



No. S-248267  
Vancouver Registry

**IN THE SUPREME COURT OF BRITISH COLUMBIA**

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

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c.  
C-44, AND THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, C. 57, AS AMENDED

AND

IN THE MATTER OF SAN INDUSTRIES LTD., AND THOSE OTHER ENTITIES LISTED  
ON SCHEDULE "A"

PETITIONERS

**FIRST REPORT OF THE MONITOR**

**DELOTTE RESTRUCTURING INC.**

**DECEMBER 7, 2024**

## TABLE OF CONTENTS

INTRODUCTION .....	3
DISCLAIMER AND TERMS OF REFERENCE .....	4
BACKGROUND .....	4
PETITIONERS' ACTIVITIES .....	6
MONITOR'S ENHANCED POWERS .....	6
MONITOR'S ACTIVITIES .....	6
FINANCIAL OVERVIEW .....	7
Insurance claims .....	9
CASH FLOW FORECAST .....	10
Concerns with the Cash Flow Forecast.....	11
DIP FINANCING FACILITY .....	11
THE SISP .....	12
INCREASE TO THE ADMINISTRATION CHARGE .....	12
REQUESTED STAY EXTENSION.....	13
CONCLUSIONS AND RECOMMENDATIONS .....	13

## APPENDICES

Appendix "A" – List of Petitioners

Appendix "B" – Cash Flow Forecast

Appendix "C" – San Group Organization Chart

## INTRODUCTION

- (1) On November 29, 2024 (the "**Filing Date**"), San Industries Ltd. ("**San Industries**"), and those parties listed on Schedule "A" attached hereto as **Appendix "A"** (collectively the "**Petitioners**", or "**San Group**"), were granted an order (the "**Initial Order**") by the Supreme Court of British Columbia (the "**Court**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended, (the "**CCAA**"). The Petitioners' proceedings pursuant to the CCAA are referred to herein as the "**CCAA Proceedings**".
- (2) The Initial Order, among other things:
  - a) Appointed Deloitte Restructuring Inc. ("**Deloitte**") to monitor the business and financial affairs of the Petitioners (in such capacity, the "**Monitor**");
  - b) Granted a stay of proceedings against the Petitioners up to and including December 9, 2024 (the "**Initial Stay of Proceedings**");
  - c) Authorized the Petitioners to borrow \$600,000 under a debtor-in-possession financing facility (the "**DIP Financing Facility**") made available by the Royal Bank of Canada ("**RBC**" or the "**DIP Lender**"); and
  - d) Granted the Administration Charge and the DIP Lender's Charge (as hereinafter defined).
- (3) The Monitor has made the Initial Order and other information related to these CCAA Proceedings available on its website at [www.insolvencies.deloitte.ca/sangroup](http://www.insolvencies.deloitte.ca/sangroup) (the "**Monitor's Website**").
- (4) The purpose of this first report of the Monitor (the "**First Report**") is to provide the Court with information pertaining to:
  - a) The activities of the Petitioners since the granting of the Initial Order, including its efforts to prepare for a sale and investment solicitation process ("**SISP**");
  - b) The activities of the Monitor since the Initial Order;
  - c) The Monitor's observations with respect to the Petitioners' cashflow forecast for the Operating Entities (as defined later herein) dated November 29, 2024 (the "**Cash Flow Forecast**") appended to the Interim Lending Term Sheet (as defined in the Initial Order) and attached hereto as **Appendix "B"**; and
  - d) The Monitor's views on the relief sought by the Petitioners in connection with the proposed amended and restated Initial Order (the "**Proposed ARIO**") which would, among other things:
    - i. Extend the Initial Stay of Proceedings for an interim period to January 10, 2025 (the "**Requested Stay Extension**");
    - ii. Increase the Administrative Charge (as defined in the Initial Order) from \$300,000 to \$750,000 (amended to \$500,000); and
    - iii. Elevate the priority of the Administration Charge, the Interim Lender's Charge (as defined in the Initial Order), and the Directors' Charge (as defined in the Initial Order) in respect of the secured creditors who did not receive notice of the Initial Order hearing, but who have been provided notice of this application.
- (5) All dollar amounts in this First Report are in Canadian dollars, unless otherwise indicated.
- (6) Unless otherwise provided, all capitalized terms not defined in this First Report are as defined in the Initial Order.

