of \$2.7 million. A further discussion on the settlement and release agreement is discussed below;
- e) completion of the Hotel Stalking Horse Sales Process as discussed further below;

- f) preparing the assignment in bankruptcy materials with respect to Nomads and Ladacor and gathering further information to update the creditor listing of all known creditors in these estates, as discussed in the First Report. It is now expected that the Receiver will assign Nomads, Ladacor (and possibly 236 Inc.) into bankruptcy, as permitted in the Receivership Order and as discussed in the First Report, in nearly January 2019;
- g) providing payment of \$53,236.34 into Court as security for the lien claim and costs of Hawk Electric, which security is currently being held by the Clerk of the Court with respect to the Westgate Project pursuant to an Order of this Court;
- h) communication with Donald Klisowsky requesting specific information the Receiver is not in possession of with respect to certain investments in public and non-public companies owned by Nomads;
- i) attending multiple meetings and hosting telephone conversations with various owners and stakeholders with respect certain projects;
- j) completing and compilation of analysis of accounts receivables and other assets, including investments owned by Nomads. The Receiver is currently seeking information with respect to ownership of various investments that are owned by Nomads from Don Klisowsky and other means;
- k) undertaking day to day management of operations of the Debtors, including contractor supervision and payment of trade creditors for services rendered and approved by the Receiver;
- l) monitoring the cash flow of the Debtors and ensuring suppliers are paid on a timely basis;

- m) borrowing of an additional \$300,000 by issuing a second Receiver's Certificate to BMO to ensure the Receiver had adequate resources to operate in the Receivership Proceedings. Total borrowings in the Receivership Proceedings is \$800,000, as discussed further below;
- n) continued communication with the Canada Revenue Agency ("CRA") with respect to finalizing its respective source deduction and GST audits;
- o) attending various meetings and communication with BMO, as the main creditor stakeholder, with respect to operational and financial updates of the Debtors; and
- p) attending to numerous and on-going meetings and discussions with various creditors (or their representatives), Blakes, shareholders, current directors, interested parties and other Debtor stakeholders regarding the Receivership Proceedings.

Banff Project

12. As noted in the First Report, the Amended Accommodation Agreement provided the Receiver with potential entitlement to receive up to an additional \$250,000 (the "**Additional Banff Receipt Amount**") depending upon the outcome of the Banff Project Owners establishing a lien fund to address the various liens filed by certain vendors as against the Banff Project lands.
13. On or around October 30, 2018, the lienholders of the Banff Project collected \$176,609 from the Banff Project Owners pursuant to the Amended Accommodation Agreement.
14. The Receiver advises that matters with respect to the Banff Project, including any claims of the lienholders under the lien claims, and the Amended Accommodation Agreement have now concluded and are all settled.

Westgate Project

15. As at the Receivership Date, Nomads was owed approximately \$3.6 million (including GST) from Step Ahead and Step Ahead disputes this amount as outstanding to Nomads. Since the Receivership Date, the Receiver and Step Ahead's financial advisor have been working closely to reconcile and confirm the outstanding balance owed by Step Ahead to Nomads.
16. On October 27, 2018, the Receiver and Step Ahead (otherwise legally known as 1507811 Alberta Ltd.) came to an agreement (the "**Settlement and Release Agreement**") whereby Step Ahead would pay to Nomads the sum of \$2.7 million, inclusive of GST, in exchange for, among other things, the Receiver's discharge of Nomad's lien and discontinuance of claim. To date, \$100,000 was paid to the Receiver shortly following the execution of the Settlement and Release Agreement to be applied against the total \$2.7 million, leaving \$2.6 million outstanding.
17. On November 23, 2018 the Receiver was notified by Step Ahead that the remaining \$2.6 million is now going to take an additional approximately 12 weeks to pay, mainly due to the time required for mortgage financing by the CMHC. Step Ahead requested the Receiver to consider extending the period of time to which it will be paid the remaining the \$2.6 million.
18. The Receiver is currently reviewing Step Ahead's request and will be communicating shortly with Step Ahead on its position with respect to its obligations owed to Nomads.

Hythe Project

19. Since the Receivership Date, the Receiver has been in constant contact with HPH Project Owners with respect to the Hythe Project. The Receiver took measures to ensure that the Hythe Project site was properly monitored, supervised and the site modular units were protected as best as possible, under the circumstances. The Receiver could not reach any agreement with HPH Project Owners with respect to

the Receiver's go-forward involvement on the project and, as such, the Receiver vacated the Hythe Project site premise and turned over custody and control of this site to the HPH Project Owners.

