



No.S-085453
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

-AND-

IN THE MATTER OF THE *BUSINESS CORPORATION ACT*,
S.B.C. 2002, c.57

-AND-

IN THE MATTER OF

**HAYES FOREST SERVICES LIMITED
HAYES HOLDINGS SERVICES LIMITED
And HAYES HELICOPTER SERVICES LIMITED**

Monitor's Fifteenth Report to the Court

December 2, 2009

I. INTRODUCTION

On July 31, 2008 upon the application of Hayes Forest Services Limited, Hayes Holding Services Limited and Hayes Helicopter Services Limited (the "Petitioners"), The Supreme Court of British Columbia issued an order (the "Initial Order") declaring that Hayes Forest Services Limited, Hayes Holding Services Limited and Hayes Helicopter Services Limited ("Hayes" or the "Company") are companies to which the *Companies' Creditors Arrangement Act* (the "CCAA") applies.

This is the Monitor's fifteenth report. The Monitor's previous reports have provided information on the Petitioners activities, operating results and asset sales.

This is a special purpose report with respect to two offers received by Hayes for a Bill 13 Replaceable Logging Agreement ("Bill 13 contract") between Hayes and Western Forest Products Inc. ("WFP").

II. BACKGROUND

Hayes has been soliciting offers for the Bill 13 contract since October 2008. The Bill 13 contract comprises 19.7% of TFL 44 and represents an annual allowable cut of 186,509 cubic metres. Since October 2008 Hayes received several expressions of interest for the Bill 13 contract but no offer that was acceptable.

On October 5, 2009, Hayes entered into an agreement to assign the Bill 13 contract to Island Fibre Ltd. ("Island") subject, inter alia, to the consent of WFP. WFP refused to give its consent to the assignment. The October 5, 2009 agreement is attached in Appendix A.

On November 4, 2009, WFP advised the Monitor that it intended to submit an offer for the Bill 13 contract. On November 27, 2009, WFP submitted a Contract Termination and Release Agreement. This is attached in Appendix B.

III. SUMMARY OF ISLAND OFFER

Closing Date	Five days after consent of the WFP or Order of the Court re Assignment
Sale Price	\$ 12.71 Per cubic meter \$ 2,370,524 Total
Purchase Price Adjustment	In the event that the AAC on the TFL is lowered on or before December 31, 2010, there will be purchase price reduction equal to = 50% x (Current AAC – New AAC) x \$12.71
Deposit on Signing	\$ 50,000 Non refundable except if Assignment is not approved by WFP or ordered by Court
Down Payment	\$ 50,000 Signing Deposit \$ 424,105 Remaining down payment on Court approval \$ 474,105 Total
Production Payment	\$ 3.25 Per cubic meter payable on the 15 th of each month for each cubic meter logged in the preceding month of blended principal and interest
Interest	6% from the 1 st date of logging blended into the Production payment.
Security	First Charge on Contract No contract amendments or rate agreements without the prior written approval of Hayes. No major changes to operations without approval of Hayes in writing. Challenges by WFP to rate and other contractual matters must be defended by purchaser. Hayes to have final say on instructions.
Subjects	Approval of CIBC and the Monitor Approval of Assignment by the WFP
Employees	Purchase is of the Contract only. Purchaser will not be successor employer. However, with prior written agreement of the Union, the Purchaser will agree to offer new employment to each person on the seniority list in order of seniority as at the closing date.

IV. SUMMARY OF WFP OFFER

Closing Date	Upon Court approval and receipt of signed Releases
Sale Price	\$2,200,000 \$ 11.80 per cubic meter
Purchase Price Adjustment	None
Deposit on Signing	None
Down Payment	\$1,200,000 two days after Court approval
Subsequent Payment	\$1,000,000 on or before April 15, 2010 on a date selected by WFP
Other Settlements	Payments by WFP of \$45,693 and \$5,183 in settlement of Felled & Bucked dispute and inventory
Security	WFP will abandon its Proof of Claim of \$381,300. If WFP fails to make subsequent payment or files insolvency proceedings, the agreement terminates and Hayes retains the first payment.
Subject	Court approval by December 4, 2009.
Employees	WFP intends to appoint a contractor, Island Pacific Logging, for the operations, and that party will be the successor employer for the union crew currently employed by Hayes. This intention is not in the offer but is included in Affidavit #1 sworn by Kevin Somerville.

V. COMPARISON AND ASSESSMENT OF OFFERS

Purchase Price

- Island offer potentially generates additional funds of \$170K.

Certainty

- WFP offer results in additional up-front cash of \$775K.

Timing and Completion

- WFP offer results in full payment by April 15, 2010.
- Final payment date of Island offer cannot be determined but would require logging of at least 583,000 cubic meters under the contract before full payment is achieved. WFP indicate that logging under this contract in 2010 is expected to be 36,000 cubic meters.

Security

- Island offer gives Hayes first charge on contract in the event of default.
- WFP agreement terminates if final payment not made.

Employees

- WFP will have a new third party contractor recognize the successorship rights of previous employees.
- Island will not be a successor employer but will offer employment to all previous employees based on seniority.

Other

- WFP offer reduces trade creditor claims by \$381K and reduces severance claims of 26 employees totalling \$1.6 million for the benefit of other Hayes creditors under the Plan of Arrangement to be filed.

VI CONCLUSION

In our opinion, the WFP offer has more attractive terms of certainty, timely receipt of funds and reduction of creditor claims against Hayes. These terms more than compensate for the possibly lower ultimate proceeds. Furthermore, there is no assurance that the Court would approve the Island deal over the objections of WFP. In addition, this offer is within the range of estimated recoveries that the Petitioners had projected. In view of the uncertainty within the coastal

logging industry, we believe that this offer represents the best offer at this time and accordingly the Monitor recommends acceptance of the WFP offer.

All of which is respectfully submitted this 2nd day of December, 2009.

THE BOWRA GROUP INC.

**Court appointed Monitor of Hayes Forest Services Limited,
Hayes Holding Services Limited and Hayes Helicopter Services Limited**

Per:

A handwritten signature in black ink, appearing to be 'M Hyatt' or 'D Bowra', written over a light blue horizontal line.

Martin Hyatt CA CIRP / David Bowra CA CIRP