

District of Alberta
Division 01 - Edmonton
Court No. 24-2579719
Estate No. 24-2579719

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF **KITNUNA PROJECTS INC.**

Formerly carrying on business in the Hamlet of Cambridge Bay, Territory of Nunavut

BACKGROUND

On November 5, 2019, Kitnuna Projects Inc. (the "**Company**") filed an assignment in bankruptcy and Deloitte Restructuring Inc. (the "**Trustee**") was appointed Licensed Insolvency Trustee, subject to affirmation at the First Meeting of Creditors.

Prior to its bankruptcy, the Company operated as a civil contractor in Cambridge Bay, Nunavut (the "**Hamlet**" or "**Cambridge Bay**"). The Company is incorporated under the laws of Nunavut and its directors are Charlie Evalik, David Omilgoitok, and John Stevenson (the "**Directors**"). The Company is a wholly owned subsidiary of Kitnuna Corporation, which is a subsidiary of Kitikmeot Corporation, a regional development corporation within Nunavut and the business arm of the Kitikmeot Inuit Association.

Cause of insolvency:

Two (2) years ago, the Company's parent, Kitnuna Corporation, undertook a business review and restructuring of its subsidiaries which include the Company and Kitnuna Petroleum Ltd. ("**Petroleum**"). The restructuring was initiated after the loss of a large fuel storage and delivery contract by Petroleum that destabilized the financial position of the two companies.

Historically, Petroleum had provided fuel and working capital to the Company. The Company had not been able to operate on a standalone basis having approximately \$13.9 million in cumulative operating losses from 2011 to 2018. Management attributes the business failure to increased competition entering Cambridge Bay over the past five (5) years, underbidding on contracts, and a lack of reinvestment in capital equipment. After the loss of Petroleum's contract, Petroleum was no longer in a position to support the Company's losses, and the Company made a voluntary assignment in bankruptcy.

Notice to reader

In developing this report, the Trustee has relied upon unaudited financial information prepared by the Company's management ("**Management**"), the Company's books and records, and discussions with Management. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook. The Trustee expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the Trustee in preparing this report.

The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this report. Any use which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.

All amounts included herein are in Canadian dollars unless otherwise stated.

SECTION A – ASSETS

Class I – Inventory

The Company disclosed inventory valued at \$300,000 on its Statement of Affairs. The inventory is comprised of miscellaneous materials such as tiles, fittings, insulation, cement, and sheet metal accumulated over the years the Company was active. The inventory is largely stored in and around the vicinity of the Company's operating area at 10 Omlik Road, Cambridge Bay (the "**Office**") in a yard north of the Hamlet (the "**North Yard**"), as well as contained within approximately 200 sea cans spread out over the vicinity of the Office and North Yard.

Class II – Plant, Machinery and Equipment and Office Equipment

Machinery and Equipment

The Company disclosed machinery and equipment with a total value of \$717,503 on its Statement of Affairs. The most significant of the Company's machinery are construction, earth moving, and quarrying assets such as rock trucks, a gravel crusher, a concrete plant, loaders, excavators, and a grader. The machinery and equipment assets are parked and stored in and around the Office, North Yard, as well as in a quarry (the "**Quarry**") formerly operated by the Company.

Class III – Building and Real Estate

The Company owns a building with a civic address of 20 Omlik Road, Cambridge Bay, (the "**New Bunkhouse**"), which is valued at \$1,200,000 on the Company's Statement of Affairs.

The Trustee's understanding from discussions with Management is that the land upon which the New Bunkhouse is situated is owned by the Hamlet. The Trustee has recently been in contact with the Hamlet, and the Hamlet advised that it has recently conducted a survey to clarify land ownership in the area the Company operated. The Trustee will work with the Hamlet to clarify land ownership and land leases.

The New Bunkhouse was leased out by the Company at the rate of \$12,000 per month prior to the date of bankruptcy. The lease continues in bankruptcy, and the tenant has been notified to remit rent payments to the Trustee. Under the terms of the lease, the tenant is responsible for all utilities. The Trustee will evaluate the leases in concert with an eventual sale process to maximize realizations for the estate.

The Trustee has been advised that there is a radio station (the "**Radio Station**") attached to the New Bunkhouse, which is occupied by a tenant who had a verbal lease agreement with the Company. The Trustee will evaluate the merit of formalizing a lease agreement with the tenant.

Class IV – Books and Records

The books and records are being stored at the Company's Office. The Company has delivered to the Trustee an electronic backup of the Company's accounting records, GST and tax returns, bank statements, information to assist in the collection of accounts receivable, financial statements, and general ledgers for 2020 year to date, 2019, and 2018. The Company has a September yearend.

