



United Horsemen of Alberta

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General CCAA Information

The Company's Creditors Arrangement Act (CCA) is legislation that allows a Company which has debt in excess of \$5,000,000 to file an application to the Court to reorganize its affairs. It is supported by the lengthy Affidavit of a corporate executive, explaining the debt of the Company, why the Company needs the protection of the CCA in order to reorganize and other ancillary matters.

The Initial Order usually provides for the following:

- 1) The Company remains in possession of its assets, and the Board of Directors stays in control of the Company's operations during the restructuring.
- 2) The Company can continue to pay Company expenses necessary to "keep the lights on", in other words pay essential Company expenses.
- 3) There is a Stay of Proceedings imposed by the Order, so that none of the Company's creditors (secured, unsecured or otherwise) can commence or continue legal proceedings against the Company during the restructuring period. There are very limited exceptions to the Stay, most notably any eligible financial contracts (of which we are not aware the Company has), and in some circumstances a Court can lift the Stay if a creditor successfully applies for a very good reason.
- 4) During the restructuring, the Company can terminate any employees, disclaim any contracts, including a rental of leased premises, repudiate any of its contracts that it feels are burdensome, and can sell or agree to sell any of its assets that can assist in the restructuring. In UHA's specific case we are not allowed to sell more than \$50,000 worth of assets without Court approval.
- 5) On the other hand, for those contracts that the Company wishes to continue, none of the contracting parties with the Company can disclaim or cancel any of their contracts. As long as they are paid their contractual amounts after the Initial Order, they must continue to supply services or goods. This is so even if they have a large amount of a receivable owing for pre-filing debt – that pre-filing debt is subject to the restructuring and they must still supply goods or services post Initial Order. However, any post-filing services must be paid by the



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Company on a COD or other basis agreed between the Company and the creditor.

- 6) In order to help the Company restructure, and in order to assist the Court to monitor the restructuring, the Court will appoint a Monitor, which is usually a chartered accounting firm. The Monitor has full access to the Company's books and records and to the Board of Directors, and the Monitor issues reports from time to time to the Court on the success and progress of the Company's restructuring.
- 7) The Initial Order also usually provides for a small amount of interim financing to be granted to the Company to get the Company through the first 30 day stay period. The Company after that has to arrange and apply for Debtor in Possession Financing (DIP), and apply to the Court to get this financing, if the refinancing efforts are going to take a lengthy period of time. Usually, DIP financing is required and the DIP financing is sometimes opposed by existing creditors because it ranks ahead of pre-filing debt claims.

The initial stay period is usually for 30 days. At the end of the 30 day period, the Company's lawyers (supported by the Monitor) usually apply on an ongoing basis, every month or 45 days, to extend the stay, while good faith restructuring efforts are proceeding. In each case, the Monitor must be convinced that the restructuring is continuing on a good faith basis, in order to have in recommended to the Court that it extend the stay.

During the restructuring period, it is incumbent upon the Company (with the assistance of the Monitor) to produce a Plan of Arrangement that the Company will present to the creditors for a vote. That Plan of Arrangement can be anything that might be acceptable to the creditors. Normally Plans of Arrangement include the sale of some of the company's assets to generate cash, new financing either from existing shareholders or from a third party "white knight" financial company, proposed conversion of some of the creditor debt to company equity, or raising further company equity from existing or new shareholders.

Once a Plan of Arrangement is put together by the Company (with any or all of the steps outlined above), the Company must present the Plan to creditors for a vote.

The creditors must also be classified by the Company into Classes for the purpose of voting. The Company must group similar creditors into similar Classes. For



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example, all persons holding mortgages on land could be one Class, all trade creditors could be another Class, and sometimes all unsecured creditors are one Class by themselves. The Monitor assists with classifying the Classes.

The vote on the Plan of Arrangement then takes place. The vote in favour of the Plan of Arrangement must be;

- 1) A majority in number of each of the creditors in each Class; and
- 2) A vote in favour by creditors representing 2/3 of the value of the claims in each Class.

It is obvious that the Plan must be balanced enough so that it appeals to the majority of all creditors, and to certain of the larger creditors to get the 2/3 in value test satisfied.

Once the Plan is voted on by the creditors, and assuming that the vote is in favour, the Company must then present the Plan to the Court for approval. Even with a favourable vote the Court must still scrutinize the Plan to see if it is "fair and equitable". However, it is unusual for the Court to reject a Plan approved by the creditors, unless there was a serious flaw in the Plan to the prejudice of certain of the creditors that voted against the Plan.

Once the Plan of Arrangement is approved and sanctioned by the Court, it becomes a contract with the creditors. The Company must then put the Plan into place, and complete with the creditors whatever the Plan proposes. Upon the Court sanctioning of the Plan and the Company finalizing the Plan's terms, all of the previous debt is cancelled, and the Company moves forward subject only to the debt as reorganized under the CCAA Plan of Arrangement.