

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE RECEIVERSHIP OF 2423402 ONTARIO INC.**

**BETWEEN:**

**BANK OF MONTREAL**

**APPLICANT**

**AND**

**2423402 ONTARIO INC.**

**RESPONDENT**

**SUPPLEMENT TO REPORT OF ERNST & YOUNG INC. IN ITS CAPACITY AS  
COURT-APPOINTED MONITOR OF BONDFIELD CONSTRUCTION COMPANY  
LIMITED, AMONG OTHERS**

**RE: THE CAMBRIDGE MEMORIAL HOSPITAL CAPITAL  
REDEVELOPMENT PROJECT**

**July 10, 2019**

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**RE: THE CAMBRIDGE MEMORIAL HOSPITAL CAPITAL  
REDEVELOPMENT PROJECT (THE “PROJECT”)**

**July 10, 2019**

**INTRODUCTION**

- 1 On May 31, 2019, Ernst & Young Inc. in its capacity as court-appointed Monitor (the “**Monitor**”) of Bondfield Construction Company Limited (“**BCCL**”), among others, served a report (the “**CMH Report**”).
- 2 The CMH Report was served to provide the Court and interested parties with certain financial information with respect to BCCL’s involvement in the Project, including as a result of the request of Zurich for such information to respond to the motion brought by Bank of Montreal in its capacity as the administrative agent (the “**Administrative Agent**”) for the lenders (the “**Lenders**”) to 2423402 Ontario Inc. (“**Project Co**”) in this proceeding.

- 3 Subsequent to the issuance of the CMH Report, the Monitor has had further discussions with Zurich, the Administrative Agent and their advisors, and has received additional information in connection with the Project.
- 4 This Supplement to the CMH Report (the “**Supplemental Report**”) is served to provide certain additional financial information based on these discussions as well as a review of the information made available to the Monitor.
- 5 All capitalized terms used herein and not otherwise defined have the meanings given to them in the CMH Report.

## **TERMS OF REFERENCE AND DISCLAIMER**

- 6 In preparing this Supplemental Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records prepared by the Bondfield Group, discussions with management of the Bondfield Group (“**Management**”), and information from other third party sources (collectively, the “**Information**”). Except as described in this Supplemental Report:
- (a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards (“**GAAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and
  - (b) some of the information referred to in this Supplemental Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
- 7 Unless otherwise indicated, the Monitor’s understanding of factual matters expressed in this Supplemental Report concerning the Bondfield Group and their business is based on the Information, and not independent factual determinations made by the Monitor.

- 8 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

## **CONSTRUCTION CONTRACT - UNPAID CERTIFIED PAYMENT APPLICATIONS**

- 9 As of May 28, 2019, BCCL has issued certified progress billing applications #1 to #55 to Project Co for a total amount of \$130,067,993, and has recorded payments from Project Co totaling \$127,576,071 toward these payment applications. Set out in **Appendix “A”** is a summary of BCCL progress billing applications #1 to #55 and the payments applied based on BCCL’s financial records.
- 10 As described in the CMH Report, BCCL’s financial records show it was owed \$2,491,922 from Project Co in respect of certified progress billing applications (the “**Progress Billing A/R**”) as at May 28, 2019.
- 11 In addition, BCCL’s financial records show it was owed \$1,243,844 related to unpaid extra billings (also known as “change orders”) (the “**Change Order A/R**”) also as at May 28, 2019. For ease of reference, the list of the outstanding payment applications according to BCCL’s financial records set out in Appendix “C” to the CMH Report is reproduced as **Appendix “B”** attached hereto.
- 12 As at May 28, 2019, the total amounts owing to BCCL according to its records are:

(a)	Progress Billing A/R	\$2,491,922
(b)	Change Order A/R	\$1,243,844
	Total	<b>\$3,735,767</b>

## **LENDER DISPUTE**

- 13 The Lenders dispute that the above amounts are owing to BCCL based on their review of Project Co’s financial records. The Lenders’ position is that only \$340,301 is owed by Project Co to BCCL with respect to the Progress Billing A/R. This is the amount included in the Progress Billing A/R in respect of BCCL payment applications #44 to #55. These

billing applications were certified by the Lenders' technical advisor after defaults under Project Co's credit facility were caused by the registration of the first construction lien on April 25, 2018.

