

Court of Appeal File No.:
Superior Court File No.: CV-21-656040-00CL

COURT OF APPEAL FOR ONTARIO

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF LAURENTIAN UNIVERSITY OF SUDBURY**

NOTICE OF MOTION

FOR LEAVE TO APPEAL AND STAY PENDING APPEAL

The Moving Party, Thorneloe University, a university pursuant to *An Act to Incorporate Thorneloe University*, S.O. 1960-1961, c. 135 ("**Thorneloe**"), will make a motion under Rule 61.03.1 and Rules 13 and 14 of the CCAA for an order granting leave to appeal from the Endorsement of the Superior Court Chief Justice Morawetz dated May 2, 2021 to the Court on a date to be fixed by the Registrar, at Osgoode Hall, 130 Queen Street West, Toronto, Ontario, M5H 2N5.

PROPOSED METHOD OF HEARING: The motion is to be heard in writing, videoconference, or as otherwise directed by the Court.

THE MOTION IS FOR:

1. **AN ORDER** granting Thorneloe leave to appeal to the Court of Appeal for Ontario from the orders of Chief Justice Morawetz (the "**CCAA Judge**") in his endorsement dated May 2, 2021, with reasons to follow, (the "**Decision**"), wherein he:

(a) dismissed Thorneloe's motion under section 32 of the CCAA opposing the Notice of Disclaimer sent by Laurentian University ("**Laurentian**") on April 1, 2021, which sought to disclaim:

i. the Federation Agreement between Laurentian and Thorneloe, dated 1962 (the "**Federation Agreement**"); and

ii. the Financial Distribution Notice between Laurentian and Thorneloe dated May 1, 2019, amending the Proposed Grant Distribution and Services Fees agreement between Laurentian, the University of Sudbury, Thorneloe, and Huntington University dated November 10, 1993 (the "**Financial Distribution Notice**") (collectively, the "**Agreements**"); and

(b) dismissed Thorneloe's and University of Sudbury's joint cross-motion for an order *inter alia* deleting a newly-added condition to the DIP Loan Amendment Agreement dated April 20, 2021, which made the payment of the next \$10M tranche of the original DIP loan and the extension of the DIP loan maturity date conditional on the CCAA Court rendering a "final" decision enforcing the disclaimers by May 1, 2021;

2. **AN ORDER** staying the Decision pursuant to Rule 63.02 of the *Rules of Civil Procedure*;

3. **AN ORDER** that this motion be heard on an expedited basis;

4. **AN ORDER** if necessary, waiving or abridging the time for notice, service and filing in connection with this motion and validating the manner for service of the Notice of Motion and motion materials herein;
5. Costs; and
6. Such further and other relief as this Honourable Court considers just.

THE GROUNDS FOR THE MOTION ARE:

Background

1. Thorneloe is one of three universities that are federated with Laurentian along with the University of Sudbury and Huntington University (collectively, the "**Federated Universities**"). All three have been federated with Laurentian since the universities' inceptions around 1960. The Federated Universities and Laurentian are highly integrated and were designed to operate together as "one university".¹
2. The Federation Agreements for Thorneloe (and the other Federated Universities) do not have termination provisions. The federations with Laurentian were intended to be "permanent".
3. Thorneloe is also a creditor of Laurentian.

¹ Other Canadian universities that have adopted the federation model and entered into federation agreements with other universities and colleges include: Carleton University, University of Alberta, University of Ottawa, University of Regina, University of Saskatchewan, University of Toronto, University of Waterloo, and Western University.

Laurentian's financial problems

4. Laurentian has been experiencing financial difficulties for years caused by a number of factors, including:

- (a) serious financial mismanagement by the Laurentian administration, including a failure to contain costs in the face of reductions to its revenue first identified in 2008-2009;
- (b) low student enrollment and retention, and reductions to provincial funding in 2019-2020;
- (c) continuing to run courses and programs with low or no student enrollments; and
- (d) a costly campus modernization project that Laurentian launched in 2014, which failed to increase revenues and resulted in even more debt for Laurentian.

5. Thorneloe is not the cause of the Laurentian's financial problems, does not cost Laurentian any funds, is well-managed and is solvent (at this time).

