Court File No. 2022 01G 1964

IN THE SUPREME COURT OF NEWFOUNDLAND AND LABRADOR
IN BANKRUPTCY AND INSOLVENCY

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGMENT OF EDWARD COLLINS CONTRACTING LIMITED, H & E DESIGNS LTD., CLASSIC SECURITY LTD., FGC HOLDINGS LTD. AND 51037 NEWFOUNDLAND & LABRADOR INC.

Supplement to the Third Report of Grant Thornton Limited, in its Capacity as Monitor

December 13, 2022

Grant Thornton Limited,
Monitor

Suite 300 - 15 International Place
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Third Report of the Monitor

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Introduction

1. Pursuant to an order of the Supreme Court of Newfoundland and Labrador (the "**Court**") made on October 5, 2022 (the "**Initial Order**"), Edward Collins Contracting Limited ("**ECC**"), H&E Designs Ltd. ("**H&E**"), Classic Security Ltd. ("**Classic**"), FGC Holdings Ltd. ("**FGC**") and 51037 Newfoundland and Labrador Inc. ("**51037**") (collectively, "**ECC et al.**" or the "**Company**") were granted protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, (the "**CCAA**").

2. The Initial Order appointed Grant Thornton Limited as monitor ("**GTL**" or the "**Monitor**") in the CCAA proceedings and established an initial stay of proceedings (the "**Stay Period**") until October 17, 2022.

3. On October 17, 2022, the Court issued an Amended and Restated Initial Order ("**ARIO**").

4. This is a supplement to the third report of the Monitor (the "**Third Supplemental Report**"). The Monitor previously filed with the Court a Third Report of the Monitor dated December 8, 2022. Readers are encouraged to review these reports and the related application materials for additional information on the proceedings.

Purpose of this Report

5. The purpose of this Third Supplemental Report is to address the affidavit of David Savoie, Senior Manager, Special Loans and Advisory Services with the Royal Bank of Canada sworn December 9, 2022 (the "**RBC Affidavit**").

Terms of Reference and Disclaimer

6. In preparing this Supplemental Report, the Monitor has relied upon unaudited financial information, the Company's records, financial information and projections, and discussions with the Company's management. While the Monitor reviewed various documents provided by the Company (including, among other things, unaudited internal financial documents and financial projections) and believes that the information therein provides a fair summary of the transactions as reflected in the documents, such work does not constitute an audit or verification of such information for accuracy, completeness or compliance with Generally Accepted Assurance Standards ("**GAAS**"), Generally Accepted Accounting Principles ("**GAAP**"), or International Financial Reporting Standards ("**IFRS**"). Accordingly, the Monitor expresses no opinion or other form of assurance pursuant to GAAS, GAAP or IFRS with respect to such information.

7. In the course of its mandate, the Monitor has assumed the integrity and truthfulness of the information and explanations presented to it by the Company, its management and other stakeholders, within the context in which such information was presented. To date, nothing has come to the Monitor's attention that would cause it to question the reasonableness of these assumptions, or accuracy of the information. The Monitor has requested that management bring to its attention any significant matters which were not addressed in the course of the Monitor's specific inquiries.

Accordingly, this Report is based solely on the information (financial or otherwise) made available to the Monitor by the Company, its Management, and other stakeholders.

8. This Third Supplemental Report has been prepared for the use of this Court and the Company's stakeholders as general information relating to the Company and to assist the Court in administering this proceeding. Accordingly, the reader is cautioned that this Report may not be appropriate for any other purpose. The Monitor will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this Third Supplemental Report contrary to the provisions of this paragraph.

9. Capitalized terms not defined in this Third Supplemental Report have the meanings ascribed to them in the Initial Order, the Originating Application, or the previous reports of the Monitor.

10. All references to dollars are in Canadian currency unless otherwise noted.

Status of the Company's Refinancing Efforts

11. As described in the Third Report, the Company, with the assistance of the Monitor, has been engaged in negotiations with Travelers Capital Corp. ("**Travelers**") to refinance the Company's obligations with RBC. The refinancing plan setting out the Monitor's recalculated sources and uses of funds was appended as Appendix "L" to the Monitor's Third Report.

12. The RBC Affidavit describes RBC's concerns as to the progress of the Company's refinancing efforts and asserts that limited steps have been taken by the Company to advance its refinancing efforts.

13. These CCAA proceedings were commenced less than two months ago. It is reasonable for the Company to require additional time beyond the current Stay Period to properly advance its refinancing efforts.