- 14 Based on the investigation by the Monitor, there is a difference of \$1,840,320 with respect to the Progress Billings A/R between the Lenders' position and BCCL's financial records, as further discussed below. In addition, there is a \$311,461 shortfall comparing payments by Project Co based on its banking records to the total amount per BCCL payment applications. The Monitor understands that the Lenders are continuing to investigate this difference of \$311,461. Set out below is a summary of the Monitor's understanding of the sources of these differences.

Progress Billings A/R			
Payment Application #	Prior to #43	#44 to #55	Total
Progress Billings A/R - BCCL books and records	\$ 2,151,621	\$ 340,301	\$ 2,491,922
Progress Billing A/R - Lenders' calculations	311,461 *	340,301	651,762
Difference - Progress Billings A/R	<u>\$ 1,840,160</u> A	<u>\$ -</u>	<u>\$ 1,840,160</u>
* Represents an identified shortfall that remains subject to the Lenders' investigation.			
<b>Sources of difference re payments from Project Co</b>			
Project Co cheque payments that are not recorded by BCCL	\$ 1,000,000		
Project Co payments to BCCL but not applied against payment applications	119,594		
Project Co payments for certain advisor fees	720,350		
Unreconciled difference	216		
	<u>\$ 1,840,160</u> A		

- 15 Financial records of Project Co and BCCL reflect the \$1,840,160 difference regarding the Progress Billing A/R is related to payments by Project Co as described below:
- (a) \$1,000,000 - Project Co issued several cheques, of which \$1,000,000 is not reflected on any BCCL payment applications, and was not recorded by BCCL according to its financial records;
  - (b) \$119,594 - Of the payments from Project Co to BCCL, \$119,594 was not recorded by BCCL according to its financial records;
  - (c) \$720,350 - The Lenders advanced this amount to Project Co, which then paid certain advisors to the Lenders and BCCL on August 28, 2014 as part of the closing of the Project Credit Facility as follows:

i)	McCarthy Tetrault LLP	\$194,360.00
ii)	Osler, Hoskin & Harcourt LLP	\$154,433.20
iii)	Rocklynn Capital Inc.	\$339,000.00
iv)	Pelican Woodcliff Inc.	\$32,557.11

(d) An unreconciled difference of \$216.

At the time of this Supplemental Report, the Monitor continues to review backup and BCCL's bookkeeping in connection with the above transactions.

- 16 With respect to the Change Order A/R in the amount of \$1,243,844 owing to BCCL, Counsel to the Lenders has advised that Cambridge Memorial Hospital alleges set-off against the entire Change Order A/R.
- 17 With respect to the timing of payments from Project Co, the Monitor confirms that payments were made by Project Co to BCCL after October 2017 totalling \$3,524,815. Per BCCL's financial records, such payments (with the exception of \$119,594 as described in paragraph 14 (b)) were applied to billing applications dated prior to October 2017.
- 18 The Monitor has worked with Zurich and the Lenders to identify the sources of the difference between the Lenders and BCCL's financial records on a factual basis as to the amounts owing to BCCL. The Monitor believes that those sources are now essentially understood, as described above.

All of which is respectfully submitted this 10th day of July, 2019.

**ERNST & YOUNG INC.**

Solely in its role as Court-appointed Monitor  
of the Bondfield Group, and not in its personal capacity

Per: 

