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COURT COURT OF QUEEN'S BENCH OF ALBERTA

IN BANKRUPTCY AND INSOLVENCY

JUDICIAL CENTRE EDMONTON

DOCUMENT SECOND REPORT OF THE TRUSTEE IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSALS OF ALASKA – ALBERTA RAILWAY DEVELOPMENT CORPORATION

DATE AUGUST 17, 2021

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

1. On June 18, 2021 (the “Filing Date”), Alaska – Alberta Railway Development Corporation (“AARDC” or the “Company”), 7198362 Manitoba Ltd. (“719”) and 12703131 Canada Ltd. (“127”, collectively with AARDC and 719 “the “NOI Companies”) filed Notices of Intention to Make Proposals (the “NOIs”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act, RSC 1985, c B-3* (the “BIA”). MNP Ltd. consented to act as Trustee under the NOIs (the “Trustee”).
2. Upon filing its NOI, AARDC was granted a 30 day stay of proceedings pursuant to Section 69(1) of the BIA (the “Stay”). Pursuant to an Order granted by the Court of Queen’s Bench of Alberta (the “Court”) on July 12, 2021, the Stay was extended to August 31, 2021.
3. The NOI proceedings were initiated following the receivership of the NOI Companies’ primary secured lender, Bridging Finance Inc. (“BFI”) and certain other entities and investment funds related to BFI (collectively, “Bridging”) pursuant to Orders granted by the Ontario Superior Court of Justice on April 30, 2021 and May 3, 2021. PricewaterhouseCoopers Inc. (“PwC”) acts as the Court-appointed Receiver of Bridging (the “Bridging Receiver”). On June 8, 2021, the Bridging Receiver issued a demand letter and a Notice of Intention to Enforce Security to AARDC pursuant to Section 244 of the BIA.
4. On July 7, 2021, the Trustee issued a material adverse change report for AARDC pursuant to Section 50(10) of the BIA, based on the following:
 - 4.1. The Bridging Receiver advised the Trustee that it would only support an extension of the Stay for AARDC if an Interim Receiver was appointed in respect of AARDC. Due to the size and nature of Bridging’s claim, the Company does not have the ability to make a viable proposal without the Bridging Receiver’s support.
 - 4.2. Outside of Mr. Sean McCoshen (“McCoshen”), the sole director and shareholder for AARDC, there was no party with the corporate authority to act on behalf of the Company. The Trustee had been advised that McCoshen was under medical care and was not involved in the day-to-day operations of AARDC. Further, McCoshen had not been accessible to the Trustee other than through the Company’s former legal counsel, Dickinson Wright LLP (“Dickinson”), in addition to which, the Bridging Receiver had expressed concern regarding McCoshen’s activities in relation to the NOI Companies prior to the NOI filing.
 - 4.3. The parties charged with the management of the day-to-day activities of AARDC did not appear to have comprehensive information regarding the Company’s assets or the required authority to manage and direct AARDC’s operations through these proceedings.
5. On June 12, 2021, on application by PwC, the Court granted an Order appointing MNP Ltd. as Interim Receiver of AARDC during the NOI proceedings (the “Interim Receiver”).

6. Copies of the relevant documents relating to these proceedings are available on the Trustee's website at <https://mnpdebt.ca/en/corporate/corporate-engagements/alaska-alberta-railway-development-corporation-7198362-manitoba-ltd-and-12703131-canada-ltd>.

NOTICE TO READER

7. In preparing this report and making comments herein, the Trustee has relied upon, certain unaudited, draft or internal financial information, including AARDC's books and records, and information from other third-party sources (collectively, the "Information"). The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or other standards established by the Chartered Professional Accountants of Canada (the "Standards"). Additionally, none of the Trustee's procedures were intended to disclose defalcations or other irregularities. If the Trustee were to perform additional procedures or to undertake an audit examination of the Information in accordance with the Standards, additional matters may have come to the Trustee's attention. Accordingly, the Trustee does not express an opinion, nor does it provide any other form of assurance on the financial or other information presented herein. The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.
8. All amounts included herein are in Canadian dollars unless otherwise stated.

PURPOSE OF THE REPORT

9. This report is the Second report of the Trustee (the "Second Report" or "this report"). The purpose of the Second Report is to provide the Court with additional information regarding the application by the Interim Receiver, returnable August 26, 2021 (the "August 26 Hearing") seeking a 45-day extension of the Stay for AARDC from August 31, 2021 to October 15, 2021 (the "Extension").