6. The Ontario government has been aware for many months prior to the CCAA filing of Laurentian's financial mismanagement and problems. Despite its prior knowledge and it being on the CCAA Service List, the Ontario government has been conspicuously absent in Laurentian's CCAA proceedings.

7. In September 2020, Laurentian retained Ernst & Young as a financial advisor. Four months later on February 1, 2021, as Laurentian careened toward a financial crisis and was facing not making its next payroll payment, it applied *ex parte* and obtained protection from its creditors under the CCAA, by order of Morawetz C.J.

8. In so doing, the CCAA Judge gave an expansive interpretation to "debtor company" under section 2(1) of the CCAA and held that the definition could extend to a public university.

9. This case is the first time a public university was granted CCAA protection in Canada.

10. Laurentian also obtained the CCAA Court's approval of a DIP loan of \$25M from Firm Capital Corporation (the "**DIP Lender**"), pursuant to the DIP Agreement dated January 29, 2021. The CCAA Court's order provided for super-priority status on the collateral of the DIP loan and approved the DIP Lender's terms including its interest rate and additional fees.

11. The DIP Agreement also contained the following unique condition requiring Laurentian to negotiate a new collective agreement and resolve grievances with its major union, the Laurentian University Faculty Association ("**LUFA**"), in order for the loan maturity date to be extended past May 1, 2021:

...LU enters into a negotiated settlement with LUFA with respect to terminations to be effected, resolution of outstanding grievances, and the terms of a new collective agreement between LUFA and LU...

12. In a further unusual move, Laurentian also applied for the immediate appointment of a judicial mediator to start meetings with major stakeholders. The CCAA Judge issued the order on February 5, 2021 appointing Justice Dunphy as a judicial mediator. This was done without Thorneloe's or the other Federated Universities' knowledge or involvement. The mediation was also ordered to be confidential.

13. Over the next two months certain stakeholders held separate meetings with the mediator. As this Court has noted: "The mediation is intended to address various issues concerning Laurentian's restructuring, including a new collective agreement with LUFA, which represent 612 Laurentian faculty, accounting for 60% of the university's payroll" (Reasons for Decision dated March 31, 2021 on the sealing order leave motion; "**Sealing Order Leave Decision**").

14. This Court has also noted that "the restructuring ... will have to be largely completed by the end of April 2021" and that the "timeline is exceptionally short" (Sealing Order Leave Decision, para. 30).

15. On April 12 and 13, 2021, it was announced that Laurentian had reached significant concessions with its unions: 116 full-time faculty members will be terminated (about one third of the faculty), approximately 60 programs cancelled, and 42 non-faculty staff will also be terminated. 37 non-unionized employees are also terminated. In addition, there are additional salary reductions, certain increased workloads, and changes to work rules that generate further economic savings for Laurentian. In total, approximately 195 Laurentian employees have been terminated.

16. The labour concessions will save Laurentian \$30.3M to \$33.5M a year.
17. The new collective agreements fulfill the most significant condition in the above-noted DIP Agreement and the main requirement for the DIP Lender to extend the maturity date.
18. The labour concessions are stark for the terminated employees: they will not be paid any severance now, nor will they receive WEPPA. They will have their severance and other claims processed in an upcoming claims process in a CCAA Plan.
19. At the April 29, 2021 motions, Laurentian *inter alia*, sought approval for the new labour agreements, which the CCAA judge approved in the brief endorsement of May 2, 2021. Thorneloe did not oppose that relief.
20. The major financial objective of Laurentian's CCAA filing as noted by this Court – labour concessions – has been achieved and completed. The expert report of A. Farber & Partners Inc. ("**Farber**") who was retained by Thorneloe and is in the evidence summarizes:

4.14.1. Laurentian has generated significant savings from its negotiations with Laurentian University Faculty Association ("LUFA") and Laurentian University Staff Union ("LUSU") which range from approximately \$30.3 million to \$33.5 million annually.

This has substantially reduced Laurentian's forecast operational deficit from \$42.9 million to \$12.5 million in the year 2021-22 and results in a go-forward operational surplus of approximately between \$7.7 million to \$8.5 million annually thereafter.

Thorneloe is small relative to Laurentian but has a big impact

21. Thorneloe is a small component of the Laurentian federation, employing only 7 full time faculty members and a total staff of 28, whereas Laurentian employs 355 full-time faculty members and many more staff. Thorneloe's expenditures on salaries and benefits in 2020 were \$2.44M, compared to \$134M paid by Laurentian, or 1.82% thereof.

