



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 Eighth Report to the Court

February 27, 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* (CCAA) applies.

The Initial Order granted, inter alia, a stay of proceedings against the Petitioners until August 29, 2008; this stay was subsequently extended and is currently in effect until April 30, 2009.

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

Terms of Reference

Effective October 31, the Court ordered that the Monitor continue to provide monthly reports to all of the creditors. He noted that "the Monitor will continue to monitor the situation and provide the professional opinion to the Court and to the creditors regarding the progress that is being made as well as difficulties that are foreseen and, in a general way to advise regarding non-confidential dealings that Hayes is having with potential purchasers in order to sell some assets for the maximum price".

The Court also established a Creditors' Committee which comprises a designated representative from Teal Jones ("Teal) and Western Forest Products ("Western") to meet with the Monitor on an ongoing basis in order to review Hayes efforts and progress with respect to

the sale of the Bill 13 contracts with those parties. This report does not cover the activities of that Committee.

In preparing this Report, the Monitor has relied upon unaudited financial information, Petitioners' records, Petitioners' prepared financial information and projections, discussions with management and employees of the Petitioners and information from various other sources. The Monitor has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information except where stated. Accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information. The Monitor may revise or alter its observations as further information is obtained or is brought to its attention after the date of this Report.

Certain of the information referred to in this Report consists of forecasts and projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. 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, actual results will vary from the projections, even if the assumptions materialise, and the variations could be significant.

Copies of relevant information with respect to these proceedings including the various Orders and the Monitor's Reports are available on the Monitor's website www.bowragroup.com

**II. ACTUAL CASH FLOWS FOR THE 4 WEEKS ENDED FEBRUARY 16, 2009
COMPARED FORECAST**

Actual cash flows for the 4 weeks ended February 16, 2009 compared to the latest revised cash flow forecast can be summarised as follows:

| | \$000's | | |
|----------------------------|----------------|-----------------|-----------------|
| | <u>Actual</u> | <u>Forecast</u> | <u>Variance</u> |
| Receipts: | | | |
| Bill 13 Contracts | 48 | 41 | 7 |
| Maintenance - Finning | 0 | 200 | (200) |
| Other | 544 | 460 | 84 |
| Asset Sales ¹ | 1,967 | 20 | 1,947 |
| CIBC Repayments | <u>(1,649)</u> | <u>(68)</u> | <u>(1,581)</u> |
| Total Receipts: | <u>909</u> | <u>653</u> | <u>256</u> |
| Disbursements: | | | |
| Wages and Benefits | 424 | 356 | 68 |
| Rent/Insurance | 54 | 56 | (2) |
| Leases | 74 | 158 | (84) |
| Utilities | 19 | 12 | 7 |
| Payables | 62 | 53 | 9 |
| Other | <u>198</u> | <u>292</u> | <u>(94)</u> |
| Total Disbursements | <u>831</u> | <u>927</u> | <u>(96)</u> |
| Net Cash Flow | <u>78</u> | <u>(274)</u> | <u>352</u> |

The receipts in the period were higher than expected primarily due to the sale proceeds of \$1,967k from asset sales including the sale of a Sikorsky helicopter that was not included in the forecast. After payment of the monies that CIBC receive from the sale of these assets (90% of gross proceeds) the Company's net receipts were \$318k. There were also greater than

¹ Asset sales net of amounts due under lease

expected receipts arising from accounts receivable collections and sales of supplies inventory. This was partially offset by timing differences due to slow collection of payment for maintenance work performed for Finning.

Wages and benefits disbursements were higher than expected primarily due to WCB payments for post-filing levies of \$50k that were not included in the forecast.

Lease payments in the period were lower than expected due to the sale of a Sikorsky helicopter which was sold prior to the January lease payment becoming due.

Other disbursements were lower than expected due to lower professional fees paid in the period.

In summary, the cash flow variances in the period were largely related to the sale of a Sikorsky helicopter that had not been included in the forecast.

Closing bank overdraft at February 16, 2009 was \$2,040 compared to a forecast of \$2,392.

III. ASSETS AND ASSET DISPOSAL

Equipment Asset Disposals

Since our previous report dated January 28, 2009, Hayes has sold a number of smaller items of equipment. All of these transactions, which total \$132,000, have been approved by the Monitor and 90% of the net proceeds will be used as a permanent reduction in loans to Hayes from Canadian Imperial Bank of Commerce ("CIBC").

Asset Disposal Status

Hayes has advertised its major equipment assets for sale, has continued to list these items for sale in detail on its web site and has been in constant contact with possible purchasers of these assets. Two graders and a log loader have been consigned for sale with Finning.