## DISCLAIMER AND TERMS OF REFERENCE

- (7) In preparing this First Report and conducting its analysis, the Monitor has been provided with, and has relied upon, certain unaudited financial information, draft and internal financial information from the books and records of the Petitioners, as applicable. The Monitor has also relied on information gathered from discussions with various parties, including senior management of the Petitioners ("**Management**"), shareholders, and the Petitioners' legal and financial advisors (collectively, the "**Information**"). The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of this First Report.
- (8) Except as otherwise described in this First 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 First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.
- (9) Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
- (10) Except as otherwise indicated, the Monitor's understanding of factual matters expressed in this First Report concerning the Petitioners and its business is based on the Information, and not independent factual determinations made by the Monitor.
- (11) The Monitor 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 the First Report. Any use, which any party makes of the First Report, or any reliance or decision to be made based on the First Report, is the sole responsibility of such party.

## BACKGROUND

- (12) A background on the business and operations of San Group is described in detail in the First Affidavit of Mr. Sukhjit Singh Sanghera sworn on November 27, 2024, filed in support of the Initial Order (the "**Sanghera Affidavit**") and is therefore not repeated herein. A copy of the Sanghera Affidavit is available on the Monitor's Website.
- (13) The following brief summary outlines certain aspects of San Group that the Monitor considers relevant to the CCAA Proceedings and the related restructuring.
- (14) San Group operates as an integrated forest products business. The Group harvests, mills and re-manufactures wood products from lumber sourced in British Columbia ("**BC**") and sells its products to end users in local and global markets, ranging from large builders and developers to individual consumers and indigenous groups and nations. The wood products produced and sold by San Group include dimensional lumber, as well as building products like siding, soffits, decking, fencing, and exterior and interior cladding and finishing in both general and custom designs.

- (15) San Group is headquartered in Langley, BC and its senior management and finance team all operate from the head office in Langley, BC.
- (16) San Group is beneficially owned by Mr. Kamal Sanghera also known as Mr. Kamaljit Singh Sanghera ("**Kamal**"), Mr. Suki Sanghera, also known as Mr. Sukhjit Singh Sanghera ("**Suki**"), and Mr. Iqbal Deol ("**Iqbal**") through their respective family trusts and holding companies. Kamal and Suki are active members of the Management team.
- (17) San Industries is the main operating arm of San Group. An organization chart of the various group entities is attached hereto as **Appendix "C"**. San Industries owns controlling shares in San Holdings Inc. (the "**San Holdings**") and San Holdings owns 100% of several operating subsidiaries, as more fully described in the Sanghera Affidavit.
- (18) San Group's main operating locations and entities are as follows:
- a) Coulson Manufacturing 2017 Ltd. ("**Coulson**") operates two sawmills (the "**Coulson Mills**") in Port Alberni, BC;
  - b) San Industries operates a re-manufacturing plant in Langley, BC (the "**Langley Plant**") converting lumber to re-manufactured products;
  - c) Acorn Forest Products Ltd. ("**Acorn**") has a sawmill, re-manufacturing plant, and lay-down facilities in Delta, BC (the "**Acorn Mill**") which, as discussed later herein, is not currently operational following a large fire in April 2024 (the "**Acorn Fire**"); and
  - d) San Forest Products Ltd. ("**San Forest**") operates a re-manufacturing plant in Port Alberni, BC (the "**SFP Plant**").
- (19) With the exception of the Acorn Mill, the real estate property underlying all of San Group's operating locations noted above are owned by San Group. The lands on which the Acorn Mill is situated are subject to a lease agreement with the Vancouver Fraser Port Authority (the "**Acorn Landlord**").
- (20) When fully operational, San Group directly employs in excess of 250 individuals across all of its operating sites and sources all its fibre from BC-based logging companies and First Nation communities.
- (21) The majority of San Group's employees are paid through Super-Cut Lumber Industries Ltd. ("**Super-Cut**"), a payroll service entity. The sole director of Super-Cut is Iqbal.
- (22) The two primary lenders for the Petitioners are RBC and the Business Development Bank of Canada ("**BDC**", and together with RBC, the "**Lenders**").
- (23) The Group has various credit facilities provided by RBC, including two demand operating revolving loan facilities (collectively, the "**RBC Credit Facilities**"). The RBC Credit Facilities are more fully described in the Sanghera Affidavit.
- (24) On October 25, 2024, RBC issued demand letters pursuant to RBC Credit Facilities. According to RBC's demand letters, the then current aggregate amounts outstanding on the RBC Credit Facilities were approximately CAD \$105.0 million and USD \$1.7 million.
- (25) BDC has provided various additional credit facilities to Acorn, San Forest and San Industries (the "**BDC Credit Facilities**"). On November 7, 2024, BDC issued demand letters pursuant to the BDC Credit Facilities. According to BDC's demand letters, the then current aggregate outstanding on the BDC Credit Facilities was approximately \$43.0 million.
- (26) The RBC Credit Facilities and BDC Credit Facilities and the related collateral, security and intercreditor agreements are more fully described in the Sanghera Affidavit and are not repeated in this First Report.

