

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF ATLANTICA DIVERSIFIED
TRANSPORTATION SYSTEMS INC.**

**REPORT OF
BDO CANADA LIMITED
IN ITS CAPACITY AS PROPOSED MONITOR OF
THE APPLICANTS UNDER THE *COMPANIES'S CREDITORS ARRANGEMENT ACT*
"PRE-FILING REPORT"**

DATED DECEMBER 6, 2017

Table of Contents

Introduction and Background	3
Introduction	3
Disclaimer	3
Purpose	3
Proposed Monitor	4
Background	4
Restructuring Plan	5
Cash Flow Projection	5
Proposed Monitor’s Report on the Cash Flow Projection	6
DIP Financing	6
Critical Suppliers / Payment of Certain Pre-Filing Amounts	7
Administration Charge	7
Director and Officer Protections	7
Summary of the Proposed Ranking of Charges	8
Transaction Thresholds	8
Creditor Notification Procedures	8
Proposed Monitors Recommendations	9

APPENDICIES

Appendix A	Cash Flow Projection
-------------------	-----------------------------

INTRODUCTION AND BACKGROUND

Introduction

1. Atlantica Diversified Transportation Systems Inc. (“ADTS” or the “Applicant”) has made an application before this Honorable Court seeking certain relief under the Companies’ Creditors Arrangement Act, R.S.C. 1985, C. C-36, as amended (“CCAA”) granting, inter alia, a stay of proceedings until December 23, 2017 and appointing BDO Canada Limited (“BDO”) as Monitor (“Monitor”) in the proceedings.

Disclaimer

2. BDO has reviewed the sworn affidavits of David Montgomery and have relied on discussions with senior management in support of the Applicants motion.
3. BDO has relied upon the financial records and financial information of ADTS, as well as other information supplied by senior management, accountants, auditors and financial advisors to ADTS. Our procedures and enquiries did not constitute an audit or review engagement. BDO assumes no responsibility or liability for loss or damage occasioned by any party as a result of circulation, publication, reproduction, use or reliance on the information contained in this Pre-Filing Report. Any use which any party, other than the Court, makes of this Pre-Filing Report or any reliance on or a decision made based upon it is the responsibility such party.
4. This Pre-Filing report should be read in conjunction with the affidavits of David Montgomery as certain information contained that affidavit has not been included herein in order to avoid unnecessary duplication.
5. The proceedings to be commenced by the Applicants under the CCAA will be referred to herein as the “CCAA Proceedings”.
6. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars.

Purpose

7. The purpose of this Pre-Filing report of the proposed Monitor is to provide this Honourable Court with further background and commentary related to the relief sought by ADTS and/or provide recommendations on the following:

- a. BDO's qualification to act as Monitor in the Applicants' proposed CCAA Proceedings;
- b. insolvency of the Applicant;
- c. objectives of the CCAA Proceedings;
- d. funding of the CCAA Proceedings, including the cash flow projection beginning the week ending December 1, 2017 ("**Cash Flow Projection**");
- e. the Applicants' cash management system;
- f. proposed designation of critical suppliers and payment of certain pre-filing amounts;
- g. proposed Court-ordered charges;
- h. requested director and officer protection; and
- i. proposed creditor notification procedures.

Proposed Monitor

8. BDO has been consulting with and assisting ADTS since late November 2017 and has assisted ADTS preparing for this CCAA application, including assisting with and reviewing the cash flow projections beginning the week ending December 1, 2017.
9. The professionals of BDO who will have carriage in this matter as proposed Monitor have acquired sufficient knowledge of ADTS and its business since the commencement of its role as proposed Monitor. BDO is therefore in a position to immediately assist ADTS with the creation and implementation of any restructuring process.
10. BDO Canada Limited is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act (Canada)*. BDO also confirms that it is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.
11. BDO has consented to act as Monitor should this Honourable Court grant the Applicants' request to commence CCAA proceedings. ADTS supports the appointment of BDO as the proposed Monitor.

Background

12. ADTS is in the trucking business based out of Halifax Nova Scotia and has a depot in Moncton, New Brunswick. ADTS transports goods for customers in Canada and throughout the United States of America.
13. ADTS reported \$37,779,000 in revenue in 2016 and expects revenue for 2017 to be in the \$15,000,000 - \$17,000,000 range.
14. Canadian Western Bank ("**CWB**") has begun to realize on their security. Noting they have security over 85 of the 125 trucks used by ADTS, this has created significant operational uncertainty.