BACKGROUND

10. AARDC was originally incorporated as 1788099 Alberta Ltd. ("178") under the *Alberta Business Corporations Act* on February 3, 2017. 178 originally changed its name to Alberta – Alaska Railway Development Corporation and then to Alaska – Alberta Railway Development Corporation.
11. AARDC's operations were undertaken to advance its stated purpose of building and operating a railway that would extend from Alberta to Alaska and allow for the transport of resource commodities to global markets via the ports of Southcentral Alaska. To date, the Trustee understands that AARDC's most notable milestones have been the granting of a Presidential Permit issued by former U.S. President, Donald J. Trump, granting permission to AARDC to construct, connect, operate and maintain railway facilities at the international border of the United States and Canada (the "Presidential Permit") and the execution of a master agreement with the Alaska Railroad Corporation

that includes cooperation in permitting, selection of right-of-way, economic terms and authorization to operate on their track and extend several portions of their system.

VARIANCE ANALYSIS

12. Attached as “Schedule 1” is the variance analysis (the “Variance Analysis”) for the period from July 3 to August 13, 2021 (the “Variance Period”). The Variance Analysis is based on the Statement of Projected Cash Flow for the period from June 18, 2021 to September 17, 2021, a copy of which is attached as “Schedule 3” to the Trustee’s First Report dated July 7, 2021 (the “Forecast”). We note that a Statement of Projected Cash Flow for the period from August 14, 2021 to November 19, 2021 (the Updated Forecast”) has now been prepared and is attached as “Schedule 1” to the First Report of the Interim Receiver dated August 17, 2021.
13. The Variance Analysis includes information as to timing and permanent variances reported during the Variance Period. AARDC reported the following permanent variances over \$10,000 during the Variance Period:
 - 13.1. A permanent positive variance of approximately \$27,400 related to the receipt of funds held in AARDC’s U.S. bank account and the refund of a retainer, neither of which were reflected in the Forecast; and
 - 13.2. A permanent positive variance of \$44,000 due to the resignation of selected contractors, the associated cost of which was included in the Forecast.

RECOMMENDATION AND CONCLUSION


14. Based on the Trustee’s review of AARDC’s operations and restructuring efforts to date, pursuant to Section 50.4(9) of the BIA, the Trustee is supportive of the Extension for AARDC on the following basis:
 - 14.1. AARDC, under the oversight of the Interim Receiver, is acting in good faith and with due diligence;
 - 14.2. The Updated Forecast reflects that AARDC has sufficient cash on hand to fund their operations during the Extension;
 - 14.3. The Extension is necessary to preserve AARDC’s business and assets while the Interim Receiver consults with the Bridging Receiver on a strategy to monetize and maximize the value of the assets of AARDC or to seek further investment in AARDC’s go-forward operations.
 - 14.4. Bridging, through the Bridging Receiver, the only creditor with an economic interest in the Company’s assets, supports the Extension.

15. Based on the above, the Trustee supports the Extension.

All of which is respectfully submitted this 17th day of August 2021.

MNP Ltd., in its capacity as Trustee under the Proposal of Alaska
– Alberta Railway Development Corporation and not in its personal
or corporate capacity

Per: _____


Vanessa Allen, B. Comm, CIRP, LIT
Senior Vice President

SCHEDULES

SCHEDULE 1

Alaska - Alberta Railway Development Corporation ("AARDC")
Variance Analysis
For the Six Week Period Ended August 13, 2021

Week ending:	Forecast (F)		Actual (A)		Variance (A -F)	Notes
	Total		Total		Total	
Receipts						
Miscellaneous receipts	\$	-	\$	27,418	27,418	1
Total Receipts		-		27,418	27,418	
Disbursements						
Contractor fees	-	141,709	-	97,670	44,039	2
Rent	-	5,000	-	10,000	5,000	3
Office administration	-	1,050	-	-	1,050	2
Website/Computer	-	7,094	-	12,166	5,072	3
Restructuring costs	-	110,000	-	48,002	61,998	3
Contingency	-	6,000	-	123	5,877	2
Total Disbursements	-	270,852	-	167,961	102,892	
Net Cash Flow	-\$	270,852	-\$	140,543	\$ 130,309	

Bank Balance

Beginning cash balance	\$	428,082	\$	422,387	-\$	5,695
Net cash flow	-	270,852	-	140,543	-	130,309
Ending bank balance	\$	157,230	\$	281,844	\$	124,615

Notes:

1. Includes two receipts that were not originally forecast. The first, represents the return of a retainer of approximately \$4,700 from FTI Consulting and the second represents approximately \$22,700 transferred from a USD account previously held by AARDC.
2. Represents a permanent variance as a result of receipts/ disbursements being higher/ lower than originally forecast.
3. Represents a timing variance that is expected to reverse itself in future weeks.