



Stakeholder Advocacy

We see advocacy as being distinct from activism. There is often more than one path to achieving a goal and there are occasions where there are competing points of view.

Example 1: Extencicare

The situation with Extencicare back in 2013/14 is a case in point. At that time we held the view that upward of \$1 Billion could be unlocked by splitting the US operations into two entities - 'Propco' would hold their extensive real-estate assets and 'Opco' would operate their long term care nursing facilities. This would enable the real estate to be valued independent of the operating company which faced liability risks associated with their quality of care. Unfortunately we were unsuccessful convincing management and the board who chose to exit the US business and sell it for roughly 1/3 of what we and Avison Young thought was achievable.

Example 2: Twin Butte

In the case of Twin Butte we had better success. In fact, we did much better than our expectations in spite of serious pushback from the banking syndicate. When companies reach a point of distress they invariably have to contend with conflicts of interest between the various groups of stakeholders - bank syndicates, debt holders and common shareholders. In this instance we saw an anomaly in the market whereby the value of equity ascribed to the common shares was greater than the value attributed to the debt. This was completely at odds with a fundamental principle of capital markets - debt supersedes equity in a liquidation or restructuring. Since we were already owners of Twin Butte common shares we advised all of our clients to switch into the convertible debentures because they were far better relative value. This recommendation also adhered to our internal policy of avoiding conflicts of interest amongst our clients.

Fast forward and what did we learn. The market had correctly anticipated (or was it insider trading or leaked info?) that the offer from Reignwood placed 2x the value on the common that it did on the debt. Not coincidentally, neither the Board or management owned any debentures so they were all eating their own cooking as common shareholders - completely in conflict with the debenture holders. Our advice was emphatic - vote 'No' to the Reignwood offer.

With the help of Scott Deveau and Allison McNeely at Bloomberg, and Barry Critchley of the Financial Post we put together the Ad Hoc Committee of retail investors who, with the backing of Macquarie and Bennett Jones organized and presented a viable pre-packaged CCAA plan that included a debt-for-equity swap and concurrent rights offering. Not only did our plan provide TBE enough capital to avoid liquidation it also removed the conflict of interest between debt and common and distributed the 'pain' in accordance with legal and capital market precedent. Importantly, it also provided everyone an opportunity to participate in the recovery of oil markets after a long draught.

To the Ad Hoc's complete surprise and disappointment the Board then breached their fiduciary duty to both the common and debenture holders by allowing the banks to appoint a Receiver on a voluntarily foreshortened time frame thereby bypassing CCAA protection. This in spite of the fact that the Special Committee of TBE gave the Ad Hoc's proposal their unanimous support.

As we now know the end result of all this was the assets were re-auctioned and there was huge demand which lead to both the banking syndicate avoiding a loss and the debenture holders recovering upwards of 80 cents on the dollar versus 17 under the Reignwood proposal. Sadly, and unnecessarily, the bank syndicates behaviour resulted in the common shareholders suffering a complete loss.

Conclusion

The bottom line is that if and when a situation arises where we feel our clients interests are being treated unfairly or inappropriately you can rely on the fact that we will stand up and be heard. Advocacy, then, may breed activism.

Sincerely,
Murray Bockhold