- (27) information about the Petitioners' other creditors are included later in this First Report.

### **PETITIONERS' ACTIVITIES**

- (28) Since the Filing Date, the Petitioners have undertaken the following actions:
- a) Maintained operations of San Group at a reduced capacity;
  - b) Worked with the Monitor to manage the cash flow and disbursements of the business in accordance with the Initial Order and the Cash Flow Forecast;
  - c) Supported the Monitor in the preliminary development of a SISP and started the collection of information to populate a virtual data room; and
  - d) Responded to inquiries and information requests from creditors and other stakeholders.

### **MONITOR'S ENHANCED POWERS**

- (29) In addition to the Monitor's prescribed rights pursuant to the CCAA and the powers and duties set out in paragraph 28 of the Initial Order, the Monitor is also authorized and empowered, but not required to, among other things:
- a) Market, conduct, supervise, and direct the sale, conveyance, transfer, lease, assignment or disposal of any Property (as defined in the Initial Order), or any part or parts thereof, whether or not outside of the normal course of business, subject to any approval of the Court as may be required pursuant to the CCAA Proceedings and the Initial Order; and: (i) to apply to this Court for approval of any process or procedures in relation thereto; and (ii) to sign or execute on behalf of and in the name of the Petitioners any conveyance or other closing documents in relation thereto;
  - b) Assist the Petitioners to claim any and all insurance proceeds or refunds, or tax refunds, including refunds of goods and services taxes and harmonized sales taxes, to which any of the Petitioners are entitled; and
  - c) Operate and control on behalf of the Petitioners, all of their bank accounts (the "**Accounts**"), including with one of the primary secured creditors of San Group, RBC, in such manner as the Monitor deems necessary or appropriate, including, without limitation, to:
    - i. Exercise control over the funds credited or deposited to the Accounts;
    - ii. Effect any disbursement from the Accounts permitted by the Initial Order or any other order granted in these CCAA Proceedings;
    - iii. Give instructions from time to time with respect to the Accounts and the funds credited or deposited thereto, including to transfer the funds credited or deposited into such Accounts to such other account or accounts as the Monitor may direct; and
    - iv. Add or remove persons having signing authority with respect to any Account, or to direct the closing of any Account.

### **MONITOR'S ACTIVITIES**

- (30) Since the Filing Date, the Monitor has, among other things, undertaken the following activities:

- a) Established the Monitor's Website and posted copies of the Initial Order and other materials in connection with the CCAA Proceedings;
- b) Activated the Monitor's email address at sangroup\_ccaa@deloitte.ca to respond to inquiries regarding the CCAA Proceedings of creditors and any other interested parties;
- c) Completed all initial statutory requirements, including, but not limited to:
  - i. Filing the Form 1 and Form 2 with the Office of the Superintendent of Bankruptcy prior to the hearing scheduled for December 9, 2024 (the "**Comeback Hearing**");
  - ii. Sending of a notice in respect of the CCAA Proceedings to all known creditors with claims of \$1,000 or more (the "**Creditor Notice**") which was sent via courier or by email as a result of the Canada Post mail strike;
  - iii. Arranging for the publication of notice of the CCAA Proceedings in The Vancouver Sun on December 5 and December 12, 2024;
  - iv. Arranging for the publication of notice of the CCAA Proceedings in the Alberni Valley News on December 11 and December 18, 2024; and
  - v. Posting of the Creditor Notice on the Monitor's Website.
- d) Conducted meetings and discussions with Management and San Group legal counsel regarding the Petitioners' business, financial affairs, restructuring efforts and other matters relating to the CCAA Proceedings;
- e) Participated in discussions with the Lenders and their legal counsel regarding the Petitioners' business, financial affairs, restructuring efforts and other matters relating to the CCAA Proceedings;
- f) Reviewed the Debtor's cash receipts and disbursements, cash management procedures, and procurement procedures and set up various approval protocols;
- g) Corresponded with the DIP Lender regarding the DIP Financing Facility;
- h) Held preliminary discussions with Management regarding the development of a SISP and commenced compiling information regarding the assets of San Group and other documents to populate a data room in due course;
- i) Attended to inquiries which the Monitor received from Management, creditors, and other stakeholders; and
- j) Prepared this First Report in connection with the Comeback Hearing.