14. The refinancing activities undertaken by the Company are not limited to those described in the RBC Affidavit. Information as to the Company's refinancing and sales activities has been provided to RBC and the CRA on a regular basis. These include, among other things:

    a. Completion of an appraisal of 104 Chartered Avenue – which appraisal was sent to RBC and the CRA on December 7, 2022.
    ~~b.~~ Completion of a Phase 1 Environmental Assessment for 104 Chartered Avenue – which assessment was received on November 3, 2022 and a corresponding. Reliance Letter delivered to Traveler's on November 8, 2022.
    c. Completion of an appraisal for 3 Lakeview –which appraisal and was sent to RBC and the CRA on October 28, 2022.
    d. Completion of an appraisal for 26 Lakeview – which appraisal was sent to RBC on October 24, 2022.
    e. Confirmation from Travelers as to receipt of a satisfactory appraisal for Morrisey Place – which appraisal was sent to RBC on November 23, 2022.
    ~~f.~~ Engagement of an appraiser to appraise the Quarry and related assets.

15. In addition to the foregoing activities, to facilitate the refinancing, the Company has also been in the process of compiling its internal financial statements, which have now been finalized by the external accountant with the oversight of the Monitor. The financial statements were a condition to obtaining the refinancing. The following financial statements have been finalized:

    a. 51037 – YE December 31, 2021
    b. 51037 Interim to October 31, 2022
    c. FGC – YE October 31, 2022
    d. H&E – YE July 31, 2022
    e. H&E – Interim to October 31, 2022
    f. ECC – YE July 31, 2022
    g. ECC Interim to October 31, 2022

16. On behalf of the Company, the Monitor has provided year-to-date statements to Travelers at Travelers' request. On December 7, 2022, year to date financial statements were also provided to both the CRA and RBC, accompanied by updates as to the sale of the condominium and equipment by Ritchie Brothers.

17. The Monitor reported in its Third Report the estimated timeline for the refinancing. The Monitor anticipates that the due diligence period will likely conclude in late January 2023 and that Travelers advised the Monitor that it will require three to four weeks to finalize a credit decision. The Monitor anticipates that approval of any refinancing transaction will take place as soon as possible after approval, which approval will likely be made in March 2023. The Monitor has based its estimates on information received from Travelers regarding its internal timeline, taking account the holiday season as well as the steps that need to be taken prior to the transaction being submitted for credit approval. Throughout this process, the Monitor has kept RBC and the CRA apprised on an ongoing basis, when there have been updates.

18. The Monitor notes that, based on the appraisals received, both of the real and personal property of the Company and taking into consideration the BDC guarantee of the HASCAP loan, RBC is sufficiently collateralized such that the additional time reasonably required by the Company in its efforts to consummate a refinancing does not materially prejudice RBC. The Monitor is unaware of a significant reduction in the security position of CRA and RBC. The Monitor notes that no priming charges have been approved, including debtor-in-possession financing or administrative charges, that would have the effect of subordinating RBC's position over time. In addition, the Company continues to pay CRA's post filing liabilities in the normal course.

19. RBC has requested amended correspondence with Travelers confirming the status of its position. The Monitor has made this request and will circulate it upon receipt. The Monitor notes that the communications between RBC and the Monitor highlighted in the RBC Affidavit are only a partial representation of the communications between them, summarizing the outstanding questions. In respect of the specific "partial responses" RBC claims to have received on December 7, 2022, the Monitor has delivered further correspondence on December 9, 10, 12 and 13, 2022, thereby fully responding to all outstanding information requests. In addition, the Monitor spent substantial time

with RBC's advisor on December 12, 2022 reviewing materials. Additional queries have been received and communications ongoing.

20. Given the steps taken by the Company outlined herein as well as those discussed in the Third Report, it is the view of the Monitor that the company has acted with due diligence, used the current Stay Period to advance its refinancing efforts in good faith, and there is no indication that the Company will not be able to continue to do so.

21. The Monitor will endeavour to keep RBC as well as other key stakeholders apprised of the refinancing efforts and the anticipated timing of a closing of any refinancing transaction and/or other alternative transactions that the Company may seek approval of to address RBC's indebtedness.

Sale of Non-Core Assets

22. Concurrently with the efforts of the Company to refinance RBC and the CRA, the Company has also taken steps to market and sell certain assets for the benefit of creditors, including RBC and the CRA. Among other things, the Company has taken the following steps:

    a. Development of a proposal to sell the Condominium –the proposal to sell the Condominium was sent on October 26, 2022 was agreed to by both RBC and the CRA on November 16, 2022.
    b. Proposal to sell the 28/30 Reid Lane Property –the proposal has been agreed to in principle by RBC on November 16, 2022, subject to a response to CRA's queries. A response to the CRA's queries on the matter was provided on November 16, 2022, and the CRA's consent to the plan was provided on November 15, 2022.
    c. Engagement of Ritchie Bros to auction certain redundant construction equipment, including the asphalt plant. The Monitor has actively reported on the proposal, and finalized contract, to RBC and the CRA. A proposed liquidation plan and draft contract was sent to RBC and the CRA on November 16, 2022 and the contract with Ritchie Brothers was executed on November 23, 2022.

