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EDMONTON

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

AND IN THE MATTER OF  
PARKLAND AIRPORT DEVELOPMENT  
CORPORATION

DOCUMENT

**CHIEF RESTRUCTURING OFFICER  
UPDATE REPORT #8**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS DOCUMENT

Counsel

Reynolds Mirth Richards & Farmer LLP  
Barristers & Solicitors  
3200 Manulife Place  
10180 - 101 Street  
Edmonton, AB T5J 3W8  
Lawyer: Michael J. McCabe, Q.C.  
Telephone: (780) 425-9510  
Fax: (780) 429-3044  
File No: 114984-001-MJM

Chief Restructuring Officer of Parkland Airport  
Development CCAA

Richmond Corporate Finance, M&A Advisory Inc.  
Attention: Donald A. MacLean, President  
Telephone: (780)499-6600  
Email: don@richmondmaadvisory.com

# PARKLAND AIRPORT DEVELOPMENT CORPORATION

CRO Update Report # 8

*February 16, 2018*

The purpose of this eighth report of the Chief Restructuring Officer ( "CRO" ) of Parkland Airport Development Corporation ( "PADC" or the "Airport" ) is to update the Court as to the status of the PADC restructuring effort and its likelihood of filing a viable Plan of Arrangement in the CCAA proceedings as authorized by this Court by order dated November 29, 2016.

Over the past three months since the last Court hearing on this matter on November 1, 2017, meetings and discussions have been held by the CRO and PADC management individually with the mortgagees or their representatives, with the lien claimants as a group, with the entire body of creditors and lot owners to update them as to the various initiatives which have been undertaken toward a restructuring and to seek their input and answer questions.

### **Development of Plan of Arrangement**

As previously reported, in pursuit of possible solutions to the challenges faced by PADC to form the basis of a Plan of Arrangement ( "Plan" ), several restructuring steps were considered:

#### **1. Completion of Construction of Phase 1**

This was considered to be beneficial for the stakeholders by enhancing the attractiveness of the Airport to prospective investors and purchasers. The initial proposition to the Court was for a \$1.5M spend with a creditor/contractor who was prepared to accept a \$500,000 hangar lot as partial payment. Financing was arranged and while this would have advanced the development and attractiveness of the Airport, it became evident that it was not sufficient to fully complete Phase 1.

Upon hearing some of the creditors, the Court directed the CRO to obtain a firm engineering report with precise specs to form the basis of a bid package. Following several delays as previously reported, the cost for a fully complete Phase 1 was then estimated to be approximately \$4M. This was uneconomic in the circumstances and raising the necessary financing unlikely. Efforts to scale down the completion scope were rendered futile as the construction season was rapidly nearing its end and, accordingly, this solution was shelved for the time being.

#### **2. Conducting a Simultaneous Sales Process**

A detailed report on the efforts in this regard was provided to the Court in the CRO's September 1, 2017 report. Notwithstanding a significant level of interest both domestically and internationally, no acceptable proposals were received. Management and the CRO have continued to solicit interest in the Airport but no formal offers nor expressions of interest have been received as at the date of this report. As recent as over the past two weeks, the CRO and management have been in discussions with a UK based airport operator attempting to negotiate a letter of intent, however, this prospective investor, like many others before, could not rationalize the investment for the likely returns in the short run and, while we have nothing in hand to present to the Court, this possibility may still be alive.

### **3. Sale Model based on Combination of Payment in Kind and Cash**

The CRO developed a model ("PIK/Cash model" ) which in essence proposed a purchase price of \$17M with the majority to be paid via distribution of lots in Phase 2 to the larger creditors and either participation in a new mortgage for approximately \$500,000 on a small number of lots for the remaining creditors or offering all creditors the lesser of \$1,000 or the remaining amount of their claim thereby minimizing the cash component. The details of this model together with explanatory text were appended to the CRO's seventh report to illustrate the concept. This model was presented to a number of parties including some of the mortgagees many of whom seemed to be interested, however, no proposals were forthcoming.

In our meetings and discussions with the creditors it was evident that the majority very much favoured this option because the ownership of one or more lots would have provided them with a much more tangible outcome than the partial ownership of a Blanket Mortgage as discussed below or, nothing at all in a worst case scenario.