22. The Federated Universities and, in particular Thorneloe, plan and design courses in consultation with the Faculty of Arts, which are offered to all Laurentian students as part of the Laurentian curriculum. Laurentian students can seamlessly take courses prepared by Laurentian or the Federated Universities which all count toward their Laurentian degrees.

23. As part of the Laurentian curriculum, Thorneloe offers three programs that each have as a suite of courses: *Religious Studies*, *Ancient Studies* and *Women's, Gender and Sexuality Studies* (as well as a separate degree-granting Program in *Theology*). Laurentian's students can select one of the Thorneloe programs as their "major" for their Laurentian B.A. degree, or take individual Thorneloe courses as an elective for credit toward their Laurentian degrees in other majors.

24. For example, a Laurentian Architecture major can take a Thorneloe Ancient Studies course on "Roman Architecture", or a Nursing major can take a Thorneloe course Women's, Gender and Sexuality Studies course on "Violence Against Women".

25. Despite its small size, Thorneloe has a big impact for Laurentian students. In 2019-2020, Thorneloe taught 2,861 Laurentian students, representing 297 full-time equivalents ("FTEs"), 186 of which represent courses supporting other Laurentian programs.

Thorneloe's courses, professors and its student residence are popular, and help attract and retain Laurentian students.

The disclaimers seek to eliminate Thorneloe

26. On April 1, 2021 – two months after obtaining CCAA protection – Laurentian sent a Disclaimer Notice to Thorneloe (and the other Federated Universities) relying on section 32 of the CCAA to disclaim the Federated Agreements. Under section 32(5), the disclaimers take effect 30 days from the day "the debtor company gives notice" unless the counter party applies to court within 15 days for an order that the agreement not be disclaimed under section 32(2).

27. On April 2, 2021, Thorneloe wrote to Laurentian that it would oppose the disclaimers. Thorneloe applied to the Court for an order rejecting the disclaimers on April 14, 2021, within the 15-day period in section 32(2).

Laurentian's motive is to eliminate course competition from Thorneloe, which has no material impact on Laurentian and has nothing to do with labour costs

28. With Thorneloe, Laurentian now overreaches. Laurentian is taking advantage of the CCAA proceeding to try and eliminate Thorneloe, which it cannot do outside of a CCAA proceeding. As noted, the Federation Agreement does not have termination provisions and was intended to be "permanent".

29. The president of Laurentian, Robert Haché, admitted under cross-examination that Laurentian wants to eliminate the Federated University courses so it can force all students to take Laurentian-only courses and thereby increase tuition and grant revenue for

Laurentian. Laurentian's stated motive is to eliminate the Thorneloe courses that "compete" with Laurentian and its courses:

332 Q. And part of your solution is to stop students from being able to go, to sign up for courses at University of Sudbury, University de Sudbury and Thorneloe. You're trying -- you're stopping them by bringing that agreement to an end. And the only reason you're doing that, and it's the only reason is because you want those students, instead of taking courses at those Federated Universities, to take courses at Laurentian University, correct?

A. We have both the capacity and the need to provide those courses to our students, yes.

333 Q. So the answer to my question is yes, correct?

A. I believe I said yes.

30. The use of the insolvency system to eliminate a competitor has been held by the Courts to be an improper purpose:

29. I further find that the motive was to lessen competition.

...

44. While this case does not involve a bankruptcy petition, it does involve the placing of Laserworks into bankruptcy. In my view, it would be wrong to allow Datarite to do in the proposal process what it could not do by petition. Datarite's intention was to place Laserworks in bankruptcy. The motive was to remove a competitor. That motive reveals an improper purpose. The court will not allow to be done by the back door what may not be done by the front.²

² *Laserworks Computer Services Inc., Re*, 1997 CarswellNS 179

If the disclaimers of the Agreements are upheld, Thorneloe will become a bankrupt

31. The evidence is uncontroverted in the expert report of Farber that if the disclaimers are upheld, Thorneloe's main source of revenue of grants and tuition will immediately cease, it will not be able to sustain its operations or continue paying its faculty and staff, and given its ongoing costs and liabilities, it will have to pursue an insolvency filing.