**Alex Morrison, CPA, CA**  
Senior Vice President

# **Appendix “A”**

**Bondfield Construction Company Limited**  
**The Cambridge Memorial Hospital Project**  
**Payment Applications**

<b>Inv.No.</b>	<b>Inv Date.</b>	<b>Progress Billing Amount, incl HST</b>	<b>Amount Applied</b>	<b>Outstanding Payable</b>
000001	Aug31 2014	12,204,000.00	12,204,000.00	0.00
000002	Sep30 2014	648,356.34	648,356.34	0.00
000003	Oct31 2014	313,712.49	313,712.49	0.00
000004	Nov30 2014	2,178,852.07	2,178,852.07	0.00
000005	Dec31 2014	1,148,577.11	1,148,577.11	0.00
000006	Jan31 2015	669,889.41	669,889.41	0.00
000007	Feb28 2015	700,421.40	700,421.40	0.00
000008	Mar31 2015	1,240,897.85	1,240,897.85	0.00
000009	Apr30 2015	2,192,635.87	2,192,635.87	0.00
000010	May31 2015	2,709,740.61	2,709,740.61	0.00
000011	Jun30 2015	2,874,509.48	2,874,509.48	0.00
000012	Jul31 2015	3,728,252.74	3,728,252.74	0.00
000013	Aug31 2015	3,791,202.48	3,791,202.48	0.00
000014	Sep30 2015	3,833,475.90	3,833,475.90	0.00
000015	Oct31 2015	5,241,163.69	5,241,163.69	0.00
000016	Nov30 2015	5,511,769.17	5,511,769.17	0.00
000017	Dec31 2015	3,297,067.30	3,297,067.30	0.00
000018	Jan31 2016	4,083,604.18	4,083,604.18	0.00
000019	Feb29 2016	4,198,081.87	4,198,081.87	0.00
000020	Mar31 2016	3,882,778.34	3,882,778.34	0.00
000021	Apr30 2016	4,247,460.18	4,247,460.18	0.00
000022	May31 2016	4,104,807.21	4,104,807.21	0.00
000023	Jun30 2016	3,413,209.97	3,413,209.97	0.00
000024	Jul31 2016	3,686,264.10	3,686,264.10	0.00
000025	Aug31 2016	4,336,191.50	4,336,191.50	0.00
000026	Sep30 2016	5,607,878.70	5,607,878.70	0.00
000027	Oct31 2016	5,303,112.67	5,303,112.67	0.00
000028	Nov30 2016	4,537,524.40	4,537,524.40	0.00
000029	Dec31 2016	3,838,689.78	3,838,689.78	0.00
000030	Jan31 2017	5,030,645.02	5,030,645.02	0.00
000031	Feb28 2017	5,129,328.76	5,129,328.76	0.00
000032	Mar31 2017	1,477,518.53	1,477,518.53	0.00
000033	Apr30 2017	2,841,979.62	2,841,979.62	0.00
000034	May31 2017	3,318,417.31	3,318,417.31	0.00
000035	Jun30 2017	2,608,913.78	2,608,913.78	0.00
000036	Jul31 2017	1,300,819.09	1,300,819.09	0.00
000037	Aug31 2017	1,001,236.16	1,001,236.16	0.00
000038	Sep30 2017	1,341,821.18	1,308,117.82	33,703.36
38 HB	Sep30 2017	34,968.57	34,968.57 Note 1	0.00
000039	Oct31 2017	601,800.25	0.00	601,800.25
000040	Nov30 2017	591,626.90	0.00	591,626.90
000041	Dec31 2017	432,459.81	0.00	432,459.81
000042	Jan31 2018	304,204.07	0.00	304,204.07
000043	Feb28 2018	187,826.17	0.00	187,826.17
000044	Mar31 2018	27,704.55	0.00	27,704.55
000045	Apr30 2018	45,993.95	0.00	45,993.95



**Bondfield Construction Company Limited**  
**The Cambridge Memorial Hospital Project**  
**Payment Applications**

<b>Inv.No.</b>	<b>Inv Date.</b>	<b>Progress Billing Amount, incl HST</b>	<b>Amount Applied</b>	<b>Outstanding Payable</b>
000046	May31 2018	60,087.56	0.00	60,087.56
000047	Jun30 2018	46,125.22	0.00	46,125.22
000048	Jul31 2018	17,309.05	0.00	17,309.05
000049	Aug31 2018	22,412.04	0.00	22,412.04
000050	Sep30 2018	47,366.78	0.00	47,366.78
000051	Oct31 2018	17,576.18	0.00	17,576.18
000052	Nov30 2018	5,807.84	0.00	5,807.84
000053	Dec31 2018	14,205.86	0.00	14,205.86
000054	Jan31 2019	1,017.00	0.00	1,017.00
000055	Feb28 2019	34,694.93	0.00	34,694.93
		<b>\$ 130,067,992.99</b>	<b>\$ 127,576,071.47</b>	<b>\$ 2,491,921.52</b>

Notes

Note 1 - This payment was received directly from CMH and was applied against the holdback of Payment Application #38.