Two auction firms have reviewed the assets and were both expected to have presented proposals by this date; however, proposals from one firm has not yet been received but receipt of this proposal is imminent. We will comment on these in our next report. The proposal received to date was not acceptable as it did not include a guaranteed minimum for the auction proceeds which the Company had stated is a requirement and which we agree to be appropriate.

Hayes is in discussions with a number of parties for the sale of its sole remaining Sikorsky helicopter and is confident that a sale could be concluded before the end of March

Several parties have expressed interest in the helicopter inventory and engine shop and Hayes is hopeful that offers will be forthcoming shortly. There has been a significant increase in interest recently in these assets.

The Bell helicopters continue to be listed for sale with a broker. No sales are anticipated in the short term based on current interest.

All of the boats are listed for sale with Harlow Marine. Hayes has given notice of termination of this listing effective March 15, 2009 as Hayes is generating more sales activity directly than through the broker. There has been a significantly increased interest in the boats in the last several weeks and management hopes that it can sell at least some of the boats in the next 4 to 6 weeks. This includes the possible sale of the barge camp and the crew boat.

The Company continues to sell inventory and small equipment and supplies from its yard.

The Company continues in its efforts to maximise the recovery from sales of its equipment and we agree that this course of action should continue in the short term.

Leases and Lease Repudiations

As noted in our previous report, Hayes advised Caterpillar Financial Services ("Cat") that it was repudiating leases on 7 units. Cat is re-taking possession of these items. Hayes has retained 15 units leased from Cat (log loaders, grapple yarders and off highway trucks); Hayes continues to believe it can realise amounts greater than the required lease buyouts on these items. To date, no sale has been concluded and in due course, if it is unable to realise the equity, these leases will also be repudiated.

Hayes is also considering whether or not to exercise the buy-out option on leases with GE Capital expiring in March for two graders. Hayes has been soliciting offers on these items for some time now without success. We do not support the exercising of the buy-out options unless an offer has been made that indicates there is equity in these units.

Bill 13 Contracts

We had noted in our seventh report that the Company was continuing to meet with prospective purchasers and that the recent "indefinite shutdowns" announced by Western and Teal in respect of both Bill 13 contracts was affecting these negotiations. This situation persists and will likely continue to affect sale discussions until start ups are announced. Nevertheless, Hayes is continuing discussions with parties interested in these contracts.

Teal and Western Contract Issues

An agreement has been reached with Teal re disputes over firstly, the contract form and volume; secondly, over a forestry realization proposal; and thirdly, over rates for services. A settlement agreement on these disputes received Court approval on February 19, 2009; a copy of the Order is posted on the Monitor's website.

Remaining issues involving Western are with respect to a rate appeal by Western of the Bill 13 award to Hayes, a 2008 dryland sort claim and the cost claim for a recent arbitration.

TFL 10

Hayes has reached an agreement with Klahoose Forestry Limited Partnership for the sale of TFL 10 and related assets for \$3,750,000. This agreement was approved by Court on February 19, 2009 and a copy of the Order is posted on the Monitor's website.

CIBC will be paid 90% of the proceeds (\$3,375,000) as a permanent reduction in its loans to Hayes

The sale is currently expected to close on March 10, 2009.

IV. OTHER MATTERS

Company Activities

Logging under the Bill 13 Contracts with Teal and Western has been shut down and there is no on-going shop work for Finning.

V. ACTIVITIES OF THE MONITOR

The Monitor's activities since January 28, 2009 can be summarised as follows:

- Review cash flow;
- Monitor actual cash flow against forecast;
- Review cheques written and discuss payment with Hayes' accounting personnel;
- Discussion with senior management to review Bill 13 contracts, TFL 10, asset disposal strategy, operations, personnel, issues arising etc.;

- Liaise with KPMG as consultant to CIBC and provide information as required;
- Meet with Creditors Committee;
- Respond to enquiries from counsels for Bill 13 contract holders; confirm payments made under the Bill 13 contracts and amounts outstanding to ensure payments made to the Company;
- Review proposed asset sales and approve sales as required; and
- Post information on Monitor's website.

VI. CONDUCT OF THE PETITIONERS

To date, Hayes has provided the Monitor with full co-operation and unrestricted access to its premises, books and records. The Monitor and Hayes have implemented procedures for the daily monitoring of receipts and disbursements, and the weekly analysis of actual cash flow results as compared to the cash flow forecast filed with the Court at the time of the Initial Order.

Hayes has acted diligently and in good faith in the post filing period, and has developed an asset disposal plan that will ensure that the creditors recover significantly more than they would in a forced liquidation through a receivership or bankruptcy process.

All of which is respectfully submitted this 27th day of February, 2009.

**The Bowra Group Inc.
Court appointed Monitor of
Hayes Forest Services Limited
Hayes Holding Services Limited and
Hayes Helicopter Services Limited**

Per:



Martin Hyatt CA CIRP / David Bowra CA CIRP