20. Since the First Report, the Receiver had not yet received a definitive answer from HPH Project Owners in terms of a go forward plan. As a result, the Receiver filed a lien on the site on August 24th for a total lien amount of \$2.8 million as against the lands of the Hythe Project.
21. As discussed above, the Receiver's counsel communicated a formal letter to HPH Project Owner's counsel on November 30, 2018 notifying that the Receiver intends to seek direction from this Honourable Court on potential recovery methods. The Receiver requested that HPH Project Owner's respond by December 7th, 2018 with respect to their go forward plans and need for the 23 modules currently in the Receiver's possession. The Receiver received a response from counsel to the Hythe Project Owners and is currently evaluating the response.

THE HOTEL STALKING HORSE SALE PROCESS

Summary of sales process

22. On October 24th, 2018, the Honourable Court granted an Order approving the Hotel Stalking Horse Sale Process for the sale of the Hotel that is owned by 236 Inc.
23. An overview of the major steps performed in the Hotel Stalking Horse Sale Process are set out below:
 - a) the Receiver prepared a non-confidential teaser letter (the "**Teaser Letter**") describing the Hotel Stalking Horse Sale Process and a non-disclosure agreement (the "**NDA**"). The Teaser and NDA were made available by the Receiver to prospective purchasers and were posted

on the Receiver's website following Court approval of the Hotel Stalking Horse Sale Process;

- b) advertisement of the Hotel Stalking Sale Process was published in the Globe and Mail, Sioux Lookout Bulletin and the Thunder Bay Chronicle at various dates throughout the first two weeks of the sale process;
- c) the Receiver, through its advisors JLL, reached out to various potential bidders by direct email and to approximately four hundred and fifty (450) potential financial and strategic buyers;
- d) seventeen NDA's were duly executed by potential bidders who sought to perform additional diligence with regards to the Hotel. JLL hosted a property site tour of the Hotel for one interested potential bidder. No other interested parties requested a site tour of the Hotel;
- e) all potential bidders that executed NDAs were provided with access to a virtual data room ("VDR") containing the Hotel Stalking Horse Sale Process, SLFNHA Stalking Horse APA and various financial and other information with respect to the Hotel;
- f) the deadline for receipt by the Receiver of a final binding offer from interested parties in the form of an purchase and sale agreement was November 28, 2018 (Noon MT) (the "**Bid Deadline**").

26. There were no Qualified Bid(s), either informally or formally received by JLL and the Receiver prior to the Bid Deadline.

27. A copy of JLLs final marketing report of the Hotel Stalking Horse Sale Process can be found in Confidential Appendix 1 to this Report. Confidential Appendix 1 contains confidential information of a commercial nature, which, if disclosed to third parties prior to the closing of the sale, could materially jeopardize the sale or if the sale does not close could materially jeopardize the value that could

subsequently be obtained. Accordingly, the Receiver is respectfully of the view that it is appropriate that this Honourable Court grant a Sealing Order in relation to Confidential Appendix 1.

28. On December 3, 2018, the Receiver's counsel served a letter advising the service list that the Receiver formally terminated the Hotel Stalking Horse Sale Process in accordance with section 24 of the Hotel Stalking Horse Sale Process and deemed the SLFNHA Stalking Horse APA as the successful bidder.

Receiver's Comments on the SLFNHA Stalking Horse APA

29. The Receiver supports the results of the SLFNHA Stalking Horse APA based upon the following factors:
- a) the Hotel Stalking Horse Sales Process was approved by this Honourable Court;
 - b) the Receiver, and its advisors JLL, acted in good faith and with due diligence in meeting the milestones of the Hotel Stalking Horse Sales Process and soliciting bids, including the bid resulting in the SLFNHA Stalking Horse APA;
 - c) there was broad marketing of the Hotel to a large number of prospective purchasers over a reasonable timeframe;
 - d) BMO is supportive of the SLFNHA Stalking Horse APA for a purchase price of \$5 million;
 - e) the Receiver, along with its advisor JLL, believes the consideration in the SLFNHA Stalking Horse APA is commercially reasonable, in the best interest of the 236 Inc.'s creditors and other stakeholders and will maximize available recovery to creditors.

30. The Receiver understands that as part of the SLFNHA Stalking Horse APA, SLFNHA wishes to convert the Hotel into a hostel and, as such, the Receiver intends to disclaim 236 Inc.'s lease with the franchisor (Day's Inn) in due course.
31. As a result, the Receiver supports the SLFNHA Stalking Horse APA and the granting of the sale approval and vesting order as contemplated in the Second Report.

