Deloitte.

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

SECOND REPORT OF THE MONITOR

DELOTTE RESTRUCTURING INC.

DECEMBER 18, 2024

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INTRODUCTION

(1) On November 29, 2024 (the "**Filing Date**"), San Industries Ltd. ("**San Industries**") and those parties listed in **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 both defined in the Initial Order).

(3) On December 7, 2024, the Monitor issued its first report in the CCAA Proceedings (the "**First Report**"). The First Report was filed to, among other things, provide the Court with an update on the activities of the Petitioners and Monitor since the granting of the Initial Order, and the Monitor's observations with respect to the Petitioners' cashflow forecast for the Operating Entities (as defined later herein) dated November 29, 2024 (the "**First Cash Flow Forecast**"). In the First Report the Monitor also provided its views on the relief sought by the Petitioners in connection with the proposed amended and restated Initial Order which included, among other things:

a) extending the Initial Stay of Proceedings to January 10, 2025 (the "**Initial Stay Request**");

b) increasing the Administrative Charge from $300,000 to $750,000 (subsequently amended to $500,000) (the "**Increased Administration Charge**"); and

c) elevating the priority of the Increased 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.

(4) On December 9, 2024 the Court issued an Amended and Restated Initial Order (the "**ARIO**") which granted, among other things, an extension of the Initial Stay of Proceedings to December 19, 2024 (the "**First Stay Extension**"), the Increased Administration Charge to $500,000, and elevated the priority of the Increased Administration Charge, the Interim Lender's Charge, and the Directors' Charge over all secured creditors. The First Stay Extension granted was shorter than the Initial Stay Request sought by the Petitioners in order to allow the Monitor to, among other things, try and better understand and address the Current Concerns (as defined in the First Report and later herein) identified in the First Report.

(5) This is the Monitor's second report to Court (the "**Second Report**" or "**this Report**").

(6) The Monitor has made the Initial Order, ARIO, First Report, Second Report, and other information related to these CCAA Proceedings available on its website at www.insolvencies.deloitte.ca/sangroup (the "**Monitor's Website**").

(7) All dollar amounts in this Report are in Canadian dollars, unless otherwise indicated.

(8) Unless otherwise provided, all capitalized terms not defined in this Report are as defined in the ARIO or the First Report, as applicable.

Purpose of the Second Report

(9) The purpose of this Second Report is for the Monitor to provide the Court with information and the Monitor's views in advance of the Petitioners' Court application of December 19, 2024 (the "**December 19 Application**"), which includes:

a) The activities of the Petitioners since the date of the First Report and an update on San Group's operations;

b) The activities of the Monitor since the date of the First Report;

c) An update on the Inventory Writedown, 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 First Cash Flow Forecast, particularly the receipts projected therein (all terms as defined in the First Report and, collectively, the "**Current Concerns**");

d) The Monitor's review of the actual cash flows of the Operating Entities for the two weeks ended December 13, 2024 (the "**Cash Flow Period**") as compared to the projected cash flows in the First Cash Flow Forecast (the "**Variance Analysis**");

e) The Monitor's observations with respect to the Petitioners' updated cash flow projection for the Operating Entities (as defined later herein) for the period from December 14, 2024 to January 31, 2025 (the "**Second Cash Flow Forecast**");

f) The Monitor's views on the relief sought in connection with a second amended ARIO (the "**Second ARIO**") which would, as currently understood by the Monitor, among other things:

   i. Grant the Monitor further enhanced powers in the CCAA Proceedings;

   ii. Increase the Petitioners' authority to borrow under the DIP Financing Facility, and increase the Interim Lender's Charge by $400,000 (the "**DIP Financing Facility Increase**") from $600,000 to a maximum of $1.0 million in respect of the Borrowers' Property (as defined in the ARIO); and

   iii. Grant a further stay extension to January 2025.

Disclaimer and Terms of Reference

(10) In preparing this 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 Report.

(11) Except as otherwise described in this 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 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.

(12) Future oriented financial information referred to in this 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.

(13) Except as otherwise indicated, the Monitor's understanding of factual matters expressed in this Report concerning the Petitioners and its business is based on the Information, and not independent factual determinations made by the Monitor.

(14) 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 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.

BACKGROUND

(15) A background on the business and operations of San Group is described in the First Report and in the First Affidavit of Mr. Sukhjit Singh Sanghera ("**Suki**") sworn on November 27, 2024 (the "**Sanghera Affidavit**") and is not repeated in full here.

(16) 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.

(17) San Group is headquartered in Langley, BC and its senior management and finance team all operate from the head office in Langley, BC.

(18) San Group is beneficially owned by Suki, Mr. Kamal Sanghera also known as Mr. Kamaljit Singh Sanghera ("**Kamal**"), Mr. Suki Sanghera, and Mr. Iqbal Deol ("**Iqbal**") through their respective family trusts and holding companies. Kamal and Suki are active members of the Management team.

(19) San Industries is the main operating arm of San Group. 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.

(20) San Group's main operating locations and entities are as follows (collectively, the "**Operating Entities**"):

a) San Industries operates a re-manufacturing plant in Langley, BC (the "**Langley Plant**") converting lumber to re-manufactured products;

b) Coulson Manufacturing 2017 Ltd. ("**Coulson**") operates two sawmills (the "**Coulson Mills**") in Port Alberni, BC;

c) San Forest Products Ltd. ("**San Forest**") operates a re-manufacturing plant in Port Alberni, BC (the "**SFP Plant**").

d) 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**");

e) Axon Lumber Ltd. ("**Axon**") owns the lands for the Langley Plant and a neighbouring farm property; and

f) Super-Cut Lumber Industries Ltd. ("**Super-Cut**") is the employer for all head office and non-union employees except those employees with work permits who are employed by San Industries. The union employees are paid by Couslon or Acorn.

(21) With the exception of the Acorn Mill, the real 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 dated May 14, 2022 as between the Vancouver Fraser Port Authority (the "**Acorn Landlord**"), Interfor Corporation as the assignor, Acorn as the assignee, and San Industries as the guarantor (the "**Acorn Lease Agreement**").

(22) The Monitor is only aware of one other significant real property lease agreement held by the Petitioners, which is between San Industries and the Port Alberni Port Authority (the "**Alberni Port Authority**") dated June 21, 2021 for an initial term of five years (the "**Alberni Port Lease**"), for certain structures and port lands along Harbour Road in Port Alberni, BC.

