



COURT FILE NUMBER 2301-10472
COURT COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
PLAINTIFF AVONLEA-DREWRY HOLDINGS INC.
DEFENDANTS

C92205

PATHWAY HEALTH CORP., PATHWAY HEALTH SERVICES CORP., PATHWAY HEALTHCARE TECHNOLOGIES CORP., 2563367 ONTARIO LIMITED and SLAWNER ORTHO LTEE.

DOCUMENT

AFFIDAVIT

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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AFFIDAVIT NO. 3 OF MICHAEL STEELE
Sworn on September 24, 2023

I, **MICHAEL STEELE**, of the Town of Oliver, in the Province of British Columbia, **SWEAR AND SAY THAT:**

1. I am the CEO and a Director of the Plaintiff, Avonlea-Drewry Holdings Inc. ("**ADH**") and have personal knowledge of the matters hereinafter deposed to, except where stated to be based upon information and belief. Where that knowledge is based on information or belief, I have stated the source of that information and verily believe it to be true.
2. I swear this Affidavit in support of ADH's application (the "**Receivership Application**") seeking the appointment of KSV Restructuring Inc. ("**KSV**") as receiver and manager (in such capacity, the "**Receiver**") over all of the current and future assets, undertakings and property of Pathway Health Corp. ("**PHC**") and Pathway Health Services Corp. ("**PHSC**" and, together with PHC, the "**Debtors**").
3. I have reviewed the business records of ADH relevant to the Receivership Application and ADH's application seeking the appointment of a receiver and have satisfied myself that I am possessed of sufficient information and knowledge to swear this Affidavit on behalf of ADH.
4. I have sworn two prior Affidavits in this proceeding, and herein adopt and rely on the contents of those two Affidavits. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in my prior Affidavits.

The Parties

5. The Debtors are currently subject to Interim Receivership under KSV.
6. In my prior Affidavits, I described the Loan Documents, ADH's secured indebtedness thereunder, and ADH's reasons for seeking the appointment of KSV as Interim Receiver of the Debtors.
7. The Debtors continue to be substantially indebted to ADH. The amount outstanding to ADH, dated at September 25, 2023, is \$5,628,981.

The Proposed Receivership and Sale Process

8. As reported by the Interim Receiver, the business and basic operations of the Debtors have been stabilized, principally under the engagement by the Interim Receiver of Mr. Kim Wei.
9. It is an appropriate time for the Debtors' assets to be marketed. As the principal stakeholder of the Debtors, by a significant margin, ADH is supportive of a process that will empower KSV, through receivership, to execute a sale process.
10. ADH intends to provide to KSV an offer to purchase certain assets of the Debtors (the "**ADH Offer**"). The ADH Offer remains subject to ongoing negotiation with the Interim Receiver, in anticipation of the Interim Receiver being appointed as receiver with powers of sale. I anticipate the ADH Offer will be resolved and finalized in advance of the scheduled Application for appointment of KSV as Receiver.
11. I have indicated in my previous Affidavits, and reiterate, the majority of value in the Debtors is comprised of its licenses, intellectual property, goodwill and patient lists. These are largely not tangible assets, but reflect essentially the Debtors' "enterprise value". This is what the appointment of KSV as Interim Receiver was to preserve.
12. The ADH Offer is for certain assets of the Debtors that comprise the essential enterprise value. In this regard, the ADH Offer is based on the assets and value items that the Interim Receiver has been able to preserve within the Pathway Group. Certain assets are no longer a part of the Pathway Group, which impacts the value of the enterprise.
13. Prior to the interim receivership, the Pathway Group included Slawner Ortho Ltee ("**Slawner**") and Silver Medical ("**Silver**"). Each of Slawner and Silver were wholly owned operating subsidiaries under PHSC.
14. The Slawner shares were sold by ADH under its security, after the interim receivership stay was lifted, in order to complete a sale that has been negotiated and pending since before the interim receivership. As of the date of this Affidavit, the Slawner sale is expected to close on or about September 28, 2023. This should generate a small amount of cash, which ADH will contribute to fund the proposed receivership by way of receiver's borrowings, should the receivership order be granted.
15. In respect of Silver, I am advised by Mr. Wei that Silver was and is the subject of third party enforcement through a landlord distraint. ADH views the Silver shares to be of nil value to the Pathway Group at this time. The ADH Offer does not ascribe any value to Slawner and Silver.
16. PHC, the publicly traded parent company of PHSC, under which the remainder of the Pathway Group of companies was operating, had a total market cap of approximately \$1.8 million, at the time of its insolvency (following the resignation of its directors and officers). With the loss of Silver and Slawner, the assets and business of PHC is diminished. The assets that ADH is seeking to acquire, as set out in the ADH Offer, are reasonably valued at \$1,250,000, the price being tendered

by ADH. The ADH Offer is based on an offset of credit against the amount ADH is owed. I expect there will be no "cash component" to the purchase price, under the ADH Offer, as I am not aware of any creditor that has any claim in priority to ADH.

17. The ADH Offer is also premised on the fact that it will be a public offer. It is proposed to be used as a stalking horse. I am aware the Interim Receiver, if appointed Receiver of the Debtors, will have a mandate to stakeholders generally to ensure a provident sale of the assets. The Receiver will expose the ADH Offer widely to the market, which will ensure the best and highest offer(s) for the assets will be generated.
18. KSV, if appointed Receiver of the property of the Debtors, has confirmed its support for the ADH Offer, as a stalking horse offer in a Sale and Investment Solicitation Process ("SISP"). The proposed SISP is intended to be short, as the cash flow of the relevant entities is limited, but I believe it will be effective. ADH believes the proposed SISP reflects a commercially reasonable and provident sale process, which will expose the assets, and the ADH Offer, to the market, and ensure generation of best value for ADH, as the only interested creditor in the outcome of these proceedings.
19. Given the substantial debt owing to ADH, and on top of that to Heal, I believe ADH is the only creditor likely to be materially affected in this process.
20. In summary, ADH views this process as being transparent, fair, commercially reasonable, in the best interest of the primary stakeholders, and providing necessary certainty to ADH, or any other participant in the bid process, that an acquisition can and will be completed, despite the Debtors' earlier cessation of operations.
21. ADH is entitled to prosecute its legal remedies under its agreements with the Debtors, which includes the right to apply to this Honourable Court to appoint a receiver over the property, assets and undertaking of the Debtors. ADH wishes to exercise that right at this time.
22. ADH is entitled to enforce its security against the assets of the Debtors, but on the balance of factors, the appointment of a receiver is the more just and convenient alternative. Moreover, the proposed appointment and sale process creates no prejudice to any party that I am aware of.
23. I verily believe that KSV Restructuring Inc., with offices in the City of Calgary, is qualified and prepared to act as receiver of PHC and PHSC.
24. The deponent Michael Steele was not physically present before me but was linked with me utilizing video technology. I, Derek Pontin, confirm that while connected via video technology, Michael Steele had shown to me the front and back of his government-issued photo identity document and I am reasonably satisfied it is the same person and the document is valid and current. I confirm that I have reviewed each page of this affidavit and exhibits with Michael Steele and verify that the pages are identical.

SWORN BEFORE ME at Calgary, Alberta, this)
24th day of September, 2023.)



Commissioner for Oaths in and for the)
Province of Alberta)

DEREK PONTIN
Barrister and Solicitor

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MICHAEL STEELE