## FINANCIAL OVERVIEW

- (31) Deloitte was acting as financial advisor to RBC since February 2024 to, among other things, assist RBC in understanding the Operating Entities' (as defined later herein) financial situation and performance, evaluate the assets and liabilities, and undertake an assessment of RBC's security position. Deloitte also worked with Management and the Petitioners' financial advisor, KPMG LLP ("**KPMG**"), up to the Filing Date to review and understand the Petitioners' financial position and Cash Flow Forecast.
- (32) The Monitor is working with San Group to assess the current financial position of the Petitioners and the status of its operations. However, due to limited resources within San Group, the Monitor has not been able to complete a detailed review of the current financial position of the Petitioners and will provide a further update as soon as reasonably possible.

- (33) The books and records of San Group are not up-to-date and the accounting software being used does not provide real-time data causing certain delays in fulfilling information requests of the Monitor. Management has advised that they are working on bringing the books and records up-to-date.
- (34) The Monitor has reviewed the combined unaudited financial statements for San Industries, San Forest, Coulson, Acorn, Axon Lumber Ltd., and Super-Cut (collectively, the "**Operating Entities**") for the year's ended October 31, 2023 ("**FY23**") and October 31, 2022 ("**FY22**"), which were compiled by KPMG, as well as internal interim draft compiled combined financial statements for the 11-months ended September 30, 2024 ("**YTD24**"). The Monitor understands that certain accounting adjustments typically only occur at year-end, particularly related to inventory balances, and therefore the YTD24 statements may be incomplete and difficult to compare to the FY23 statements. The Operating Entities' recent financial performance is summarized in the following table:

**Combined Financial Statements**

C\$000's	Unaudited YTD Sep 30, 2024	Unaudited Oct 31, 2023	Unaudited Oct 31, 2022
Sales	106,043	143,122	172,599
Cost of sales	(108,698)	(135,684)	(140,603)
<b>Gross Margin</b>	<b>(2,655)</b>	<b>7,438</b>	<b>31,996</b>
Insurance	(3,392)	(3,169)	(2,875)
Interest	(10,821)	(8,977)	(4,283)
Other expenses	(9,916)	(16,671)	(10,413)
<b>Net Income / (Loss)</b>	<b>(26,785)</b>	<b>(21,379)</b>	<b>14,425</b>

- (35) Based on the reported figures, in FY23 the Operating Entities experienced a 17% decrease in sales from FY22 when lumber prices peaked. FY24 sales are on track to be approximately 20% lower than FY23. The Operating Entities' financial difficulties are further compounded by higher carrying costs relating to the interest on its various credit facilities with the Lenders. The Operating Entities reported a net loss of \$21.4 million in FY23 and a net loss of \$26.8 million in YTD24. Further details with respect to the financial difficulties of the Petitioners can be found in the Sanghera Affidavit.
- (36) The Monitor understands that a significant component of the YTD24 net loss is due to Management recording a write-down of approximately \$20.0 million in the value of the log and lumber inventory held by San Group as at September 30, 2024 due to a variety of log quality and milling recovery issues (the "**Inventory Writedown**"). Management has not yet provided the Monitor with a clear explanation for the timing of the Inventory Writedown or the supporting documentation detailing the breakdown of the amounts.
- (37) On or around November 23, 2024, Management also reported that approximately \$6.0 million in log inventory being stored in booms in the water outside the Coulson Mills was swept away in the storm that hit the BC South Coast and Port Alberni on or around November 18, 2024 (the "**Missing Log Inventory**"). The Monitor understands that Management is working to recover as much of the Missing Log Inventory as possible through the use of third parties. The Monitor is seeking further information from Management as to these recovery efforts, and it is unknown at this time whether these recovery efforts will be successful.
- (38) As of September 30, 2024, the Operating Entities' interim draft compiled combined financial statements reported total assets with a book value of approximately \$189.6 million and total liabilities of approximately \$176.3 million, as summarized in the following table:



#### Combined Financial Statements

C\$000's	Unaudited YTD Sep 30, 2024	Unaudited Oct 31, 2023	Unaudited Oct 31, 2022
<b>Assets</b>			
Accounts receivable	12,187	10,000	14,637
Inventory	71,124	97,937	101,570
Other current assets	7,874	10,116	7,398
<b>Current Assets</b>	<b>91,185</b>	<b>118,053</b>	<b>123,606</b>
Property, plant and equipment	89,352	89,878	97,195
Other long-term assets	9,042	8,598	5,281
<b>Total Assets</b>	<b>189,578</b>	<b>216,530</b>	<b>226,081</b>
<b>Liabilities</b>			
Bank indebtedness	71,330	77,338	55,629
Accounts payable	20,035	16,201	22,485
Current portion of long-term debt	9,475	4,736	4,730
Callable debt	-	20,092	23,150
Other current liabilities	-	5,502	6,797
<b>Current Liabilities</b>	<b>100,841</b>	<b>123,868</b>	<b>112,792</b>
Long-term debt	55,823	41,941	44,670
Due to related parties and sharehold	15,993	17,067	12,835
Other long-term liabilities	3,629	24,778	24,780
<b>Total Liabilities</b>	<b>176,285</b>	<b>207,654</b>	<b>195,078</b>
Shareholders' Equity (Deficit)	13,293	8,875	31,004
<b>Total Liabilities and Equity</b>	<b>189,578</b>	<b>216,530</b>	<b>226,081</b>

- (39) The Monitor notes that shareholder equity of \$13.3 million is shown in the YTD24 balance sheet. However, shareholder equity as of October 31, 2023 is stated as \$8.9 million and there has been reported losses of \$26.8 million in the YTD24, which instead indicates an accumulated shareholder deficit of \$17.9 million. It should be noted that the balances reported are book values only and may not be indicative of actual realizable values.
- (40) The Operating Entities' assets, which are more fully described in the Sanghera Affidavit, are primarily comprised of certain lands, buildings, equipment and machinery at San Group's mills and remanufacturing plants, accounts receivable, insurance claims receivable, and log and lumber inventory.
- (41) As outlined previously, the Lenders are the primary secured creditors of San Group and are owed a combined total of over \$150.0 million. As outlined in the Creditor Notice and Sanghera Affidavit, there are a significant number of additional secured and unsecured creditors, including the \$22.0 million in stumpage fee arrears being claimed by His Majesty the King in the Right of the Province of BC which have been secured by judgements and liens on the Coulson property.
- (42) The Monitor is working with Management to obtain a better understanding of the assets and liabilities of San Group, including various supporting internal and external documents, and will provide an update as soon as reasonably possible. The list of the Petitioners' creditors included the Creditor Notice is preliminary and will be updated as new information is obtained.

#### Insurance claims

- (43) The Monitor understands that San Group has advanced insurance claims (and has contemplated receivables related to) as a result of a fire at San Forest in April 2020 (the "**San Forest Fire**") and the Acorn Fire.
- (44) The Monitor understands that the status of the claims related to the Acorn Fire are as follows (the "**Acorn Fire Claims**"):
- A stock loss throughput policy claim ("**STP Claim**") was filed by San Group in September 2024 with an estimated claim value of approximately \$12.1 million. On December 5, 2024, the Monitor was provided with a letter from counsel to the underwriters dated November 29, 2024 advising that the STP Claim has been denied (the "**STP Claim Denial Letter**") and the related insurance policy has been deemed "void ab initio" (void from the beginning or invalid from the outset and never in existence).

- b) An initial business interruption ("**BI**") claim was filed by San Group for \$1.9 million with a different underwriter than for the STP Claim. The initial BI claim covers the period up to June 30, 2024 and a further BI claim will be filed shortly for losses incurred up to September 30, 2024. The underwriter has not issued a coverage position on the initial BI claim.
  - c) A property, building, and equipment claim (the "**PBE Claim**") is being advanced and, according to Management, has a current estimated value of approximately \$27.2 million.
- (45) The Monitor understands that the two adjusters retained by San Group to assist with the Acorn Fire Claims (the "**Adjusters**") are requesting advance payment of certain costs of approximately \$25,000 that were incurred prior to filing the PBE Claim. Additionally, the Adjusters have expressed concerns regarding the CCAA Proceedings and are seeking assurances from the Lenders that they will have priority in receiving payment from any insurance proceeds related to the Acorn Fire Claims.
- (46) Management has advised the Monitor that the STP Claim Denial Letter is being reviewed by San Group's insurance counsel and they are working with their insurance agent to try to secure interim stock loss throughput insurance.
- (47) The Monitor has been informed of a break-in during the day at the SFP Plant on or around December 4, 2024 (the "**SFP Break-In**"). However, the Monitor has not yet received detailed information from Management regarding the nature or extent of any damage or loss of equipment, as the investigation is still ongoing. Management has indicated that security is now in place 24 hours per day going forward, as opposed to just overnight. The Monitor is scheduled to attend at the San Forest and Coulson properties in Port Alberni, BC on December 9, 2024 to assess if the new security protocols in place are sufficient to properly protect the Petitioners' assets at these locations.