(23) The other Petitioners not described above are outlined as follows in the Sanghera Affidavit (collectively, the "**Other Petitioners**"):

a) San Cedar Direct Sales Ltd. ("**San Cedar**") is San Group's retail division and owns 100% of the retail store entities which include 1224676 BC Ltd. and 1260729 BC Ltd.;

b) Mountainside Logging Ltd. ("**Mountainside**") conducts logging operations and marketing of logs. The Monitor understands that Mountainside has various credit facilities provided by the Canadian Western Bank;

c) 1170518 BC Ltd. is the company that operated the original San Group retail location in Surrey, BC;

d) 1175465 BC Ltd. is inactive with no current projects or operations;

e) San Farming Ltd. is San Group's agriculture division and currently has four employees;

f) San Forest Specialty Ltd. owns two adjacent parcels of land in Port Alberni, BC and the lands include a small specialty sawmill facility that is currently inactive and non-operational; and

g) San Terminals Inc. was set up for port activities and is inactive with no current projects or operations.

(24) The two primary lenders for the Operating Entities are RBC and the Business Development Bank of Canada ("**BDC**", and together with RBC, the "**Lenders**") who are owed a combined total of over $150.0 million at the Filing Date. San Group has various credit facilities provided by the Lenders as defined as the RBC Credit Facilities and BDC Credit Facilities in the First Report.

PETITIONERS' ACTIVITIES

(25) 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 ARIO and the First Cash Flow Forecast;

c) Worked with the Monitor to prepare the Second Cash Flow Forecast and provided various supporting information;

d) Continued to try and advance the various insurance claims related to the Acorn Fire and the San Forest Fire (as defined later herein);

e) Discussed the preliminary development of a sale and investment solicitation process ("**SISP**") with the Monitor and started the collection of information to populate a virtual data room; and

f) Responded to inquiries and information requests from creditors and other stakeholders.

MONITOR'S ACTIVITIES

(26) Since the date of the First Report, the Monitor has, among other things, undertaken the following activities:

a) Maintained and updated the Monitor's Website and posted copies of the materials in connection with the CCAA Proceedings;

b) Responded to various stakeholder enquiries received through direct email, phone contact or the Monitor's Website;

c) Conducted meetings and discussions with Management, San Group, and other legal counsel regarding the Petitioners' business, financial affairs, restructuring efforts, the Monitor's Current Concerns, including insurance claim and coverage updates, and other matters relating to the CCAA Proceedings;

d) 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;

e) Reviewed various financial and other information provided by San Group and Management in regards to the Petitioners and other related and unrelated entities and performed various analysis;

f) Reviewed the Operating Entities' cash receipts and disbursements and supporting documents, cash management procedures, procurement procedures, disbursement requests, and implemented various monitoring and approval protocols;

g) Prepared and reviewed the Variance Analysis;

h) Worked with Management to prepare the Second Cash Flow Forecast and reviewed the various supporting assumptions, analysis and information provided by Management;

i) Corresponded with the DIP Lender regarding the DIP Financing Facility and the operation of the Petitioners' bank accounts;

j) 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 teaser document, and data room in due course;

k) Attended at the Langley Plant, Coulson Mills, SFP Plant and Acorn Mill to meet with Management, tour the premises, and/or review the assets on hand;

l) Attended to inquiries which the Monitor received from Management, employees, creditors, and other stakeholders in regards to the ongoing operations, cash flow and creditor and customer matters; and

m) Prepared this Report.

OPERATIONS UPDATE

(27) Management has continued to run the Operating Entities at a reduced capacity since the Initial Filing Date as follows:

a) The Coulson Mills have been run sporadically to process third party logs pursuant to the Coulson Custom Cut Contract (as defined later herein) and a small amount of logs owned by San Group;

b) The Langley Plant has continued to run on a limited basis and is just starting to finish lumber pursuant to the Langley Custom Reman Contract (as defined later herein);

c) The SFP Plant remains shut down and there are no plans to restart it at the time of this Report;

d) Acorn remains shut down as a result of the Acorn Fire; and

e) Axon and Super-Cut do not have any current operations other than acting as real estate holding and payroll processing companies, respectively.

(28) On November 18, 2024, the Monitor understands that San Group entered into a custom log cut agreement with a third party (the "**Customer**") pursuant to which the Customer would deliver a predefined quantity of unscaled logs for San Group to scale and cut to the Customer's specifications at the Coulson Mills based on an hourly processing charge (the "**Coulson Custom Cut Contract**"). The written Coulson Custom Cut Contract is for a term ending December 31, 2024, but the Monitor has been advised by Management that there is a verbal agreement with the Customer for the arrangement to remain in place and for additional log volumes to be processed until on or around January 31, 2025. The Monitor has not been provided with any signed extension of the Coulson Custom Cut Contract as of the date of this Report.

(29) San Group has billed and collected approximately $121,000 (before taxes) for work completed under the Coulson Custom Cut Contract for the period from November 26, 2024 to December 2, 2024 and Management expects to invoice approximately $650,000 in additional amounts to January 31, 2025.

(30) On December 12, 2024, the Monitor understands that San Group entered into a custom lumber remanufacturing agreement with the Customer pursuant to which the unfinished cut lumber from the Coulson Mills would be delivered to the Langley Plant at the Customer's expense to be remanufactured by San Group to the Customer's specifications based on an hourly processing charge (the "**Langley Custom Reman Contract**"). The written Langley Custom Reman Contract is for a term ending January 31, 2025. The Monitor understands that San Group has not yet billed any amounts under the Langley Custom Reman Contract but Management estimates that total payments of approximately $150,000 are expected to be generated through to January 31, 2025.

(31) The Monitor understands that Management has attempted to procure logs to process through the Coulson Mills in order to meet its own existing orders, but that only a small amount of logs have been processed over two days and there is currently no log supply available or guaranteed for San Group in the short term.

