

CANADA  
Province of Alberta

District of Alberta  
Division of 02 - Calgary  
Court No. 25-2078600  
Estate No. 25-2078600

**TRUSTEE'S PRELIMINARY REPORT**  
IN THE MATTER OF THE BANKRUPTCY OF  
**STEALTH ACOUSTICAL & EMISSION CONTROL INC.**

Trustee: Deloitte Restructuring Inc. ("**Deloitte**")

**Section A - Background**

Stealth Acoustical & Emission Control Inc. (the "Company" or "SAEC") is a Canadian Corporation that was incorporated in Alberta in 2006. SAEC designed, engineered and fabricated modular process and electrical processing plants and equipment packages, primarily serving the pipeline and oil and gas industries. The Company had sold modular packages in Canada, United States, Kazakhstan, Russia, Peru, Mexico and Australia.

A search of the Government of Alberta's Corporate Registry System (the "Registry") indicated that Mr. Colin Davison was the sole director and shareholder of the Company and was also the President and CEO. However, Mr. Davison has advised the Trustee that the Registry is not up to date and that the Stealth Family Trust (the "Family Trust") is in fact the sole shareholder of the Company. The Trustee understands that the Shareholder and his family members are the beneficiaries of the Family Trust.

Stealth Consulting Inc. ("SC") is a related company and is used as a holding company which owns real estate in Alberta (the "SC Lands") and some equipment which is in turn leased to SAEC. SC also charged a management fee to the Company for management services provided.

Spectre Environmental Solutions Inc. ("Spectre") is another related entity to SAEC and SC that the Trustee understands is owned by the Family Trust. Mr. Davison is listed as the sole director of Spectre.

The Company experienced financial difficulty generally as a result of the downturn in the oil and gas industry, however we note the following more specific issues impacting the Company were as follows:

- SAEC was unable to effectively downsize its operations and reduce its fixed costs in order to match its reduced revenue levels and this negatively impacted cash flow;

- SAEC over invested in capital assets and infrastructure based on the assumption of ongoing sales growth which did not materialize; and
- SAEC faced increased pricing pressure from customers and certain projects were not profitable.

As a result of its financial difficulties and with the hope of closing a concurrent transaction for the sale of its assets (the "Transaction"), the Company filed a Notice of Intention to Make a Proposal (the "NOI") under section 50.4(1) of the *Bankruptcy and Insolvency Act* (the "BIA") on January 20, 2016 (the "NOI Date"). As a result of filing the NOI, SAEC had an initial 30-day stay of proceedings (the "Initial Stay") in place pursuant to Section 69(1) of the BIA. On February 19, 2016, after the Company terminated the Transaction as it appeared that it was not moving forward, the Company applied for and was granted by the Court an extension of the Initial Stay to March 14, 2016. The Company was using this time to explore other options to restructure its operations and refinance in order to continue operations and fund a potential BIA proposal to its creditors.

SAEC was unable to secure other options to restructure and refinance the Company and did not seek a further extension of the stay of proceedings past March 14, 2016. As a result, SAEC was deemed to have made an assignment into bankruptcy on March 15, 2016 (the "Date of Bankruptcy"). Deloitte was appointed as Trustee of the estate of the bankrupt.

On April 4, 2016, Deloitte was also privately appointed as the Receiver of SAEC (the "Receiver") by the Toronto Dominion Bank of Canada ("TD"), a secured lender of the Company.

Further details and documents related to the NOI and the subsequent Bankruptcy of the Company can be found on the Trustee's website at [www.insolvencies.deloitte.ca](http://www.insolvencies.deloitte.ca).

This report constitutes the Trustee's Preliminary Report (the "Preliminary Report"), which is being prepared in respect of the first meeting of creditors of SAEC. In preparing the Preliminary Report, the Trustee has relied on unaudited financial information, the books and records of the Company and discussions with management of SAEC ("Management"), interested parties and the stakeholders of the Company. Deloitte has not performed an independent review or audit of the information obtained and does not express an opinion or any other form of assurance on the information presented herein. The Trustee may refine or alter its observations as further information is obtained or is brought to its attention after the date of this Preliminary Report.

The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of the Preliminary Report. Any use

that any party makes of this Preliminary Report, or any reliance on or decisions to be made based on it is the responsibility of such party.

All amounts in this Preliminary Report are in Canadian dollars unless otherwise indicated and have been rounded to the nearest \$100.