## CASH FLOW FORECAST

- (48) The Monitor is working with the Petitioners in respect of managing and monitoring cash receipts and cash disbursements in accordance with their Cash Flow Forecast provided as part of the Initial Order application. A summary of the Cash Flow Forecast is below.

**Summary of Cash Flow Forecast**

<b>Week ending</b>	<b>Dec 6, 2024 to Jan 10, 2025</b>	<b>Jan 17, 2025 to Jan 24, 2025</b>	<b>Total</b>
Total receipts	5,375,089	1,354,000	6,729,089
Total disbursements	(4,906,347)	(1,626,536)	(6,532,883)
<b>Net operating cash flow</b>	<b>468,742</b>	<b>(272,536)</b>	<b>196,206</b>
Total financing disbursements	<b>(119,481)</b>	<b>(24,747)</b>	(144,228)
<b>Net cash flow</b>	<b>349,261</b>	<b>(297,283)</b>	<b>51,978</b>
Opening cash balance	-	893,006	-
DIP Financing	543,745	-	543,745
<b>Closing cash balance</b>	<b>893,006</b>	<b>595,722</b>	<b>595,722</b>

- (49) The Monitor will include a variance analysis comparing the actual amounts to the projected figures in the Cash Flow Forecast since the date of the Initial Order in its next report, as this information is being compiled by San Group.
- (50) On November 7, 2024, the Monitor was made aware by Management that San Group opened a bank account at the Bank of Nova Scotia ("**BNS**") on May 20, 2024 (the "**BNS Account**") into which approximately \$11.7 million of the Petitioners' accounts receivable were deposited up until October 31, 2024. These amounts are supported by statements from the BNS Account from May 20, 2024 to October 31, 2024.

- (51) The Monitor has been in contact with BNS who has confirmed that Management requested that the BNS Account be closed just prior to the CCAA Proceedings and BNS is in the process of closing the BNS Account and wiring the remaining funds in the account of approximately \$127,000 to San Group. This amount was not included in the Cash Flow Forecast.
- (52) The Monitor has not yet performed a detailed review of the receipts and disbursements in the BNS Account and is awaiting copies of the remaining outstanding bank statements from November 1, 2024 to when the BNS Account is closed. The Monitor has been advised by RBC that the opening of the BNS Account was in breach of the RBC Credit Facilities.
- (53) On December 6, 2024, Management provided the Monitor with an updated accounts receivable listing for the Operating Entities showing total customer balances of approximately \$1.7 million (the "**December 6 AR Balance**"). This figure is significantly lower than expected given the previously reported accounts receivable amounts and the receipts projection in the Cash Flow Forecast, which was based on the October 31, 2024 accounts receivable balance of \$6.7 million. The Monitor is concerned that the receipts projection in the Cash Flow Forecast may not be achievable in light of the December 6 AR Balance and there is currently insufficient funding in place to cover the potential shortfalls. The Monitor is now working with Management to revise the Cash Flow Forecast to reflect this new information.

### **Concerns with the Cash Flow Forecast**

- (54) The Monitor notes that it previously raised several concerns with the Petitioners around the key assumptions in the Cash Flow Forecast that are high-level in nature and lack detailed supporting data, particularly related to the level of required lumber purchases, production volumes, finished product inventories, and customer orders or contracts available to support the projected lumber sales and associated customer receipts.
- (55) Limitations in the availability and timeliness of information from San Group's financial system has constrained the Monitor's ability to review the reasonableness of the underlying assumptions and quantum of cash flows included in the Cash Flow Forecast. Accordingly, there is a material risk that the required funding may be higher than shown in the Cash Flow Forecast. The December 6 AR Balance is also a concern.
- (56) Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, at this time, the Monitor cannot provide any assurance as to whether the Cash Flow Forecast will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information referenced in this First Report or relied upon by the Monitor in preparing this First Report.
- (57) Further time is needed to prepare an updated cash flow forecast which incorporates realistic operating costs and assesses the need for any potential increase in the DIP Financing Facility during the CCAA Proceedings and the advancement of a SISP.