(32) Management intends to continue to ship orders to customers but has faced various logistical issues which it is in the process of resolving. The Monitor understands that most of these

shipments are to customers based in the United States ("**US**") and that US orders comprised 60% to 70% of the Operating Entities' sales prior to the CCAA Proceedings. The Monitor understands that San Group currently has approximately $1.3 million in pending orders ready to ship to US customers or being held at the US border (the "**Pending US Orders**") and the Monitor has been working closely with Management to try and coordinate the shipments and facilitate the payment of various transportation and brokerage costs related to these orders.

(33) The Monitor understands that any shipments by San Group to the US previously required a surety bond supported by a US $900,000 RBC letter of credit (the "**LC**"). On or around November 7, 2024, the Monitor understands that a request was made by the US Customs Service for the LC to be increased to US $1.1 million or, alternatively, for US $200,000 in cash collateral to be posted by San Group to allow for continued shipments for a period of 60 days without a new LC (the "**LC Issue**"). The Monitor understands that San Group is reviewing other options to resolve the LC Issue. If the LC Issue is not resolved, then San Group will likely not be able to ship any orders to the US after January 6, 2025 and will need to get the Pending US Orders shipped before then. The Monitor has concerns as to whether San Group will be able to ship all of the Pending Orders before January 6, 2025.

(34) The Monitor understands that Management has communicated to its employees and customers that the dates of the holiday shutdown period for the Coulson Mills will be from December 23, 2024 to January 5, 2025 (the "**Holiday Shutdown**"). Management has indicated that this shutdown will still allow San Group to meet its commitments in the Coulson Custom Cut Contract.

(35) Management has indicated that the Langley Plant will continue to operate during the holidays to meet the commitments in the Langley Custom Reman Contract.

(36) The Monitor notes that, based on its understanding of San Group's current operations as outlined above, San Group is relying on the custom contracts to support most of its revenues going forward. This is substantially different than the sales receipts that were included in the First Cash Flow Forecast, which included revenue from both custom work and its existing lumber orders.

(37) The Monitor has limited insight into the nature and extent of the operations of the Other Petitioners but understands from Management that, with the exception of Mountainside, the operations of the Other Petitioners are limited. The Monitor is waiting for additional information from Management in this regard.

CURRENT CONCERNS

(38) The Monitor outlined in the First Report that it was working with San Group to assess the current financial position of the Petitioners and the status of its operations but, due to limited resources within San Group, the books and records being out of date, and various system limitations, the Monitor was not able to complete a detailed review of the current financial position of the Petitioners at that time.

(39) While the Petitioners have generally remained cooperative with the Monitor and have provided a material amount of information, the Monitor is still not receiving timely or complete information from the Petitioners and has not received complete or any answers to a number of direct questions around the Current Concerns and various transactions with related parties (the "**Related Party Transactions**").

(40) The Monitor remains of the view that there is a need for more transparent, accurate and timely responses to questions and information by Management and the Petitioners to enhance the visibility of the financial position of San Group, to assess operations, and to address the Monitor's Current Concerns and Related Party Transactions. An update on the information the Monitor has been able to obtain with respect to each of the Current Concerns since the date of the First Report is set out below.

Inventory Writedown

(41) As outlined in the First Report, the Monitor understood 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**").

(42) The Monitor has requested various information from Management to support the Inventory Writedown. This includes, among other things, documents to substantiate the use of log and lumber inventory on-hand between August 31, 2024 and September 30, 2024, and an explanation as to the timing of the Inventory Writedown given that Management did not conduct its regular fiscal year-end inventory count until October 31, 2024. Management has provided some high level information to date but the Monitor still does not have a clear explanation from Management for the timing of the Inventory Writedown or the supporting documentation detailing the breakdown of the amounts.

(43) The Monitor has also been provided with various correspondence between the Petitioners and their insurance broker, BFL Canada Risk and Insurance Services Ltd. ("**BFL**"), that relates to the STP Claim Denial Letter (as defined in the First Report). The STP Denial Letter stated, among other things, that the insurer took the position that the stock throughput insurance policy, a policy that covered all of the Operating Entities' inventory, is void "*ab initio*". Since the delivery of the STP Claim Denial Letter, the Monitor understands that the Petitioners have been working with BFL to try to secure interim stock loss throughput insurance and are still trying to secure coverage as at the date of this Report.

(44) In this correspondence with BFL, Management has provided insurance values for the Operating Entities' current inventory (the "**BFL Inventory Values**") that are substantially less than the last inventory balance report by the Petitioners in their September 30, 2024 RBC borrowing base certificate (the "**September 2024 BBC**"). The September 2024 BBC reported log inventory with a total cost of approximately $43.0 million and lumber inventory with a total cost of approximately $27.0 million for total inventory of approximately $70.0 million (the "**September 2024 Inventory Balances**"). The September 2024 Inventory Balances were net of the Inventory Writedown. The Monitor understands that the September 2024 BBC was the last such certificate prepared and submitted to RBC by Management.

(45) Management completed the Operating Entities' annual inventory count (the "**Inventory Count**") on or around the October 31, 2024 fiscal year end, but Management has indicated that this information has not yet been compiled and it is not available to the Monitor. Management has been unable to provide certain requested count sheets completed for the Inventory Count at the Langley Plant and no count sheets for the inventory counted at the Coulson Mills and SFP Plant (the "**Count Sheets**"). The Monitor has made repeated requests for the Count Sheets, both prior to and after the Filing Date, and Management has indicated that the Count Sheets have either been disposed of, are only stored in hard copies at the original locations and not at the head office (and therefore not quickly retrievable), or are not readily available on the San Group's email servers.

(46) The Monitor has asked Management to confirm what inventory is currently on hand, where it is located, how it rolls forward from September 30, 2024 in terms of purchases and sales of inventory, and to provide whatever supporting documents currently exist. Management has provided limited information to date and it is not certain if the Operating Entities' have any remaining log inventory, with the possible exception of the Missing Log Inventory (as discussed below).

(47) The Monitor attended at the Langley Plant on December 14, 2024 to perform a high level and limited count of the lumber inventory. The Monitor noted that the quantity of lumber inventory appeared to be consistent with those viewed as of the Filing Date and with the BFL Inventory Values being provided to BFL.

(48) The Monitor is concerned that the log and lumber inventory previously reported in the September 2024 BBC may not be accurate and is waiting for further information from Management as detailed above.

Missing Log Inventory

(49) As outlined in the First Report, on or around November 23, 2024, Management 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 understood that Management was working to recover as much of the Missing Log Inventory as possible through the use of third parties.