### **4. Blanket Mortgage to Replace Existing Encumbrances**

This option ("Blanket Mortgage" approach) has been debated in previous Court hearings in these proceedings. The concept was that all current encumbrances on the Airport titles be removed and replaced with a Blanket Mortgage. All creditors would then receive a proportionate share of said mortgage with respective priority consistent with their present ranking. This would allow for the sale of individual lots on a free and clear basis, partial discharge of the Blanket Mortgage and distribution of the proceeds to the stakeholders, consistent with the priority ranking.

### **Summary and Recommendation to the Court**

In summary, initiatives 1 and 2 above have not been fruitful whereas initiatives 3 and 4 both require the support of all classes of creditors. While the unsecured creditors and lien claimants might support the PIK model or Blanket Mortgage, the mortgagees have advised that they are not in a position to assume the additional cost and risk associated with the pay-out of prior charges such as Admin Charge balances, the interim financing, property taxes as well as funding the ongoing operating expenses of the airport and completion costs. Our efforts to reach an accommodation with the mortgagees for the benefit of the subsequent creditors have not been successful.

PADC has been in creditor protection under the CCAA for approximately 15 months. The mortgagees have been accommodative throughout this period allowing the subsequent creditors a chance to recover something on their claims including acquiescing to a priority charge for interim funding which is now up to \$1 million to fund the process and cover other operating costs. However, for the reasons stated above, the 2<sup>nd</sup> and 3<sup>rd</sup> mortgagees are not prepared to give up any further economic value. The original intent of the CCAA process was to maintain a stay of proceedings and maintain the Transport Canada License while allowing an opportunity to test the market as to the realizable value of the Airport. All reasonable efforts have been made to find an optimal outcome but, unfortunately, nothing to date has been forthcoming that would result in any recoveries for the lien claimants and unsecured creditors.

Accordingly, the CRO recommends that the CRO step down and allow the mortgagees to proceed with their remedies including pursuing a deal with the UK group that might benefit the rest of the creditors as well.

However, we suggest that the stay of proceedings be kept in place under the CCAA for all creditor actions other than the mortgagees for perhaps a further six months in order to preserve the value there is in the Airport and the Transport Canada License and to facilitate the distribution of the proceeds that may be realized in any offer that might be forthcoming in the foreclosure process or otherwise. The ongoing operating costs including Airport management are estimated to be \$20,000 per month.

### **Administrative Matters**

Attached as Appendix A is a Statement of Receipts and Disbursements for the period from November 29, 2016 to February 8, 2018 indicating cash on hand of \$17,449.18 which funds are required to sustain operation of the Airport until February 28, 2018.

The balance outstanding under the interim financing facility as approved by the Court is \$1.0 million and the fees of the Monitor, its counsel, PADC's counsel and the CRO which are all covered by the Admin Charge, some continuing to accrue, and are owing to these parties. Current statements of account have been requested for review by the Monitor.

### **Richmond Corporate Finance, M&A Advisory Inc.**

In its capacity as court-appointed CRO of  
Parkland Airport Development Corporation

Donald A. MacLean, CPA, CA, CIRP | President

## Appendix A

### Parkland Airport Development Corp. Statement of Receipts and Disbursements

For the Period Nov 29, 2016 to Feb 8, 2018

Cash on Hand - Nov 29, 2016 \$ 1,973.87

#### RECEIPTS

Operating Receipts	
Fuel Commission	\$ 19,734.15
Airport Building Leases	\$ 5,250.00
Aircraft Parking	\$ 16,516.92
Misc Land use	\$ -
Refunds	\$ 97,249.49
Interim Financing	\$ 917,821.91
<b>Total Receipts</b>	<b>\$ 1,056,572.47</b>

#### DISBURSEMENTS

Operating expenses	
Staff - Wages, Arrears	\$ 84,825.00
Utilities and Expenses	\$ 36,276.43
Insurance	\$ 35,450.00
Fuel and Oil	\$ 4,942.02
Repairs, Parts and Supplies	\$ 20,826.54
Professional Fees	\$ 845,587.00
Bank and Interim Finance Fees and Interest	\$ 13,190.17
<b>Total Disbursements</b>	<b>\$ 1,041,097.16</b>

**EXCESS OF RECEIPTS OVER DISBURSEMENTS** \$ 15,475.31

#### CLOSING

Cash in Bank - Feb 8, 2018 \$ 17,449.18

Note 1: These receipts and disbursements do not include fees and interest already deducted from the interim financing.

Note 2: The professional fees include the Monitor and its counsel, PADC legal counsel, the CRO, accounting, engineering as well as agreed amounts for the first mortgagee legals and the initial petitioning creditor legals, and other necessary fees related to the airport certification status.