15. Financial difficulties discovered after David Montgomery became sole director have resulted in significant challenges and delays in preparing timely and accurate internal and external financial reports, and statements. ADTS has recently retained a new Controller to restructure the finance function and address these reporting issues.
16. Financial difficulties can also be attributed to ADTS having too many trucks and trailers for the current volume of business. Approximately 40 trucks have been identified as surplus, have been sitting idle, and had been marketed for sale by ADTS. The Company has also identified that it has surplus trailers, however, that number has yet to be determined.
17. The causes of insolvency are covered in the affidavits of David Montgomery and are not repeated herein. The proposed Monitor has reviewed the affidavits of David Montgomery and is of the opinion that it provides an accurate summary of ADTS's causes of insolvency.

RESTRUCTURING PLAN

18. ADTS has determined that a restructuring of the business is in the best interest of the Company's stakeholders.
19. ADTS principle objectives of the CCAA Proceeding are to:
 - i) sustain ongoing operations to preserve entity value and avoid possible liquidation through receivership, bankruptcy or other proceedings;
 - ii) downsize and reduce operating costs in a controlled and structured manner; and
 - iii) ensure ADTS has the ability and necessary working capital to develop and effect a proposed restructuring plan that maximizes recoveries for the benefits of ADTS stakeholders.
20. A detailed restructuring plan has yet to be completely developed. However, BDO understands the Applicant's preliminary plan contemplates the return of surplus equipment to secured creditors, refinancing of debt, and the compromise of unsecured debt.
21. Where known, these strategies have been reviewed with the proposed Monitor and have been incorporated in the Cash Flow Statement and contemplated in the proposed Initial Order in Paragraph 10.
22. The proposed Monitor is of the view that a CCAA stay is required. The protection under the CCAA Proceedings will allow the restructuring to occur and a plan of arrangement prepared for submission to creditors, and the Court, that provides for ADTS to operate as a going concern and maximizes recoveries for ADTS's stakeholders. The Initial Order contemplates a stay of proceedings until December 23, 2017, which the proposed Monitor considers reasonable given the CCAA provides for a maximum 30 days initial stay of proceedings.

CASH FLOW PROJECTION

23. The Company, together with BDO's assistance, prepared the Cash Flow Projection.
24. BDO has reviewed the Cash Flow Projection and accompanying assumptions. A copy of the Cash Flow Projection and the proposed Monitor's report on the Cash Flow Projection is included as **Appendix A**.
25. The proposed Monitor has reviewed the Cash Flow Projection. It reflects certain aspects of the Company's preliminary plan, being the return of certain trucks and trailers to secured creditors, and historical experience.

Proposed Monitor's Report on the Cash Flow Projection

26. Section 23(1)(b) of the CCAA requires the Monitor to "review the company's cash flow statement as to its reasonableness and file a report with the court on the monitor's findings".
27. Pursuant to Section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practices 09-1, the proposed Monitor's report on the Cash Flow Projection is attached as **Appendix A**.

DIP Financing

28. No Debtor In Possession ("DIP") financing is being requested in the proposed Initial Order. The Order does provide that the Company can make an application for DIP financing, on appropriate notice, in the future.
29. ADTS has secured the continued support of its operating lender, the factoring company Accutrac.
30. The Cash Flow Projection assumes continued payments of all fees, principal and interest to Accutrac in the ordinary course.

CRITICAL SUPPLIERS / PAYMENT OF CERTAIN PRE-FILING AMOUNTS

31. The Applicants are seeking Court approval to designate those suppliers listed on Schedule "A" of the Initial Order, and any other supplier of goods or services to the Applicant, which the Monitor, in consultation with the Applicant, deems critical to the continued operation of the applicant, as contemplated by section 11.4 of the CCAA as critical suppliers ("**Critical Suppliers**").
32. The suppliers listed on Schedule "A" are considered critical to the continued operation of ADTS. The vendors are either unique with no other option in the marketplace, or the vendor is not

easily substituted given the level of integration with the Company. That continued operation is for the benefit of all stakeholders.

33. The Company estimates Critical Supplier arrears on filing of \$225,000 of which \$195,000 relates to fuel.
34. The Initial Order provides that the Monitor approve payments to critical suppliers for products or services rendered within the last 30 days to a maximum amount of \$200,000. This is in lieu of a critical suppliers charge in the proposed Initial Order.
35. ADTS has paid, or intends to pay at least \$195,000 on outstanding pre-filing amounts, primarily related to fuel.
36. The proposed Monitor agrees with the Applicants' view that the interruption of the supply of certain critical goods and services, and vendors, could have a significant detrimental impact on the ability of the Applicant to carry on business. Therefore, the proposed Monitor supports ADTS's request to designate certain suppliers as Critical Suppliers, and allow it to pay certain pre-filing amounts but only with the prior approval of the Monitor. The Monitor is of the opinion the quantum of the maximum payments, and the suppliers included on Schedule "A" of the proposed Initial Order are reasonable.