(50) The Monitor has requested further information from Management and updates as to the recovery efforts for the Missing Log Inventory and has not been provided with such information as of the date of this Report.

(51) It remains unknown at this time whether any recovery efforts have been undertaken and if these recovery efforts will be successful.

Insurance Matters and Claims

(52) The Monitor and its counsel have held meetings with the Petitioners' insurance counsel handling the insurance claims and potential recoveries related to the fire at San Forest in April 2020 (the "**San Forest Fire**") and the Acorn Fire. The Petitioners have also provided certain information related to the claims.

(53) The Monitor understands that the remaining insurance claims related to the San Forest Fire (the "**San Forest Claims**") are at various stages, with negotiations taking place with respect to one of the claims. There is, however, the prospect of litigation in respect of one or both of the San Forest Claims.

(54) The Monitor has no significant update as to the status of the claims related to the Acorn Fire (the "**Acorn Fire Claims**") since the First Report and understands that the investigations by the relevant insurance companies are ongoing. The Monitor understands that the Petitioners' advisors are assessing next steps with the STP Claim Denial Letter and Management is trying to source alternative inventory insurance coverage as detailed earlier in this Report.

(55) 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 that were incurred prior to filing the PBE Claim (as defined in the First Report) and are, generally speaking, seeking payment assurances.

(56) The Petitioners' insurance counsel working on the San Forest Claims and the Acorn Fire Claims are also seeking to secure their ongoing fees and costs. The Monitor will work with the Petitioners to factor these costs into the next iteration of the cash flow projection for the Operating Entities depending on how insurance matters will be handled going forward. In addition, the Monitor is planning to work with the various insurance counsel involved in the claims, including insurance counsel for the Lenders, to ensure information is efficiently shared amongst the parties while maintaining confidentiality and privilege.

BNS Account

(57) As outlined in the First Report, 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 "**First BNS Account**") into which approximately $11.7 million of customer payments in respect of the Petitioners' accounts receivable were deposited up until October 31, 2024.

(58) The Monitor contacted BNS who confirmed that Management requested that the First BNS Account be closed just prior to the CCAA Proceedings. BNS also advised the Monitor that there were two additional accounts held by the San Group at BNS as follows:

a) A second USD bank account was opened at BNS (the "**Second BNS Account**") on March 19, 2024; and

b) A third bank account was opened at BNS on November 15, 2024 (the "**Third BNS Account**", collectively with the First BNS Account and the Second BNS Account, the "**BNS Accounts**").

(59) The Monitor has been advised by RBC that the opening of the BNS Accounts was in breach of the RBC Credit Facilities.

(60) BNS wired all remaining funds in the BNS Accounts totalling approximately $166,000 (the "**BNS Funds**") to San Group on December 6, 2024 and closed the BNS Accounts the same day. BNS provided the remaining bank statements that detailed all of the transactions up to the closing date.

(61) Based on the Monitor's review of the bank statements relating to the BNS Accounts, the total receipts and disbursement through each of the accounts totalled $13.4 million and are summarized in the below table.

San Group
Bank of Nova Scotia ("BNS") transactions - inception to December 6, 2024

CAD$	First BNS Account	Second BNS Account *	Third BNS Account	Total
Receipts				
Deposits	11,144,882	1,943,377	265,064	13,353,323
Total receipts	**11,144,882**	**1,943,377**	**265,064**	**13,353,323**
Disbursements				
Transfer from (to) other BNS accounts	1,352,184	(1,088,320)	(263,864)	-
Transfer to RBC accounts	-	(130,511)	(860)	(131,372)
Due from (to) related parties	(4,776,483)	(644,645)	-	(5,421,127)
Vendor payments	(6,345,856)	(79,162)	-	(6,425,018)
Professional fees	(50,000)	-	-	(50,000)
Credit card payments	(78,451)	-	-	(78,451)
Insurance	(1,238,519)	-	-	(1,238,519)
Employee expenses	(5,102)	-	-	(5,102)
Bank fees	(2,656)	(739)	(340)	(3,735)
Total disbursements	**(11,144,882)**	**(1,943,377)**	**(265,064)**	**(13,353,323)**
Net cash flow	-	-	-	-
Opening balance	-	-	-	-
Closing balance as at December 6, 2024	-	-	-	-

Note
* *For the purposes of this analysis the Second BNS Account has been converted to CAD$ using an average foreign exchange rate of 1.1183*

(62) The Monitor has performed a preliminary review of the receipts and disbursements recorded in the BNS Accounts and notes that significant payments appear to have been made to certain related companies and/or companies in which Suki and Kamal are directors. The Monitor also notes that a significant amount of other payments appear to have been made to related parties through the RBC accounts in the months leading up to the CCAA Proceedings. Management has provided the Monitor with certain limited information with respect to these Related Party Transactions as of the date of this Report, but the Monitor has not yet been able to verify this information or form a view with respect to these transactions.

SFP Break-In

(63) As outlined in the First Report, the Monitor was informed of a break-in at the SFP Plant during the day on or around December 4, 2024 (the "**SFP Break-In**").

(64) The Monitor has received further information from Management around the SFP Break-In and attended at the SFP Plant and Coulson Mills on December 9, 2024 to assess if the new security protocols put in place by Management after the break-in were sufficient to properly protect the Petitioners' assets at these locations. Management has confirmed that the parties attending at the SFP Plant on or around December 4, 2024 were authorized to remove certain scrap metal of limited value from the premises but this was not clearly communicated to other members of Management at the time.

(65) As a result of the site visits and a review of the photos taken on the Monitor's last attendance at the SFP Plant and Coulson Mills on November 28, 2024, the Monitor noted that it appeared that only some scrap metal was removed from the SFP Plant and that the Petitioners' employees are providing 24-hour security on a go forward basis at both locations. Management committed to enhance the locks at the various access points on the properties and the Monitor has been provided with internal security logs on a regular basis. The Monitor is currently assessing if further security measures need to be undertaken.

CASH FLOW

Variance Analysis

(66) The Monitor has worked closely with the Petitioners and the DIP Lender in respect of managing and monitoring cash receipts and cash disbursements in accordance with the First Cash Flow Forecast as prepared by Management as part of the Initial Order application. A summary of the actual cash flows as compared to the projected amounts in the First Cash Flow Forecast for the Cash Flow Period is set out below.