### **DIP FINANCING FACILITY**

- (58) The Initial Order authorized the Petitioners to obtain and borrow under the DIP Financing Facility provided by the DIP Lender in accordance with the initial DIP budget attached as Schedule "B" to the DIP Financing Term Sheet dated November 29, 2024.
- (59) The DIP Financing Facility provided up to a maximum amount of approximately \$600,000 to fund San Groups' day-to-day operations to January 24, 2025, including legal and professional costs, during the CCAA Proceedings and the advancement of a SISP. The DIP Lender has not committed to any further DIP financing at this point in time to cover any potential cash shortfalls in the Cash Flow Forecast.

- (60) The first draw under the DIP Financing Facility was funded by RBC on December 5, 2024 in the amount of \$300,000 (the "**Initial Draw**") as approved by the Monitor. The Initial Draw is to be used by San Group to make the following payments as approved and authorized under the DIP Financing Facility and/or the Initial Order:
- a) \$75,000 to the Monitor as an initial retainer;
  - b) \$75,000 to the Monitor's counsel as an initial retainer;
  - c) \$75,000 for various operating expenses of the Petitioners;
  - d) \$50,000 to the Petitioners' counsel as an initial retainer; and
  - e) \$25,000 to RBC in respect of the Upfront Fee (as defined in the DIP Financing Term Sheet).

### **THE SISP**

- (61) The current expectation is that the parties intend to return to Court to seek approval of a SISP on or before January 10, 2025, if the Proposed ARIO is granted.
- (62) The Monitor does not yet have sufficient information to provide its views in respect of the SISP; however, the Monitor has held preliminary discussions with Management regarding the development of a SISP and has commenced compiling information regarding the assets of San Group and other relevant information to populate a data room in due course.

### **INCREASE TO THE ADMINISTRATION CHARGE**

- (63) The Initial Order granted a \$300,000 first ranking super-priority charge over all Property of San Group in favour of the Monitor, counsel to the Monitor, and the Lender's counsel as security for their respective fees and disbursements rendered in respect of the Petitioners for the period of the Initial Order to the Comeback Hearing (the "**Administration Charge**").
- (64) After discussion among the Monitor, counsel to the Petitioners, and counsel to the Lenders, the Monitor understands that the Petitioners are seeking an increase in the Administration Charge from \$300,000 to \$500,000 at this time. This increase is reflective of the amount necessary to ensure the beneficiaries of the Administration Charge have adequate protection for their fees and costs to administer the CCAA Proceedings. This amount is reflective of an amount less than that the amount sought in the Petitioners' Notice of Application. Whether an Administration Charge of \$500,000 will be sufficient as matters progress may need to be addressed at a future hearing.
- (65) The Monitor is of the view that the increased amount of the Administration Charge is reasonable and appropriate at this time, having considered, among other things:
- a) The complexity of the CCAA Proceedings;
  - b) The work that has been completed to date, the engagement terms and anticipated work levels of the Monitor, the Monitor's counsel, and Petitioners' counsel;
  - c) The timing of payment of the forecast professional costs within these CCAA Proceedings as set out in the Cash Flow Forecast; and
  - d) The size of court-approved charges approved in comparable insolvency proceedings.

## REQUESTED STAY EXTENSION

- (66) The Initial Stay of Proceedings expires on December 9, 2024. The Petitioners seek an extension of the stay of proceedings to January 10, 2025 in order to allow the Petitioners sufficient time to further their restructuring efforts, particularly as regards to developing a SISP.
- (67) The Monitor observes that Management is taking steps to identify and accommodate the needs of interested parties, preserve the existing assets, manage the financial and operational aspects of the San Group, and develop a restructuring plan during the CCAA Proceedings.
- (68) While the Petitioners have been generally cooperating with the Monitor, the Monitor has concerns related to several matters, including: the Inventory Writedown; the Missing Logs; the STP Claim Denial Letter and insurance matters generally; the BNS Account; the SFP Break In; and the ability of the Petitioners to achieve the Cash Flow Projection, particularly the receipts projection therein (collectively, the "**Current Concerns**").
- (69) The Monitor is also of the view that there is a need for more accurate and timely information from the Petitioners to enhance the visibility of the financial position of San Group, to address the Monitor's above concerns, and to be in a better position to make informed decisions with respect to these CCAA Proceedings in a timely manner.
- (70) Based on the forgoing, the Monitor is not in a position to support an extension of the stay of proceedings to January 10, 2025, but is recommending that a shorter extension be granted.
- (71) The Monitor believes that the creditors of the Petitioners will not be prejudiced by a short extension of the Initial Stay of Proceedings. A shorter stay extension should permit the Petitioners to provide, and the Monitor to obtain, further and better information and allow the Monitor and the Petitioners to advance various analysis to better understand and address the Current Concerns.