RECEIPTS AND DISBURSEMENTS, MAY 18 TO NOVEMBER 30, 2018

Ladacor and Nomads

32. The following is a statement of the Receiver's receipts and disbursements ("R&D") of Ladacor and Nomads during the Reporting Period:

Ladacor AMS Ltd. & Nomads Pipeline Consulting Ltd. - In Receivership	
Statement of Receipts & Disbursements	
CAD\$, unaudited	
May 18, 2018 to November 30, 2018	
Receiver's Certificate (borrowings)	800,000
Receipts	
Banff Project Collections	1,568,609
Westgate Project Collections	100,000
Auction Proceeds	605,858
Other Collections	35,572
Interest	2,767
GST Collected on Receipts	3,864
	2,316,669
Total Receipts	\$ 3,116,669
Disbursements	
Receivership Operating Costs	519,864
Banff Project Operating Costs	862,268
General & Administrative Costs	20,552
Pre-receivership wages paid (hourly staff)	95,994
Cash Security - Hawk Electric	53,236
GST paid on disbursements	79,176
Pre-receivership advisor fees and costs (A&M)	35,758
Receiver (A&M)	366,549
Receiver's Counsel (Blakes)	239,785
Professional Fees and Costs	606,334
Total disbursements	\$ 2,273,183
Ending cash balance	\$ 843,486

33. There was no opening cash available as at the Receivership Date. The Receiver froze Ladacor's and Nomads' operating bank accounts and other bank accounts on the Receivership Date and opened a new Receiver's trust bank account.
34. The Receiver has collected approximately \$3,117,000, which primarily relates to:
- a) Receiver's borrowings of \$800,000 during the Reporting Period (the Receiver is authorized to borrow up to \$1,200,000 pursuant to the Receivership Order);
 - b) Banff Project receipts of approximately \$1.56 million relating to module receipts collections and settlement of \$676,000 and approximately \$892,000 relating to funding received from the Banff Project Owners to complete the Banff Project, respectively, pursuant to the Amended Accommodation Agreement;
 - c) Westgate Project collections of \$100,000 from the Westgate Project owners pursuant to a settlement agreement reached on outstanding project receivables to Nomads. Westgate owes a further \$2.6 million to Nomads and arrangements are currently being made between the Receiver and the Westgate Project owners on the remaining collections;
 - d) proceeds from the sale of Ladacor's non-core other assets and inventory pursuant to the Auction Agreement (as discussed in the Second Report) totaling approximately \$606,000;
 - e) sale of miscellaneous inventory and other receipts of approximately \$36,000 during the Receivership Proceedings; and
 - f) interest and GST collected on receipts of approximately \$6,600.

35. The Receiver has disbursed approximately \$2,273,000, which primarily relates to:
- a) operating costs of approximately \$520,000 relating to independent contractor fees and costs of approximately \$254,000, occupancy rent paid relating to the Facility and other locations in housing staff at project sites of approximately \$178,000, and utilities and facility maintenance costs of approximately \$88,000;
 - b) Banff Project operating costs of approximately \$862,000 for independent contractor fees and costs and subtrade, materials and permit costs of approximately \$238,000 and \$624,000, respectively;
 - c) general & administrative costs of approximately \$21,000 relating to office supplies, insurance, and IT costs;
 - d) pre-receivership wages of approximately \$96,000 to the former employees of Ladacor and Nomads;
 - e) pre-receivership advisor fees and costs paid to A&M ULC of approximately \$36,000 for consulting services provided to BMO as permitted by BMO's credit agreement and as agreed to by Nomads and Ladacor;
 - f) GST paid on disbursement of approximately \$79,000;
 - g) payment into Court by the Receiver of \$53,236 as security for the lien claim and costs (calculated at 15% of the lien claim) of Hawk Electric (Westgate Project), which security is to be held by the Clerk of the Court pending further Order of the Court;
 - h) professional fees and costs of the Receiver approximately \$367,000 up to and including August 31, 2018; and

- i) professional fees and costs of the Receiver's independent legal counsel approximately \$240,000 up to and including October 31, 2018.

36. Total cash on hand held by the Receiver as at November 30, 2018 is \$843,486.

236 Inc.

37. The table below provides a summary of the actual cash flows of 236 Inc. for the Hotel for the Reporting Period:

2367147 Ontario Inc. - In Receivership	
Statement of Receipts & Disbursements	
CAD\$, unaudited	
May 18, 2018 to November 30, 2018	
	Total
Opening Cash Balance	\$ 119,499
Receipts	
Hotel Receipts	\$ 720,873
Net HST Collected on Receipts	32,508
Miscellaneous Receipts	3,276
Bank Interest	632
	\$ 757,289
Total Receipts	\$ 876,788
Disbursements	
Payroll	\$ 258,175
General & Administrative	173,763
Operational Costs	146,405
Professional Fees and Costs	122,466
HST Paid	73,153
Capital Expenditure	8,849
Building Maintenance	8,152
Bank Fee	413
OSB Fee	70
Total Disbursements	\$ 791,448
Remaining Balance	\$ 85,340