San Group
Cash Flow Variance Analysis - For the two week period ended December 13, 2024

CAD$; unaudited	Forecast	Actual	Variance ($)	Variance (%)
Receipts				
Accounts receivable	983,755	714,615	(269,140)	(27%)
BNS Funds	-	166,395	166,395	N/A
Sales	648,000	127,302	(520,698)	(80%)
Total receipts	**1,631,755**	**1,008,311**	**(623,444)**	**(38%)**
Operating Disbursements				
Vendors	(828,647)	94,305	922,952	(111%)
Payroll	(321,977)	(138,571)	183,406	(57%)
General and administrative expense:	(418,448)	(76,316)	342,132	(82%)
Professional fees	(470,000)	(233,338)	236,662	(50%)
Total operating disbursements	**(2,039,072)**	**(353,920)**	**1,685,153**	**(83%)**
Net operating cash flow	**(407,317)**	**654,392**	**1,061,709**	**(261%)**
Financing Disbursements				
Leases	(36,428)	(54,474)	(18,047)	50%
Total financing disbursements	**(36,428)**	**(54,474)**	**(18,047)**	**50%**
Net cash flow	**(443,745)**	**599,917**	**1,043,662**	**(235%)**
Opening Bank Balance	-	(44,827)	(44,827)	
Net cash flow	(443,745)	599,917	1,043,662	(235%)
Interim financing	543,745	300,000	(243,745)	(45%)
Ending bank balance	**100,000**	**855,090**	**755,090**	**755%**

(67) The net cash flow for the Operating Entities during the Cash Flow Period amounted to $0.6 million, which was approximately $1.0 million higher than projected mainly as a result of positive timing differences in respect of disbursements which were partially offset by lower than projected customer receipts and draws under the DIP Financing Facility. The more significant variances in the Cash Flow Period are as follows:

a) Accounts receivable ("**AR**") collections were approximately $269,000, or 27%, lower than projected due in part to certain banking challenges (the "**Banking Challenges**"), as further detailed below, in addition to lower than projected AR balances, and generally slower collections.

b) The BNS Funds of approximately $166,000 were not factored into the First Cash Flow Forecast and are a permanent positive difference.

c) Collections from new sales were approximately $521,000, or 80%, lower than projected due to San Group not being able to secure fibre and generate revenues from new orders as expected, other than the limited custom cut revenue of approximately $121,000 billed (before taxes) and collected to date. This represents a permanent negative variance.

d) Vendor payments were approximately $923,000, or 111%, lower than projected as only approximately $17,000 in payments were made due in part to the Banking Challenges, and approximately $111,000 of vendor payments issued prior to the CCAA Proceedings were returned to the RBC bank accounts due to insufficient funds and prior restrictions on the RBC bank accounts that were not anticipated. A large portion of this variance is due to timing differences that will reverse in the next two weeks.

e) Payroll was approximately $183,000, or 57%, lower than projected due primarily to the Banking Challenges which delayed payments clearing the bank accounts. As at the date of this Report all projected payroll payments have now been processed and this timing difference has reversed.

f) General and administrative expenses were approximately $342,000, or 82%, lower than projected due primarily to delays in the processing of pre-authorized payments for utilities and insurance as a result of the Banking Challenges.

g) Professional fees were approximately $237,000, or 50%, lower than forecast due to the timing of the professional services firms rendering their invoices.

(68) The Banking Challenges were the result of San Group's bank accounts being subject to various restrictions primarily due to payment demands issued by His Majesty the King in the Right of the Province of BC prior to the CCAA Proceedings in relation to stumpage arrears (the "**Province Payment Demands**"). The Province Payment Demands are subject to the Stay of Proceedings; however the restrictions on San Group's RBC bank accounts remain in place. These restrictions have caused delays in facilitating several transactions including receiving wire payments, depositing cheques and issuing payments. The Monitor has been working with Management and RBC to remove these restrictions as quickly as possible to avoid any further timing delays with respect to payments being made, including payroll and pre-authorized payments. As at the date of this Report, the Monitor anticipates that all delayed payments will be addressed on or before December 20, 2024.

Second Cash Flow Forecast

(69) The Monitor has held several discussions with Management with respect to the First Cash Flow Forecast and some of the current and future challenges which will make the First Cash Flow Forecast very difficult to achieve, including the following:

a) The lack of fibre to run the Coulson Mills to meet current and future existing customer orders and spot sales;

b) Challenges with shipping companies and custom brokers to ship orders to the US and the related LC Issue;

c) General arrears to various suppliers which makes sourcing various goods and services more challenging;

d) The lack of certainty around the custom cutting revenues and lack of supporting agreements;

e) The lack of certainty around spot sale revenues and lack of support to validate the estimate;

f) The lack of certainty and support around the vendor payments and other costs required in operations;

g) The distractions caused by the ongoing insurance claims and having to source alternative inventory insurance coverage;

h) The lack of inclusion of the rent due under the Acorn Lease of approximately $630,000 per quarter (the "**Acorn Rent**") which Management has assumed will be covered by the current deposit being held by the Acorn Landlord (the "**Acorn Rent Deposit**") and was not included in the First Cash Flow Forecast;

i) The lack of inclusion of the rent due under the Alberni Port Lease of approximately $45,000 per month which is mostly offset by revenues collected directly from sub tenants by the Alberni Port Authority, leaving a rent payment of approximately $7,000 per month; and

j) A slow down in sales prior to the CCAA Proceedings which resulted in the significant reduction in AR and current and future cash receipts.

(70) As a result of the above challenges with the First Cash Flow Forecast and the uncertainty of achieving the projected results, the Monitor has worked closely with Management to update the First Cash Flow Forecast and the related assumptions to January 31, 2025.

(71) The Second Cash Flow Forecast includes Management's preliminary view on the cash flows of the Operating Entities for the period from December 14, 2024 to January 31, 2025, as summarized in the table below and attached hereto as **Appendix "B"**, with the related assumptions.

