



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 Seventh Report to the Court

January 28, 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 seventh report. The Monitor's previous reports have provided information on the Petitioners activities, operating results and asset sales.

Terms of Reference

Effective October 31, 2008 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".

Effective October 31, 2008 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 JANUARY 16, 2009 COMPARED TO FORECAST

This can be summarised as follows:

	\$000's		
	<u>Actual</u>	<u>Forecast</u>	<u>Variance</u>
Total Receipts	366	140	226
Disbursements:			
Wages and Benefits	262	268	(6)
Rent/Insurance	56	57	(1)
Leases	154	159	(5)
Utilities	19	12	7
Payables	61	31	30
Other	<u>120</u>	<u>123</u>	<u>(3)</u>
Total Disbursements	<u>672</u>	<u>650</u>	<u>22</u>
Net Cash Flow	<u>(306)</u>	<u>(510)</u>	<u>(204)</u>

The cash receipts in the period were greater than expected primarily due to timing differences relating to collection for log sales originally expected in the previous period, as well as the release of holdback amounts on payment from the Western Forest Products Bill 13 contract for November production.

Cash disbursements for payables were higher than expected due to costs relating to November production that was not forecast as well as moving costs for equipment during the period.

III. REVISED CASH FLOWS FOR THE PERIOD JANUARY 16, 2009 TO MAY 31, 2009

Management has updated the cash flows for this period and a summary of the updated cash flows is included as Appendix A.

The following are the significant changes to the previous cash flow forecast prepared in October, 2008 for this period:

- Logging collections from Bill 13 contracts increased by \$251,000 due to logging having continued longer than originally forecast but collection of final amounts due have been delayed;
- Asset sales and sales of leased assets are taking longer than originally forecast, consequently:
 - 1) salaries and benefits increase by \$600,000 as more employees are retained to assist in administration, asset preparation and asset disposal than originally forecast; seven employees are being let go at the end of January and as of February 1 there will be a total of 18 employees retained; and
 - 2) Lease payments increase by \$430,000 as the original forecast had assumed all leased assets would be disposed of by January 31, 2009.
- There are other timing differences affecting forecasted receipts including:
 - 1) the original forecast had log sales of \$938,000 collected by November 30. These are now forecast to be collected in February and March, 2009;
 - 2) the original forecast included \$1 million to be collected from BC Forest Revitalization Trust in the last week of January. This was actually collected in December; and
 - 3) the original forecast included collections from Finning by December 31 of \$400,000 that are now expected to be collected in February and March 2009.

The projected bank balance as at May 31 is increased by \$278,000 from the previous forecast; actual opening cash at January 16 was better than the previous forecast by \$340,000.

IV. ASSETS AND ASSET DISPOSAL

Equipment Asset Disposals

Since our previous report dated January 6, 2009, Hayes has sold a number of small items of equipment. All of these transactions, which total \$54,000, have been approved by the Monitor and 90% of the net proceeds will be used to repay CIBC loans.

Asset Disposal Planning and Status

Hayes has advertised its major equipment assets for sale and has listed these items for sale on its web site. Two graders and a log loader have been consigned for sale with Finning.

Three auction firms have reviewed the assets and are all expected to present proposals which we will comment on in our next report

Hayes is in the process of negotiating a sale of one of its remaining two Sikorsky helicopters plus parts for a total consideration of US\$3.6 million. A binding agreement is expected to be signed on January 29, 2009 and the sale is expected to close by February 5, 2009. This helicopter is leased from CIT whose is owed approximately US\$2 million. An amount equal to 90% of the remaining funds will be paid to CIBC as a permanent reduction on its loans.

There is interest from prospective purchasers in the remaining Sikorsky helicopter and an offer is expected shortly.

Two parties have expressed interest in the helicopter component and engine shop and Hayes is hopeful that offers will be forthcoming shortly. Hayes has advertised the higher value (parts over \$1,000) items on the Parts Base website and to date is negotiating sales. The Bell helicopters continue to be listed for sale with a broker. No sales are anticipated in the short term.

All of the boats continue to be listed for sale with Harlow Marine; there has been a significantly increased interest in the boats in the last week and it is expected that offers on several boats will be received in the next two weeks.

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

Lease Repudiations

Hayes has advised Jim Pattison Lease that it intends to repudiate all items leased from that party as the Company's sales efforts have been unable to realise any equity in the leases. This repudiation involves 40 pick-ups and trailers and 10 highway log trucks with trailers.

Similarly, Hayes has advised Caterpillar Financial Services ("Cat") that it is repudiating leases on 7 units (log and wheel loaders, excavator and crane trucks) that it has been unable to sell for greater than the required lease buy out balances. Hayes has retained 15 units leased from Cat (log loaders, grapple yarders and off highway trucks) for which it believes it may be able to realise amounts greater than the required lease buyouts; if it is unable to realise this equity in the foreseeable future these leases will also be repudiated.

Bill 13 Contracts

The Company advises that it is continuing to meet with prospective purchasers (the "Purchasers"). We had noted in our sixth report that the Company expected to receive offers to sell the Teal Bill 13 contract early in the new year. However, the recent "indefinite shutdowns" announced by Western and Teal in respect of both Bill 13 contracts is affecting negotiations.

Teal and Western Contract Issues

We are advised by Hayes' legal counsel that the rate issues with Teal have been settled and the documentation of that settlement has been drafted but the agreement between the parties is yet to be finalised. Hayes believes that agreement will be reached with respect to rates, the form of contract (including volume) and Forest Revitalisation issues.

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. Subsequent to the signing of the agreement the purchaser has paid the required deposit and removed its financing subject.

This agreement is subject to approval by Court and an application for approval will be set down shortly.

The sale is currently scheduled to close on February 27, 2009.

IV. OTHER MATTERS

Activities

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

V. ACTIVITIES OF THE MONITOR

The Monitor's activities since January 6, 2009 can be summarised as follows:

- Review asset disposal plan expense 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.

VIII. CONDUCT OF THE PETITIONERS

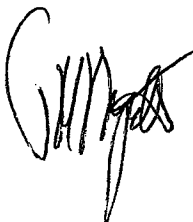
To date, Hayes has provided the Monitor with full co-operation and unrestricted access to its premises, books and records. The Monitor and Hayes have implemented procedures for the daily monitoring of receipts and disbursements, and the weekly analysis of actual cash flow results as compared to the cash 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 28th day of January, 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

APPENDIX A

CASH FLOW FORECAST FOR THE PERIOD JANUARY 16 - MAY 31, 2009
\$'000

	January 16-31	February	March	April	May	Total
Receipts						
Log sales		530	408			938
Bill 13 receipts	132	119				251
Finning		200	200			400
Other	224	338	128	130	20	840
Total	356	1,187	736	130	20	2,429
Disbursements						
Salaries/benefits	218	353	276	233	260	1,340
Rent/Utilities	20	33	33	33	33	152
Payables	33	40	45	45	31	194
Leases	150	282				432
Professional fees	162	115	103	103	103	586
Other	15	51	53	43	11	173
Total	598	874	510	457	438	2,877
Opening balance	(2,206)	(2,448)	(2,135)	(1,909)	(2,236)	(2,206)
Closing balance	(2,448)	(2,135)	(1,909)	(2,236)	(2,654)	(2,654)

Note:
This cash flow does not include any proceeds from major asset sales or distribution to creditors resulting from such major sales