32. One Federated University, Huntington accepted its disclaimer, and entered into a deal with Laurentian to sell its on-line Gerontology program to Laurentian for \$599,000, and will continue to operate its student residence. Huntington cancelled all its courses at Laurentian as of May 3, 2021, and has ceased all teaching. It is in the process of terminating its faculty.

33. The University of Sudbury announced on March 12, 2021 that it would change to a francophone-only university. It has also cancelled all its courses at Laurentian as of May 3, 2021 and has ceased all teaching. Its separation from Laurentian, however, is not resolved and it is also objecting to the Disclaimer Notice that Laurentian delivered to it on April 1, 2021.

34. Thorneloe is in a different situation. It cannot survive on its own as a standalone university, has had no offer from Laurentian to buy its courses, and needs to continue teaching so it can obtain tuition and grant funds from the government, as it was set up to do with Laurentian since 1962.

The disclaimers do not meet the section 32 test in the CCAA

35. The disclaimers do not meet the factors in section 32 of the CCAA nor in the caselaw for a Court to uphold a disclaimer. The evidence is uncontroverted that the disclaimers would cause the insolvency of Thorneloe and certainly "significant financial hardship": section 32(4)(c). The disclaimers will also not "enhance the prospect of a viable compromise being made in respect of the company" since Thorneloe is small and not material to Laurentian's financial situation: section 32(4)(b). The motive of competition elimination as noted above is not a factor that justifies upholding a disclaimer under section 32.

36. The proposed appeal satisfies the four-point test for granting leave to appeal in a CCAA matter:

- (a) ***The point on appeal is of significance to the practice:*** The point on appeal deals with the authority of a CCAA judge to issue an order that authorizes a debtor to terminate agreements under section 32, in this case federation agreements of a public university, where the evidence shows that the motive is to eliminate the counterparty as a competitor, and where the counterparty is stayed from pursuing traditional legal remedies against the breaching debtor. It is also significant since this case is the first time the CCAA has been held to apply to a public university – which is not a "debtor company" in the usual CCAA commercial sense – and then deployed to disclaim agreements within public universities which are intended to be "permanent"

arrangements. This Court needs to review these new and novel issues and settle the law.

- (b) ***Whether the point raised is of significance to the action itself:*** The point is of significance to the action itself as it determines whether Thorneloe will become insolvent and closed down permanently, causing significant additional direct and collateral losses. On the other hand, the appeal will not impair Laurentian's significant labour savings, which were its main objective in its CCAA proceeding, nor will it materially enhance Laurentian's prospects in its CCAA Plan.
- (c) ***The appeal is prima facie meritorious and is not frivolous:*** The proposed appeal is *prima facie* meritorious and not frivolous as it relates to the legal test and parameters for section 32, which is not intended to allow a debtor free rein to terminate agreements – especially within a public university – and where the motive of the debtor is the elimination of a competitor.
- (d) ***Whether the appeal will unduly hinder the progress of the action:*** As noted, Laurentian has achieved significant labour cost reductions of over \$31M per year and now has sufficient liquidity. Its major objective has been achieved and approved by the CCAA Judge. There is no "risk that an appeal would be a distraction from restructuring efforts" which was the past reason this Court gave to deny leave on the sealing order leave motion dated March 31, 2021 (Sealing Order Leave Decision, para. 39). The proposed appeal will not hinder the progress of the remaining steps in Laurentian's

restructuring, will not hinder or impact the achieved labour concessions, nor will it have any material impact on the security, collateral or super-priority of the DIP Lender.

Second relief sought: the stay should be granted in respect of Thorneloe's motion and cross-motion

a) A single judge has jurisdiction to hear the stay motion

37. Section 7(2) of the *Courts of Justice Act*, R.S.O. 1990, c. C. 34 provides that a motion in the Court of Appeal shall be heard and determined by a single judge.

38. Rule 63.02(1)(b) of the *Rules of Civil Procedure* allows an interlocutory or final order to be stayed on such terms as are just by an order of a judge of the court to which an appeal has been taken.

b) There is a serious issue to be adjudicated

39. There are serious issues to be adjudicated on this proposed appeal as noted herein. This branch of the stay test sets a low threshold that the matter not be “vexatious or frivolous.” The issues that will be raised by Thorneloe on appeal readily meet this requirement.

c) Refusing to grant the stay would cause irreparable harm

40. Irreparable harm that would arise if the Decision in respect of Thorneloe's motions is not stayed include the following.