San Group
Second Cash Flow Forecast for the Operating Entities for the Period from December 14, 2024 to January 31, 2025

In C$; unaudited	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Week No.	1	2	3	4	5	6	7	Week 1 to 7
Week Ended	20-Dec-24	27-Dec-24	03-Jan-25	10-Jan-25	17-Jan-25	24-Jan-25	31-Jan-25	Total
Receipts	681,377	305,194	613,991	252,940	760,793	488,136	170,000	3,272,432
Operating disbursements	(1,170,101)	(725,781)	(258,422)	(749,309)	(521,937)	(860,315)	(235,200)	(4,521,064)
Net operating cash flow	**(488,724)**	**(420,587)**	**355,569**	**(496,368)**	**238,856**	**(372,178)**	**(65,200)**	**(1,248,632)**
Financing disbursements	(29,774)	-	(44,336)	(5,650)	(22,606)	-	(40,775)	(143,141)
Net cash flow	**(518,498)**	**(420,587)**	**311,233**	**(502,018)**	**216,249**	**(372,178)**	**(105,975)**	**(1,391,773)**
Opening Bank Balance	**855,090**	**336,592**	**216,006**	**527,239**	**25,220**	**241,470**	**(130,708)**	**855,090**
Net cash flow	(518,498)	(420,587)	311,233	(502,018)	216,249	(372,178)	(105,975)	(1,391,773)
Interim financing	-	300,000	-	-	-	-	-	300,000
Ending bank balance	**336,592**	**216,006**	**527,239**	**25,220**	**241,470**	**(130,708)**	**(236,683)**	**(236,683)**

(72) The more significant assumptions included in the Second Cash Flow Forecast are as follows:

a) The opening cash of approximately $855,000 is largely consumed by the reversal of the positive timing differences from the Cash Flow Period which relate to various vendor, payroll, and general and administrative payments that were unpaid (for reasons outlined previously) and rolled forward into Week 1;

b) The remaining available financing of $300,000 under the DIP Financing Facility is received in Week 2;

c) AR collections are projected to total approximately $438,000 based on the remaining AR last reported by Management as of December 13, 2024;

d) Sales receipts are projected to total approximately $2.4 million and are comprised of approximately $800,000 of revenue from the Couslon Custom Cut Contract and Langley

Custom Reman Contract which will both only run to January 31, 2025 (the "**Custom Revenues**"). The remaining $1.6 million in sales receipts are projected from the $1.3 million in Pending US Orders and $250,000 of immediate cash or spot sales (the "**Spot Sales**");

e) GST refunds of approximately $436,000 are projected to be collected, of which approximately $300,000 was received on December 17, 2024, and approximately $136,000 is expected to be received on or before January 17, 2025;

f) Vendor payments of approximately $865,000 will be paid to cover the existing commitments made since the Initial Filing along with an estimate of $100,000 per week from Week 4 onwards to cover ongoing costs for operations, with a decrease in Week 3 to account for the Holiday Shutdown;

g) Payroll costs of approximately $1.2 million are required to sustain the current operations to January 31, 2025;

h) General and administrative costs of approximately $1.1 million are required to cover mainly insurance and utility pre-authorized payment amounts;

i) Professional fees of approximately $915,000 are estimated for the professionals covered by the Administration Charge;

j) The Acorn Rent will be offset against the Acorn Rent Deposit;

k) A contingency of $350,000 to try and account for any unknown additional costs or receipt shortfalls; and

l) Cash flows in respect of Mountainside have not been considered or included in the projection. The Monitor is awaiting further information from Management to assess the operations and cash flows of this entity.

(73) The Monitor's comments on the more significant assumptions included in the Second Cash Flow Forecast are as follows:

a) The Custom Revenues are contingent on the customers providing the logs and lumber as projected and that the Couslon Custom Cut Contract is extended which the Monitor understands is only a verbal commitment at this time;

b) The Pending US Orders will need be shipped as soon as possible and any delays will impact the timing of the expected cash receipts and the Monitor is concerned that payments may be disrupted or delayed in any event as a result of the Christmas holidays. Management has not yet confirmed that the shipping obstacles have been resolved and that the Pending US Orders projected to be collected in Week 2 to Week 6 have in fact been shipped;

c) The Spot Sales are speculative and may not be collected as projected;

d) The operating disbursements need to be incurred and paid as projected with no unknown significant costs or variances;

e) The remaining financing under the DIP Financing Facility is required to be paid in Week 2 and the Monitor understands that, as at the time this Report was finalized, the DIP Lender has agreed to fund this amount;

f) The limitations in the availability and timeliness of information from San Group's financial system continues to constrain the Monitor's ability to review the reasonableness of the underlying assumptions and quantum of future cash flows. Accordingly, there is a material risk that the required funding may be higher than projected; and

g) Management provided updated assumptions around the Pending US Sales and Spot Sales and related disbursements just before the close of business on December 17, 2024 and the Monitor has not had sufficient time to review and assess the supporting documents and reasonableness of the amounts projected.

(74) The Second Cash Flow Forecast shows that, absent further availability under the DIP Financing Facility beyond the current facility limit of $600,000, the Operating Entities may run out of liquidity in week ending January 24, 2025. A peak additional funding requirement of approximately $237,000 is projected in the week ending January 31, 2025.

(75) Based on the Monitor's preliminary analysis of the Second Cash Flow Forecast, there are many risks and uncertainties around the assumptions, and the Monitor believes it is prudent to request the DIP Financing Facility Increase of $400,000 to account for any potential additional unforeseen costs up to the date of the contemplated stay extension to help ensure that the Petitioners can meet all post filing obligations through to that time. As at the time this Report was finalized, the Monitor has not received confirmation from the DIP Lender that it is agreeable to the DIP Financing Facility Increase.

(76) Since the cash flows are 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 Second 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 Report or relied upon by the Monitor in preparing this Report.

DIP FINANCING FACILITY

(77) The Initial Order authorized the Petitioners to obtain and borrow under the DIP Financing Facility to a maximum 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.

(78) As outlined in the First Report, the first draw under the DIP Financing Facility was funded by RBC on December 5, 2024 in the amount of $300,000 as approved by the Monitor and no further draws have occurred to the date of this Second Report.

(79) As a result of the ongoing Current Concerns and due to an event of default under the DIP Financing Facility as a result of the Current Concerns, the Monitor understands that the DIP Lender will not provide any further advances under the DIP Financing Facility, or the DIP Financing Facility Increase, unless the Monitor is granted further enhanced powers and a SISP is advanced by the Monitor.