# **Appendix “B”**

**Bondfield Construction Company Ltd.**  
**The Cambridge Memorial Hospital Project**  
**Unpaid Certified Payment Applications as at May 28, 2019**

<b>Billing Application Number</b>	<b>Billing Submission Date</b>	<b>Billing Approval / Certification Date</b>	<b>Outstanding Billing Amount (CDN\$) (incl. HST)</b>
<b>Regular Progress Billings</b>			
38	Sep 30-2017	Oct 19-2017	\$33,703 (Note 1)
39	Oct 31-2017	Nov 11-2017	601,800
40	Nov 30-2017	Dec 13-2017	591,627
41	Dec 31-2017	Jan 15-2018	432,460
42	Jan 31-2018	Feb 20-2018	304,204
43	Feb 28-2018	Mar 9-2018	187,826
44	Mar 31-2018	April 13-2018	27,705
45	Apr 30-2018	May 8-2018	45,994
46	May 31-2018	June 8-2018	60,088
47	June 30-2018	July 10-2018	46,125
48	July 31-2018	Aug 13-2018	17,309
49	Aug 31-2018	Sept 21-2018	22,412
50	Sept 30-2018	Oct 11-2018	47,367
51	Oct 31-2018	Nov 15-2018	17,576
52	Nov 30-2018	Dec 17-2018	5,808
53	Dec 31-2018	Jan 21-2019	14,206
54	Jan 31-2019	Feb 21-2019	1,017
55	Feb 28-2019	Mar 28-2019	34,695
<b>Total Regular Progress Billings</b>			<b>\$2,491,922</b>
<b>Extra billings</b>			
X-009	Sep 30-2017	Oct 24-2017	\$213,506
X-010	Oct 31-2017	Nov 21-2017	7,006
X-011	Dec 31-2017	Jan 29-2018	17,099
X-012	Jan 31-2018	Feb 22-2018	219,368
X-013	Feb 28-2018	Mar 15-2018	80,004
X-014	Mar 31-2018	April 23-2018	52,346
X-015	Apr 30-2018	May 23-2018	49,416
X-016	June 30-2018	July 17-2018	192,119
X-017	July 31-2018	Aug 13-2018	29,980
X-018	Aug 31-2018	Sept 20-2018	24,508
X-019	Sept 30-2018	Oct 18-2018	84,549
X-020	Oct 31-2018	Dec 7-2018	26,060
X-021	Nov 30-2018	Jan 7-2019	45,303
X-022	Dec 31-2018	Jan 28-2019	30,870
X-023	Jan 31-2019	Feb 19-2019	27,487
X-024	Feb 28-2019	Mar 28-2019	21,277
X-025	Mar 31-2019	Apr 22-2019	31,338
X-026	Apr 30-2019	May 15-2019	91,609
<b>Total Extras Billings</b>			<b>\$1,243,844</b>
<b>Total Outstanding Billings (Regular and Extra)</b>			<b>\$3,735,767</b>

Note 1 – \$1,308,118 was collected in respect of Payment Application #38 in the amount of \$1,341,821, leaving an unpaid balance of 33,703 (incl. of HST).

Note 2 – The schedule is based on BCCL's monthly submitted and certified payment applications.

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

Court File No. CV-18-610233-00CL

IN THE MATTER OF THE RECEIVERSHIP OF 2423402 ONTARIO INC.

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**SUPPLEMENT TO REPORT OF ERNST &  
YOUNG INC., AS COURT-APPOINTED  
MONITOR OF THE BONDFIELD GROUP**

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