41. First, if not stayed, Laurentian will proceed to remove Thorneloe's courses and programs from the Laurentian curriculum and Thorneloe will have no source of grant or tuition income as of May 3, 2021, the day after the release of the CCAA Judge's endorsement. Thorneloe will have to terminate its faculty and staff, triggering severance pay obligations and resulting in the termination of its programs and 140 courses as well as undetermined additional liabilities. Farber estimates that Thorneloe will suffer losses and additional costs and liabilities of at least \$13.5M over the next 5 years, plus a possible, as yet undetermined, pension liability and other new liabilities that may arise on termination of the Federation Agreement.

42. Second, Laurentian's removal of Thorneloe's courses and programs from the available online catalogue can cause irreparable harm to the approximately 2,500 students who would not be allowed to take the courses and programs of their choice produced by Thorneloe and will be forced to choose different programs, majors, minors, and courses at Laurentian, or they will have to leave the university to complete their degrees elsewhere.

43. Third, there will be more collateral economic and other harm to families and outside businesses in the Sudbury community who have relationships with Thorneloe, and who have already been negatively impacted by the mass employee terminations at Laurentian.

44. Fourth, there will be undermined costs and complications arising from the disentanglement of Thorneloe from its substantial integration with Laurentian and resulting disputes over property, and the buildings owned by Thorneloe that can lead to litigation and increased costs into the future.

d) The balance of convenience favours the stay

45. In contrast, there is minimal discernible harm or inconvenience to Laurentian if the stay is granted. The stay would allow the federated regime with Thorneloe, which has been in place for over 60 years, to continue pending the appeal.

46. Further, there is no prejudice to the DIP Lender in respect of the security, collateral or super-priority of its loan.

47. Finally, as indicated above, Thorneloe seeks to have this leave to appeal and appeal dealt with on an expedited basis.

48. The balance of convenience favours granting the stay.

Additional grounds

49. The CCAA Judge released a short endorsement on May 3, 2021 (at 10:12 pm) dismissing Thorneloe's motion and cross-motion "with reasons to follow". Further particular grounds for these motions may be set out in an Amended Notice of Motion following the release of the CCAA Judge's reasons.

50. Rules 1.04, 1.05, 61.03, 61.03.1, and 63.02 of the *Rules of Civil Procedure*;

51. Sections 11, 13, 14, 18.6, 32 and 33 of the CCAA;

52. *An Act to Incorporate Thorneloe University*, S.O. 1960-1961, c. 135;

53. *An Act to Incorporate Laurentian University*, S.O. 1960, c. 151;

54. *An Act Incorporating Huntington University*, S.O. 1960, c. 143;
55. *Act to Incorporate Sacred Heart College of Sudbury*, S.O. 1914, c. 131;
56. *An Act respecting Sacred Heart College of Sudbury*, S.O. 1957, c. 160;
57. Such further grounds as counsel may advise and this Honourable Court may deem just.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. The Endorsement of the CCAA Judge, dated May 2, 2021;
2. The Affidavit of the Rev. Canon Dr. John Gibaut, sworn April 19, 2021;
3. The Affidavits of Allan Nackan, of A. Farber & Partners Inc., sworn April 19 and 28, 2021;
4. The Affidavit of Sydney Edmonds, sworn on April 15, 2021;
5. The cross-examination transcript of Robert Haché, dated April 23, 2021, on his Affidavits sworn January 30, 2021 and April 21, 2021;
6. The responses to Undertakings, Advisements and Refusals given by Robert Haché at his April 23, 2021 cross-examination;
7. The questions and responses made to the Monitor and/or the DIP Lender;

8. Relevant excerpts from the materials filed in the Court below on the motions before the CCAA Judge;
9. Orders and endorsements of the Court made in this CCAA proceeding;
10. The Monitor's Reports filed in the CCAA proceeding; and
11. Such further and other material as counsel may advise and this Honourable Court permits.

May 3, 2021

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TO: SERVICE LIST

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Applicant

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Proceeding commenced at Toronto

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(motion under Rule 61.03.1 and Rules 13 and 14 of
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Morawetz dated May 2, 2021)

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