(80) The Monitor is of the view that the DIP Financing Facility Increase is both prudent and may in fact be required in order to help ensure that all post-filing obligations can be met up until the end of the contemplated stay extension as outlined in the Second Cash Flow Forecast.

MONITOR'S FURTHER ENHANCED POWERS

(81) As outlined in the First Report, the Monitor was granted with enhanced powers in the Initial Order which authorized and empowered, but did not require, the Monitor to, among other things, apply for approval of a SISP, assist the Petitioners in the pursuit of any insurance claim proceeds, tax refunds, or operate and control the Petitioners' bank accounts.

(82) As a result of the ongoing Current Concerns, including the Petitioners' ability to meet the post filing obligations in the CCAA Proceedings, the Lenders have expressed their strong preference for the Monitor to be granted further enhanced powers.

(83) The further enhanced powers granted to the Monitor are expected to include matters such as authorizing and empowering, but not requiring, the Monitor to:

a) Cause the Petitioners to take any action permitted to be taken by the Petitioners pursuant to the CCAA, this Order, and any other orders granted in these CCAA Proceedings;

b) Take all actions and steps in the name and on behalf of the Petitioners to administer the Petitioners' restructuring, including but not limited to, winding-down the Business, liquidating the Property, disposing of assets, or such other activities as may, in the Monitor's sole discretion, be necessary or appropriate;

c) Manage, operate and carry on the Business of the Petitioners, including the power to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the Business, or cease to perform any contract of the Petitioners, including in the name and on behalf of the Petitioners;

d) Preserve, protect and maintain control of all of the Property or any part or parts thereof;

e) Rely on the Books and Records of the Petitioners without independent investigation, unless otherwise ordered by this Court, and, for greater certainty, the Monitor shall not be liable for any claims or damages resulting from any errors or omissions in such Books and Records or information;

f) Engage, retain, or terminate the services of, or cause the Petitioners to engage, retain or terminate the services of, any officer, employee, consultant, agent, representative, advisor, or other persons or entities, all under the supervision and direction of the Monitor, as the Monitor, in its sole discretion, deems necessary or appropriate to assist with the exercise of its powers and duties;

g) In the name of and on behalf of the Petitioners, execute any agreement, document, instrument or writing of whatever nature in respect of any of the Petitioners' Business or Property, for any purpose pursuant to the CCAA, this order, and any other order granted in these CCAA Proceedings;

h) To exercise any shareholder, partnership, joint venture or other similar rights which the Petitioners may have;

i) Market, conduct, supervise, and direct the sale, conveyance, transfer, lease, assignment or disposal of any Property, or any part or parts thereof, whether or not outside of the normal course of business, subject to any approval of this Court as may be required pursuant to the CCAA and this 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;

j) Receive and collect all monies and accounts now owed or hereinafter owing to the Petitioners;

k) Conduct, supervise and direct the continuation or commencement of any process or effort to recover money, Property, or other assets belonging or owing to the Petitioners, and exercise all remedies of the Petitioners in collecting such money, Property, or other assets;

l) Claim, or cause 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;

m) Initiate, prosecute and continue the prosecution of all proceedings, and to defend, continue, settle or compromise any and all proceedings now pending or hereafter instituted with respect to the Petitioners (or their subsidiaries), the Property, or the Monitor, including such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

n) Engage, deal, communicate, negotiate, agree and settle with any creditor of the Petitioners in the name of and on behalf of the Petitioners;

o) Deal with any taxing or regulatory authority, including to execute any appointment or authorization form on behalf of the Petitioners that any taxing or regulatory authority may require, in order to confirm the appointment of an authorized representative of the Petitioners (which may be a representative of the Monitor) for such purposes;

p) File, or take such actions as may be necessary for the preparation and filing of: (i) any tax returns; and (ii) the Petitioners' employee-related remittances, T4 statements and records of employment for the Petitioners' former employees, in either case, based solely upon the information in the Petitioners' Books and Records;

q) Report to, meet with and discuss with such affected Persons as the Monitor considers appropriate on all matters relating to the Business, Property, and these proceedings, and to receive and share information, subject to such confidentiality terms as the Monitor considers appropriate;

r) in the name of and on behalf of the Petitioners, to propose one or more plans of distribution or plans of compromise and arrangement, provided that the Petitioners shall be deemed to have formulated any such plans, and any distributions made thereunder shall be deemed to have been made by the Petitioners and not the Monitor;

s) Disseminate to the Interim Lender (as hereinafter defined) and its counsel financial and other information, including as agreed between the Borrowers (as hereinafter defined) and the Interim Lender, which may be used in these proceedings, including reporting on a basis to be agreed with the Interim Lender;

t) With the assistance of the Petitioners, prepare the Petitioners' cash flow statements and reporting, including as required by the Interim Lender, which information shall be delivered to the Interim Lender and its counsel on a periodic basis, as required under the terms of the DIP Financing Facility, or as otherwise agreed to with the Interim Lender;

u) Perform such other duties or take any steps reasonably incidental to the exercise of any powers and obligations conferred on the Monitor by this Order or any other order of this Court; and

v) Apply to this Court for advice and directions in respect of the exercise and discharge of its powers and duties hereunder.

(84) The Monitor is supportive of the granting of these further enhanced powers.

THE SISP

(85) The current expectation is that the parties intend to return to Court to seek approval of a SISP in January 2025.

(86) The Monitor does not yet have sufficient information to provide its views in respect of the SISP; however, the Monitor has held 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 teaser document, and data room in due course.

REQUESTED STAY EXTENSION

(87) The current stay expires on December 19, 2024. The Petitioners seek an extension of the stay period to January 10, 2025 in order to allow sufficient time to further the restructuring efforts, particularly as regards to developing a SISP.

(88) While the Petitioners have been generally cooperating with the Monitor, the Monitor has ongoing concerns related to the Current Concerns, including the ability of the Petitioners to achieve the Second Cash Flow Forecast.

(89) The Monitor is also of the view that there is a need for more control of the Petitioners' operations and the need for more accurate and timely information from the Petitioners to enhance the visibility of the financial position and operations of San Group, to address the Current Concerns, and to be in a better position to make informed decisions with respect to these CCAA Proceedings in a timely manner. An order granting the Monitor further enhanced powers should help to accomplish this.