## CONCLUSIONS AND RECOMMENDATIONS

- (72) Based on the foregoing, the Monitor respectfully recommends that this Court grant the Proposed ARIO with an Administration Charge of \$500,000 and a shorter stay of proceedings.

This First Report is respectfully submitted this 7<sup>th</sup> day of December, 2024.

### DELOITTE RESTRUCTURING INC.,

In its capacity as Court-appointed  
Companies' Creditors Arrangement Act Monitor of  
San Group (as defined herein)  
and not in its personal capacity

  
Per: Jeff Keeble, CPA, CA, CIRP, LIT, CBV  
Senior Vice-President

  
Paul Chambers, FCA(UK), CIRP, LIT  
Senior Vice-President

## **APPENDIX "A"**

### **LIST OF PETITIONERS**

1. Acorn Forest Products Ltd.
2. Axon Lumber Ltd.
3. Coulson Manufacturing 2017 Ltd.
4. San Cedar Direct Sales Ltd.
5. San Forest Products Ltd.
6. San Holdings Inc.
7. Super-Cut Lumber Industries Ltd.
8. 1224676 B.C. Ltd.
9. 1260729 B.C. Ltd.
10. Mountainside Logging Ltd.
11. 1170518 B.C. Ltd.
12. 1175465 B.C. Ltd.
13. San Farming Ltd.
14. San Forest Specialty Ltd.
15. San Terminals Inc.

**APPENDIX "B"**  
**SAN Group Organization Chart**



{00400275.1}



**APPENDIX "C"**  
**Cash Flow Forecast**



**Weekly Cash Flow Forecast**  
**Notes and Summary of Assumptions**

---

**In the matter of a Plan of Compromise or Arrangement of San Industries and those Other Entities Listed on Schedule "A" (collectively the "Debtors")**

**Disclaimer**

Since the Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Forecast Period (defined below) will vary from the Cash Flow Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty, or other assurance that any of the estimates, forecasts or projections will be realized.

The Cash Flow Forecast is presented in Canadian dollars.

**Note 1 Purpose of the Cash Flow Forecast**

The purpose of the Cash Flow Forecast is to present the estimated cash receipts and disbursements of the Debtors for the period from November 23, 2024 to January 24, 2025 (the "**Forecast Period**"). The Cash Flow Forecast has been prepared by the Debtors, in consultation with the Monitor. Readers are cautioned that this information may not be appropriate or relied upon for any other purpose.

**Note 2 Accounts Receivable Collections**

Outstanding accounts receivable are forecast to be collected based on collection terms, and management's best estimate of when these customers pay in the ordinary course.

**Note 3 Sales Collections**

Cash receipts from sales are forecast based on projected sales based on the Company's contracts with customers for custom cutting operations and the Company's latest sales forecast for ongoing customer orders, and collections terms with customers.

**Note 4 Tax Refund**

Tax refund reflects anticipated cash inflows from income tax and sales tax refunds in the Forecast Period.

**Note 5 Vendors**

Vendor disbursements include, but are not limited to, payments for purchases of log inventory and lumber inventory, and freight and repairs and maintenance expenses, the majority of which is assumed on a cash on demand basis.

**Note 6      Payroll**

Disbursements for payroll costs include salaries and wages, payroll taxes and remittances, and employee benefits paid to the Debtors' operational and administrative employees. Payroll expenses are forecast based on anticipated headcount, and hours worked (for hourly employees) and are paid bi-weekly and semi-monthly, depending on the payroll group.

**Note 7      General and administrative expenses**

Disbursements for general and administrative expenses include expenses required to operate the sawmills, and limited administrative costs. These expenses include, but are not limited to utilities, insurance, IT and other overhead costs.

**Note 8      Professional Fees**

Includes professional fees and disbursements of the Monitor, counsel to the Monitor, counsel to the secured lenders, financial advisor to the Company and counsel to the Company, incurred prior to or projected during the CCAA Proceedings.

**Note 9      Leases**

Includes monthly lease payments for equipment required to operate the sawmills.

**Note 10     Opening Bank Balance**

Opening cash reflects management's best estimate based on projected activity for the remainder of the week ending November 29<sup>th</sup>.

**Note 11     Interim Financing**

The Cashflow Forecast reflects advances under the DIP facility of \$0.55 million.