Class V – Other Assets

Motor vehicles

The Company disclosed on its Statement of Affairs vehicles with a total value of \$43,250. The vehicles have been parked and are being stored near the Office.

Accounts Receivable

The Company disclosed on its Statement of Affairs accounts receivable totalling approximately \$614,998. The Trustee has notified all customers of the bankruptcy proceeding, and has directed that payments be made to the Trustee.

Cash

The Trustee contacted the Company's bank, Royal Bank of Canada ("RBC"), to request the Company's funds on deposit, and the Trustee is in receipt of funds in the amount of \$295,178. RBC has set the Company's bank account to deposit only to capture any post-bankruptcy deposits.

Section B – Conservatory and Protective Measures

To date, Management has cooperated with the Trustee, and the Trustee has agreed to utilize staff employed by related companies for certain activities. The related companies will bill and invoice the estate on an hourly rate basis for the time they spend assisting the Trustee.

To date, the employees have assisted the Trustee in performing the following activities:

- Receiving the Company's mail, and depositing payments to the RBC bank accounts;
- Monitoring the Company's assets by conducting periodic drive by inspections;
- Securing the keys and registrations for the equipment and motor vehicles;
- Taking photos of seacan contents and locking seacans with contents worth more than \$1,000;
- and
- Providing general guidance as necessary.

The Trustee has contacted the Company's insurance broker and requested that the Trustee be added to the Company's property, vehicle, commercial general liability, and pollution insurance policies as a named insured and loss payee. The Company's insurance premiums were paid up to date prior to the bankruptcy, and the insurance expires on November 30, 2019. The Trustee will evaluate the coverage and cost to maintain the Company's existing policies.

Section C – Legal Proceedings

Due to the complexity of these proceedings, the Trustee anticipates that consultation with legal counsel will be necessary to provide ongoing legal advice and support in respect of matters such as reviewing claims in the estate, environmental matters, commercial leases, and an eventual sale process.

Section D – Provable Claims

The Company declared approximately \$2,704,585 of unsecured claims, and no preferred creditors, on its Statement of Affairs.

The largest creditors on the Company's Statement of Affairs, in total representing \$2,483,029, or 91.8% of unsecured claims, are listed below:

- The Government of Nunavut ("GN") – Petroleum Products Division in the sum of \$891,009;
- Qulliq Energy Corporation in the sum of \$614,079; and
- Companies related to the Company in the sum of \$977,941.

As of the date of this report, the GN has filed a proof of claim in the sum of \$891,009. The Trustee has been advised that the claim is subject to change, as supporting details are not available due to an attack on the GN's servers.

No other proofs of claim have been filed as of the date of this report.

Section E – Secured Creditors

The Company did not disclose any secured creditors on its Statement of Affairs. However, the Trustee has performed a search of the Personal Property Registry and notes the following registrations:

- RBC over all personal and after acquired property of the Company; and
- Caterpillar Financial Services Limited ("CFSL") over a 2015 Caterpillar 312EL with serial number CAT0312EHMJD01336, valued at \$100,000 on the Company's Statement of Affairs.

No proofs of security have been received from RBC or CFSL.

The Trustee is not aware of any secured wage claims. Management advised the Trustee that all employees were fully paid and terminated, prior to the bankruptcy filing.

Section F – Realization and Projected Distribution

Due to the uncertainty of realization of the Company's assets, the Trustee is unable to provide any estimated realizations and recoveries to the creditors at this time.

Section G – Reviewable Transactions and Preference Payments

The Trustee will conduct a review for preference payments and transfers at under value in due course.

Section H – Other Matters

Scrap, Waste, and Environmental matters

The lands surrounding the Office and the North Yard have accumulated construction materials and waste over the years of the Company's operations. In addition, as the Company's vehicles, machinery and equipment became inoperable, the assets were taken to the North Yard where they have remained for a significant period of time.

While these items may have scrap value, any value would need to be evaluated against the removal cost, as well as any environmental remediation that would need to be performed. The Trustee is not aware of any environmental protection compliance orders being issued on these matters as of the date of this report.

Dated at the city of Edmonton, in the Province of Alberta, this 24th day of November, 2019.

DELOITTE RESTRUCTURING INC.

In its capacity as Licensed Insolvency Trustee of the Estate of
Kitnuna Projects Inc., in bankruptcy,
And not in its personal capacity.



Darren M. Crocker, CPA, CGA, CIRP, LIT
Senior Vice-President