

IN THE MATTER OF THE BANKRUPTCY OF
NORTHERN TRANSPORTATION COMPANY LIMITED
OF THE CITY OF EDMONTON,
IN THE PROVINCE OF ALBERTA
REPORT ON THE TRUSTEE'S
PRELIMINARY ADMINISTRATION

ESTATE NO. 24-2203748

On December 30, 2016, Northern Transportation Company Limited (“NTCL” or the “Company”) filed an assignment (“Bankruptcy Date”) pursuant to the provisions of the *Bankruptcy and Insolvency Act* (“BIA”) and Alvarez & Marsal Canada Inc. was appointed as licensed insolvency trustee (“A&M” or “Trustee”) by the official receiver, subject to affirmation by the creditors of the trustee’s appointment or substitution of another trustee by the creditors.

Background

NTCL was founded in 1934 as a Crown corporation and in 1985 it was incorporated under the *Canadian Business Corporations Act*. Since 1934, it has provided reliable and critical marine transportation services to remote northern communities and resource exploration projects in the Northwest Territories and across the Northern Arctic, as far west as Prudhoe Bay, Alaska, and as far east as Taloyoak, Nunavut.

NTCL is a private company owned by NorTerra Inc. (“NorTerra”). 100 per cent of the Class B (voting) shares of NTCL are held by NorTerra and 100 per cent of the Class A (non-voting) shares of NTCL are held by Inuvialuit Development Corporation (“IDC”).

NTCL has one active wholly owned subsidiary, Beaufort Delta Petroleum Corporation (“Beaufort”) whose primary activities are the purchase, storage and sale of petroleum products from producers to NTCL, who then sells the product to the end user. NTCL and its legal counsel advise that Beaufort has recently completed a sale of all of its assets and the proceeds will be used to pay its secured creditors.

NTCL also has investments in two companies: MacKenzie Integrated Tubular Solutions Inc. and Arctic Module Inland Transportation Ltd. We are advised by NTCL that neither of these companies remains active or have any material assets.

On April 27, 2016, NTCL was granted protection under the *Companies’ Creditors Arrangement Act* (“CCAA”) for the purposes of allowing it time to restructure its business and affairs. Throughout the remainder of 2016 NTCL attempted to restructure its business. On December 15, 2016, the Court of Queen’s Bench of Alberta (the “Court”) approved a sale of all of NTCL’s assets to the Government of the Northwest

Territories (“GNWT”) and the sale closed on December 21, 2016. On December 21, 2016, the CCAA process was terminated by the Court.

NTCL Business and Operations

NTCL’s core business was marine cargo transportation and operating the largest shipyard in Canada’s north. These businesses were largely complimentary, but also had a number of key differences. Each year, NTCL delivered hundreds of tons of cargo, including fuel, food, clothing, hardware, vehicles and other necessities for life to remote northern communities. Due to freezing temperatures for much of the year, its primary shipping season ran from June to October. Cargo primarily moved along NTCL’s traditional tug and barge route from Hay River, which was home to NTCL’s loading terminal and large shipyard.

NTCL owned and operated 12 marine tugs and more than 60 dual purpose (fuel and deck cargo) barges, the largest of which was a 400 foot by 100 foot barge capable of handling large equipment or over 1000 TEU containers.

NTCL was also a licensed fuel handler and carrier. NTCL sourced fuel from around the world and transports it to customers in the western and eastern Arctic. Its fleet of Arctic-capable barges were designed to transport and store fuel in the challenging delivery conditions of Canada’s north.

NTCL’s shipyard in Hay River consisted of a loading facility, a maintenance facility, and a steel fabrication shop.

Directors and Executive Officers

Prior to the Bankruptcy Date, NTCL’s remaining director, Kyle Barsi, resigned. Mr. Barsi has and continues to perform the duties required by him pursuant to s.158 of the *Bankruptcy & Insolvency Act*.

Employees

NTCL normally employed 17 full-time, year-round employees and approximately 150 additional people during the five month sailing season. All of the employees, except two people, were terminated prior to the Bankruptcy Date. The bankruptcy automatically terminated the employment of the last two employees.

NTCL was party to collective agreements with three unions: Public Service Alliance of Canada, the Seafarer’s International Union of Canada and the Canadian Merchant Service Guild.