ADMINISTRATION CHARGE

37. The proposed Initial Order provides for a charge in the maximum amount of \$100,000 covering professional fees of ADTS legal counsel and advisors, and the proposed Monitor and its legal counsel. The Administration Charge charges the Applicants' assets and property to secure payment the Applicants' legal fees and fees of the proposed Monitor, and that of its counsel in priority to secured creditors. The only exception to the priority of the proposed Administration Charge relates to the accounts receivable sold to Accutrac under its factoring agreement.
38. The quantum sought by the Company was determined in conjunction with the proposed Monitor. It is a common charge in CCAA proceedings, as is the priority. The quantum is reasonable given the size, scope and complexity of the restructuring, as well as the number of beneficiaries.

DIRECTORS AND OFFICERS PROTECTIONS

39. The Applicant is seeking a Court ordered charge for \$100,000 over the assets and property of ADTS to indemnify the Directors and Officers of the Applicant in respect of the liabilities they may incur in such capacities after the commencement of the CCAA proceeding ("D&O Charge").

40. The Directors and Officers shall only be entitled to the benefit of the D&O charge to the extent they do not have coverage under any directors and officers insurance policy, or to the extent the coverage is insufficient to pay amounts covered by this charge.
41. ADTS has a sole director, David Montgomery. His continued involvement is critical to the continuing operation of ADTS, and to the development and filing of any plan of arrangement. The charge does not cover liabilities to the date of the proposed Initial Order. He has specialized expertise, relationships with stakeholders, and significant knowledge that cannot be replicated. The Monitor agrees that the director will add value to the restructuring process.
42. The proposed Monitor has reviewed the quantum of the potential liability that the Directors and Offices may incur during the CCAA Proceedings. It is a common charge in CCAA proceedings, as is the priority. The proposed Monitor is of the opinion that the proposed D&O Charge is reasonable in relation to the estimated post-filing liabilities, and that the limitations on the D&O Charge are appropriate.

SUMMARY OF THE PROPOSED RANKING OF CHARGES

43. The priority of the charges contemplated in the Initial Order sought by the Applicants (“Charges”) will be as follows:
 1. The Administration Charge in the amount of \$100,000; and
 2. The D&O Charge in the amount of \$100,000.
44. The Charges will rank in priority to all security interests and encumbrances, statutory or otherwise, with the exception of accounts receivable sold to Accutrac under its factoring agreement.
45. The proposed Monitor is of the opinion that the Charges are necessary to effect a restructuring of the Applicants’ business and are reasonable in the circumstances.

TRANSACTION THRESHOLDS

46. The proposed Initial Order permits the Applicant, subject to the requirements of the CCAA and those imposed by the proposed Monitor, to sell or dispose of redundant assets not exceeding \$20,000 in value in a single transaction or \$100,000 in the aggregate.
47. The proposed Initial Order permits the Applicant, subject to the requirements of the CCAA and those imposed by the proposed Monitor, to return to any equipment lessor any asset under lease not required in the ongoing operation of ADTS. The proposed Initial Order does not contemplate any limits on this type of transaction.

48. The proposed Monitor's view is that these thresholds are reasonable given the Company's preliminary restructuring plans and the circumstances.

CREDITOR NOTIFICATION PROCEDURES

49. The proposed Monitor, if appointed, will send out notices in compliance with the Initial Order and in accordance with Section 23(1) of the CCAA.

50. The proposed Monitor's web site <http://extranets.bdo.ca> will be used to communicate with stakeholders. A specific page will be created the next business day after appointment, and shared in all Monitor communications and notices.

PROPOSED MONITOR'S RECOMMENDATIONS

51. Should the Court grant the proposed Initial Order requested under the CCAA, BDO consents to act as Monitor, and is prepared to assist ADTS with its effort to restructure its affairs and operations within the CCAA Proceedings.

52. The proposed Monitor believes the relief requested provides ADTS with the best opportunity to restructure its business affairs to ensure a going concern operation and maximize the recovery for all stakeholders.

Respectfully submitted December 6, 2017

BDO Canada Limited
In its capacity as proposed Monitor



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