23. The net proceeds from the sale of non-core assets will be used by the Company to pay down existing creditors in accordance with their relative priorities, and any surplus to be paid and held in trust by the Monitor pursuant to the ARIO.

Legal Counsel to the Monitor

24. The Monitor has engaged Reconstruct LLP ("**Reconstruct**") as independent counsel to the Monitor. Reconstruct will be providing legal advice and assistance to the Monitor and will communicate with stakeholder counsel as appropriate. The Monitor has not relied on Company counsel for legal advice.

Specific Responses to Issues Raised in the RBC Affidavit

25. The Monitor notes that these CCAA proceedings were commenced with the granting of an Initial Order on October 5, 2022. Many of the issues raised in the RBC Affidavit pertain to the pre-filing period and are before the Monitor's involvement. The Monitor also notes that the pre-filing conduct of the debtor is not a consideration in whether the debtor has acted with good faith and due diligence in these proceedings.

26. The Monitor has directed its focus on assisting the Company with its refinancing efforts and to ensure that the reporting requirements are met. The Monitor has not, therefore, directed resources at pre-filing issues of the Company except to the extent they impact the Company's ongoing restructuring efforts.

27. The Monitor addresses the issues raised in the RBC Affidavit on a paragraph by paragraph basis below:

    Paragraph 12(a) - RBC raises payroll payments made by Classic on behalf of ECC during the pre-filing period. The Monitor has described its understanding that historically Classic may have been a flow-through entity for labour. Classic was used for payroll for a specific date range in the pre-filing period subject to the CRA trust exam. The CRA has assessed the debt to ECC given the CRA's conclusion that the employees were ECC employees at the time. The Company disclosed the facts of the situation to the CRA and it is the Monitor's understanding, based on conversations with the CRA, those facts formed the basis of the CRA's assessment. The Monitor sent a summary update on the issue via email to RBC on December 7, 2022. Given that Classic is an inactive corporation, it is not the focus of the restructuring, and the Monitor will not be engaging in further investigation into the payments at this time.

    Paragraph 12(b) – the Monitor reported in its Second Report that the Company liquidated a life insurance policy and that the Monitor requested that half the proceeds be held to address the Traveler's financing gap. The Monitor's Third Report clearly states the Monitors position on this matter. The Monitor continues to engage in discussions with the Company on the means to address the financing gap.

    Paragraph 12(c) – RBC asserts that the Company continues to sustain "operating losses". The Monitor notes that the Company sustained a net loss on an accrual basis of an average of $59,106.66 per month over the three-month period ending October 31, 2022. However, the company was cash flow positive at the time and continues to be cash flow positive through December 2, 2022, even without accounting for the life insurance proceeds.

    Paragraph 12(d) – RBC requested that the Monitor clarify if there was other equipment that was not included in the Ritchie Bros appraisal. The Monitor has reviewed and confirmed that of the 232 items that should have been included in the appraisal, two items had been left out. The Monitor understands that those two items are not immaterial relative to the aggregate and are to be disclaimed, having no impact on the Traveler's refinancing.

Paragraph 12(e) – The Monitor has confirmed that the Company is paying post-filing WCB premiums as calculated by the Company and reviewed by both the Monitor and WCB Newfoundland and Labrador.

Paragraph 12(f) – All professional fees paid have been recorded. The Monitor is unaware of how RBC has calculated the total professional hours spent per week without information on the respective hourly rates of the various professionals involved. The Monitor acknowledges RBC's apparent concern that the professional fees are lower than anticipated.

Paragraph 13 – Of the nine actions, some are of minimal value and can likely be settled, and some have already been settled. The Company or creditors will be required to issue notices of default and register and perfect liens. The Monitor does not expect those steps to be costly. The actions constitute assets of the Company that could have value. The Monitor reported its views on the key actions to RBC. The Monitor will not disclose in this Report its analysis of the actions or of likely outcome or realization so as not to waive litigation privilege or prejudice the Company's position in the litigation. The Monitor is willing to continue to report to RBC and CRA as an interested stakeholder.

28. For the reasons set out in this Third Supplemental Report, the Monitor remains of the view that the relief requested is reasonable and respectfully recommends that this Court grant the requested relief.

Dated at Halifax, Nova Scotia the 13th day of December 2022.

Grant Thornton Limited
in its capacity as Monitor of
EDWARD COLLINS CONTRACTING LIMITED,
H & E DESIGNS LTD., CLASSIC SECURITY LTD.,
FGC HOLDINGS LTD. AND 51037 NEWFOUNDLAND & LABRADOR INC.
and not in its personal capacity

Per:

Phil Clarke, CPA, CA, CIRP, LIT
Senior Vice President