38. There was approximately \$120,000 of opening cash available as at the Receivership Date. The Receiver immobilized 236 Inc.'s operating bank accounts on the Receivership Date and opened a new Receiver's trust bank account.
39. The Receiver has not been required to borrow any funds in relation to the operation of the Hotel, as the cashflow from operations has been able to cover both the operational costs and professional fees and costs of the Receiver to date.
40. Disbursements of approximately \$791,000 have been paid during the Reporting Period, which primarily relates to:
- a) operating costs of approximately \$146,000;
 - b) general & administrative costs of approximately \$174,000 relating mainly to accounting services fees and costs, corporate insurance payments, appraisal fees and costs, municipal tax payments and royalties to the Days Inn franchisor;
 - c) building maintenance and other capital costs of approximately \$17,000;
 - d) payroll of approximately \$258,000 for 29 independent contractors (former staff); and
 - e) professional fees and costs of the Receiver totalling approximately \$122,000 for the period up to and including August 31, 2018. The Receiver has approximately \$65,000 in unpaid fees and costs for the period of September 1 to October 31, 2018 and are forecast to be paid in the coming weeks.
43. Total cash on hand held by the Receiver as at November 30, 2018 is \$85,340.

PROPOSED SECOND INTERIM DISTRIBUTION

44. Pursuant to paragraph 12 of the Receivership Order, the monies collected during the Receivership Proceedings shall be held by the Receiver to be paid or distributed in accordance with the terms of the Receivership Order or any order of this Court.
45. As discussed in the First Report, the Receiver's independent counsel has provided a security opinion to the Receiver's, which provides that the BMO security as against the Debtors is valid and enforceable and ranks in priority to the unsecured creditors of the Debtors' estates. If the transaction pursuant to the SLFNHA Stalking Horse APA is approved by this Court and/or the Receiver is able to receive the net proceeds on closing, the Receiver recommends making an interim distribution or distributions to BMO, as repayment of the indebtedness owing to it under the Receiver Certificates issued in these Receivership Proceedings and up to the full amount of the Debtors' overall indebtedness owed to BMO. The interim distribution would be made from the net sale proceeds of the Hotel, less an amount to be determined by the Receiver, at its sole discretion, to be retained in order to cover future costs of the administration of the estates of the Debtors and any potential priority claims there may be. The Receiver anticipates holding back approximately \$1,000,000 (subject to change) of the sales proceeds from the Hotel after the transaction closes, subject to Court approval, to address the various priority claims (as discussed in the First Report) and certain operational expenses outstanding relating to the Debtors.

RECEIVER'S ONGOING ACTIVITIES AND COURSE OF ACTION

46. The Receiver's next steps include, but are not limited to:
- a) continuing the collection efforts respecting outstanding projects and other accounts receivables, investments and other assets of Nomads and Ladacor;

- b) assign Nomads and Ladacor into bankruptcy;
- c) close on the SLFNHA Stalking Horse APA transaction, subject to Court approval; and
- d) filing, packaging and storing all relevant books and records of Nomads, Ladacor and 236 Inc.

CONCLUSION AND RECOMMENDATIONS

47. The Receiver is of the view that it has made commercially reasonable efforts to obtain the highest and most efficient realizations for the Ladacor and Nomads projects. The Receiver is satisfied that the interests of Ladacor and Nomads financial stakeholders have been considered during the course of the realization processes and the Receivership Proceedings.
48. Accordingly, the Receiver respectfully recommends this Honourable Court:
- a) approve the transaction pursuant to the SLFNHA Stalking Horse APA;
 - b) provide direction with respect to the Hythe modules in the Receiver's possession;
 - c) approve the Receiver's statement of receipts and disbursements from the Receivership Date (May 18, 2018) to November 30, 2018;
 - d) approve the action and activities of the Receiver and Blakes as reported in this Report and the Receiver's prior reports to this Court, including the actions in relation to the Banff Project, described more specifically in paragraphs 30 to 33 of the First Report.
 - e) approve the proposed interim distribution to BMO; and
 - f) grant the sealing of Confidential Appendix 1 on the Court record.

All of which is respectfully submitted this 10th day of December, 2018.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Receiver of the Debtors and not in
its personal or corporate capacity**



Orest Konowalchuk, CPA, CA, CIRP, LIT
Senior Vice President



Chad Artem, CPA, CA, CBV
Senior Manager

CONFIDENTIAL APPENDIX 1

JLL Final Marketing Report