Financial Difficulties and CCAA

NTCL reported non-consolidated revenues of \$47 million in 2015 and \$43 million in 2014. The loss before taxes was \$23 million in 2015 and \$14 million in 2014. NTCL advises that the Company's viability had been challenged in recent years largely as a result of external factors, including the following:

- a) Low interest rates made it difficult to maintain the pension plan, resulting in a significant deficit and ongoing accrued contributions;
- b) New rules stemming from increased traffic in Arctic waters have required marine vessels to have double hulls, increasing the costs;
- c) Low water levels in the MacKenzie delta due to extra-territorial hydro-electric projects and other industrial projects have required the use of more barges, fuel and personnel for the same volume of goods;
- d) Mining and oil and gas activity has declined;
- e) The expansion of infrastructure, and in particular, the MacKenzie Highway, has created new forms of competition for NTCL's customers; and
- f) Overall costs, including wages, equipment, fuel and maintenance have increased disproportionately with revenue.

Conservatory & Protective Measures and Preliminary Evaluation of Assets and Details of Security Interests

At the Bankruptcy Date, all of NTCL's assets had been sold to GNWT except for accounts receivable and cash in the bank. The Trustee notified the Company's main bank, the Bank of Nova Scotia ("BNS"), and the bank accounts were frozen and residual funds of approximately \$16,000 were forwarded to the Trustee.

NTCL also had approximately \$1 million in trade accounts receivable and approximately \$3.5 million due from its subsidiary, Beaufort. The Trustee has gathered and reviewed all of the accounts receivable information and has notified all trade customers that the amounts owed to NTCL are now payable to the bankrupt estate. The Trustee estimates that the trade accounts receivable collections will total approximately \$500,000 to \$1 million. The Trustee does not expect to collect any of the \$3.5 million related party receivable from Beaufort.

NTCL holds 100 per cent of the voting shares of Beaufort. During NTCL's CCAA proceedings, Beaufort entered into a transaction to sell all of its assets to an arms-length third party (the "Beaufort Sale"). The Beaufort Sale was approved by Beaufort's directors and its shareholder prior to NTCL's bankruptcy filing. The Trustee has conducted a preliminary review of the Beaufort Sale and it appears the sale was commercially reasonable and not under-value. The Trustee estimates that there will not be any residual funds from the Beaufort Sale that will flow to the bankrupt estate.

Books and records

Prior to the Bankruptcy Date, all of the supporting documents were moved to off-site storage by NTCL. The Trustee has taken possession of the necessary books and records required to complete the administration of the bankruptcy. The Trustee intends to maintain the off-site storage until the administration of the bankruptcy is complete. The electronic accounting records are being kept at IDC's office in Edmonton and the Trustee has access to those records and information.

Provable Claims and Secured Claims

NTCL's statement of affairs shows it owes its main secured lender (BNS) approximately \$103 million. The Trustee may obtain an independent legal opinion on BNS's security to confirm that it is valid and enforceable against the Trustee.

The statement of affairs also shows unsecured trade creditors are owed approximately \$5.1 million. The Trustee does not anticipate paying a dividend to any of the unsecured creditors.

NTCL employed approximately 170 employees during 2016 and the Trustee is reviewing the available accounting records to determine if any of these former employees are eligible to make claims under the *Wage Earner Protection Program Act* ("WEPPA"). The Trustee's preliminary review indicates that there are no claims of unpaid employees that will rank as priority claims pursuant to s 81.3 of the BIA. The Company's records also indicate that there are no liabilities to Canada Revenue Agency for source deduction and GST.

To date, the Trustee has not received any proof of claims indicating a material difference in the claims disclosed in the Company's statement of affairs.

Legal Proceedings

No legal proceedings have been instituted by the Trustee to date.

The Trustee is not aware of any legal proceedings by or against the Company.

Subject to affirmation by the creditors or inspectors, the Trustee proposes to engage the law firm Norton Rose Fulbright Canada LLP to act as legal counsel for the estate.

Reviewable Transactions and Preference Payments

The Trustee's preliminary review of the books and records does not indicate there are any transactions out of the ordinary with related parties. The Trustee notes that the sale of

NTCL's assets to GNWT was approved by the Court.

Possible Conflict of Interest, Third-Party Deposits and Guarantees

Prior to the Bankruptcy Date, A&M obtained a \$100,000 Third Party Deposit from NorTerra as a guarantee towards the Trustee's fees and costs. Also prior to the Bankruptcy Date, A&M obtained a \$200,000 retainer from NTCL.

Trustee's Intention to Act

The Trustee has not acted for any secured creditors, as set out in subsection 13.4(1.1) of the BIA.

Anticipated Realization and Projected Distribution

All of NTCL's remaining property appears to be subject to BNS's security interest and the Trustee estimates there will be a substantial shortfall to BNS.

Consequently, there are not likely to be funds available for dividends to other creditors other than those who may have claims under s81.3 and property claims.

ALVAREZ & MARSAL CANADA INC.
In its capacity as Licensed Insolvency Trustee of
Northern Transportation Company Limited
and not in its personal capacity



Tim Reid, LIT, CPA, CIRP
January 19, 2017