(90) The Monitor believes that the creditors of the Petitioners will not be prejudiced by an extension of the stay of proceedings into January 2025 as this 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.

(91) Based on the forgoing, the Monitor supports an extension of the stay of proceedings into January 2025.

CONCLUSIONS AND RECOMMENDATIONS

(92) Based on the foregoing, the Monitor respectfully recommends that this Court grant an order:

a) Extending the stay of proceedings into January 2025;

b) Approving an increase in the DIP Financing Facility in the amount of $400,000; and

c) Granting the Monitor further enhanced powers.

This Report is respectfully submitted this 18th 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

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"

SECOND CASH FLOW FORECAST FOR THE OPERATING ENTITIES FOR PERIOD FROM DECEMBER 14, 2024 TO JANUARY 31, 2025

San Group

Second Cash Flow Forecast for the Operating Entities for the Period from December 14, 2024 to January 31, 2025 [1]

In C$; unaudited	Note	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Week No.		1	2	3	4	5	6	7	Week 1 to 7
Week Ended		20-Dec-24	27-Dec-24	03-Jan-25	10-Jan-25	17-Jan-25	24-Jan-25	31-Jan-25	Total
Receipts									
Accounts receivable	2	254,003	-	-	172,940	10,636	-	-	437,580
Sales	3	127,302	305,194	613,991	80,000	613,959	488,136	170,000	2,398,583
Tax refund	4	300,072	-	-	-	136,197	-	-	436,269
Total receipts		**681,377**	**305,194**	**613,991**	**252,940**	**760,793**	**488,136**	**170,000**	**3,272,432**
Operating Disbursements									
Vendors	5	(252,334)	(162,256)	(50,000)	(100,000)	(100,000)	(100,000)	(100,000)	(864,590)
Payroll	6	(182,351)	(408,430)	-	(299,214)	-	(373,430)	-	(1,263,425)
General and administrative expens	7	(423,816)	(30,094)	(121,822)	(50,094)	(371,937)	(31,885)	(85,200)	(1,114,849)
Rent		(6,600)	-	(6,600)	-	-	-	-	(13,200)
Professional fees	8	(255,000)	(75,000)	(30,000)	(250,000)	-	(305,000)	-	(915,000)
Contingency		(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(350,000)
Total operating disbursements		**(1,170,101)**	**(725,781)**	**(258,422)**	**(749,309)**	**(521,937)**	**(860,315)**	**(235,200)**	**(4,521,064)**
Net operating cash flow		**(488,724)**	**(420,587)**	**355,569**	**(496,368)**	**238,856**	**(372,178)**	**(65,200)**	**(1,248,632)**
Financing Disbursements									
Leases	9	(29,774)	-	(44,336)	(5,650)	(22,606)	-	(40,775)	(143,141)
Total financing disbursements		**(29,774)**	**-**	**(44,336)**	**(5,650)**	**(22,606)**	**-**	**(40,775)**	**(143,141)**
Net cash flow		**(518,498)**	**(420,587)**	**311,233**	**(502,018)**	**216,249**	**(372,178)**	**(105,975)**	**(1,391,773)**
Opening Bank Balance	10	**855,090**	**336,592**	**216,006**	**527,239**	**25,220**	**241,470**	**(130,708)**	**855,090**
Net cash flow		(518,498)	(420,587)	311,233	(502,018)	216,249	(372,178)	(105,975)	(1,391,773)
Interim financing	11	-	300,000	-	-	-	-	-	300,000
Ending bank balance		**336,592**	**216,006**	**527,239**	**25,220**	**241,470**	**(130,708)**	**(236,683)**	**(236,683)**

San Group

Second Cash Flow Forecast for the Operating Entities for the Period from December 14, 2024 to January 31, 2025 (the "Second Cash Flow Forecast")
Notes and Summary of Assumptions

Disclaimer

Since the Second 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 Second 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 Second Cash Flow Forecast is presented in Canadian dollars and includes the following Petitioners (collectively the "**Operating Entities**"):

- San Industries Ltd.
- San Forest Products Ltd.
- Coulson Manufacturing 2017 Ltd.
- Acorn Forest Products Ltd.
- Axon Lumber Ltd.
- Super-Cut Lumber Industries Ltd.

All defined terms that are not otherwise defined herein are to have the same meaning ascribed to them in the Monitor's first report dated December 7, 2024.

Note 1 Purpose of the Cash Flow Forecast

The purpose of the Second Cash Flow Forecast is to present the estimated cash receipts and disbursements of the Operating Entities for the period from December 14, 2024 to January 31, 2025 (the "**Forecast Period**"). The Second Cash Flow Forecast has been prepared by the Petitioners, 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 Petitioners' contracts with customers for custom cutting operations and Management's latest sales forecast for ongoing customer orders, and collections terms with customers.

Included in the total sales figure is $250,000 in spot sales which Management has estimated based on prior spot sales.

Note 4 Tax refunds

Tax refunds reflect anticipated cash inflows from income tax and sales tax refunds in the Forecast Period. The Petitioners are already in receipt of the amount of the tax refund included in Week 1.

Note 5 **Vendors**

Vendor disbursements include, but are not limited to, payments for purchases of lumber inventory, customs fees for US-bound orders, and freight and repairs and maintenance expenses, the majority of which are 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 Petitioners' 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**

General and administrative expenses include expenses required to operate the plants, and limited administrative costs. These expenses include, but are not limited to utilities, insurance, IT and other overhead costs.

Note 8 **Professional fees**

Professional fees and disbursements include those of the Monitor, counsel to the Monitor, counsel to the secured lenders, and corporate and insurance counsel to the Petitioners, incurred or projected during the CCAA Proceedings.

Note 9 **Leases**

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

Note 10 **Opening bank balance**

Opening cash is based on the balances in the bank accounts held with RBC by the Operating Entities as at the end of day on December 13, 2024. There may be additional bank accounts held outside of RBC by some of the Other Petitioners, and the balances of those accounts are not available to fund operations and therefore are excluded from the above calculation.

Note 11 **Interim financing**

The Second Cash Flow Forecast reflects advances under the DIP facility of $0.30 million.