### **Section B – Books and Records and Assets**

The Trustee has taken possession of the available electronic and hard copy books and records of the Company and is using them to complete its statutory duties. The Trustee also SAEC's computer server in its possession.

The reported book values of the Company's potential realizable assets as at March 15, 2016 were as follows:

<b>Description</b>	<b>Book Value</b>
Accounts receivable	\$ 3,114,400
Prepaid expenses and deposits	174,700
Inventory	1,415,000
Capital assets	<u>2,805,600</u>
<b>Total</b>	<b><u>\$ 7,509,700</u></b>

A significant portion of the accounts receivable of the Company are in dispute and/or are subject to lien claims or offsets and the Receiver is currently pursuing these amounts. The potential realizable value of the accounts receivable is unknown at this time.

The Company also has limited inventory and capital assets remaining that consist of various electrical components, steel inventory, vehicles and shop equipment and tools that will be realized upon by the Receiver. The potential realizable value of the capital assets is also unknown at this time and limited recoveries are expected from the prepaid expenses and deposits.

### **Section C – Current State of Operations**

#### **1. Conservatory and Protective Measures**

Immediately following its appointment, the Trustee took steps to take possession of and control of the Company and its assets which were mostly located on the SC Lands. The Trustee also organized to have the remaining assets at the leased premises located at 9595 Enterprise Way SE, Calgary (the "Leased Premises"), including two uncompleted packages for Canadian Natural Resources Ltd., a portable building, and several owned and leased trucks and trailers, moved to the SC Lands. The Trustee also attended at the Leased Premises to remove the electronic and

hard copy books and records and computers and servers. The Trustee also confirmed insurance was in place and retained the services of the former Controller to assist with its various statutory duties.

## 2. Carrying on Business

The Company's operations ceased prior to the Date of Bankruptcy and neither the Trustee nor the Receiver intend to re-start the business or complete any of the unfinished projects as they are not economical at this time.

## Section D – Legal Proceedings

The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the Company since the Date of Bankruptcy. The Trustee has retained McCarthy Tetrault as its independent legal counsel ("Counsel"), subject to the approval of SAEC's creditors or any inspectors appointed to the bankrupt estate.

## Section E – Provable Claims

At the time of preparing this report, several creditor claims have been filed against the Company which are being reviewed by the Trustee.

## Section F – Creditors

The following is a summary of SAEC's known creditors as at the Date of Bankruptcy:

<b>Type of Claim</b>	<b>Estimated Amount*</b>
Priority Claims	Unknown
Secured Claims	\$ 3,483,000
Preferred Unsecured Claims	Unknown
Ordinary Unsecured Claims	6,787,300
<b>Total</b>	<b><u>\$ 10,270,300</u></b>

\* Estimated amounts are based on the books and records of SAEC as at the NOI Date and, in some cases, have been updated to reflect known transactions up to the Date of Bankruptcy.

### 1. Priority Claims

Based on discussions with Management and a review of the books and records of the Company, there do not appear to be any arrears owing to the Canada Revenue Agency ("CRA") for the employee portion of payroll source deductions (the "Deemed Trust Claim") that generally rank in priority to secured creditors. The Trustee is coordinating the completion of a trust audit of the Company's books and records by CRA in order to verify if CRA has a Deemed Trust Claim.

The Company had approximately 100 employees at the NOI Date, but all were terminated before the Date of Bankruptcy. The former employees are eligible to make claims under the Wage Earner Protection Program ("WEPP", the "WEPP Claims") if they have any outstanding wages, vacation pay or severance pay. If there are wage and vacation pay arrears, there would be a WEPP priority claim (the "WEPP Priority Claim") that would rank in priority to the secured creditors for up to \$2,000 per employee. The WEPP Priority Claim does not extend to any severance pay arrears. The Trustee is currently reviewing the Company's books and records to determine if there are any potential WEPP Claims for severance pay.

The Trustee is not aware of any other priority claims.

## 2. Secured Claims

The following is a summary of SAEC's known secured creditor claims as at the Date of Bankruptcy:

<b>Type of Claim*</b>	<b>Estimated Amount</b>
TD Bank	\$ 1,239,400
Business Development Bank of Canada	Unknown
Colin Davison	236,100
Stealth Consulting Inc.	1,500,000
Third party leases	507,500
<b>Total</b>	<b>\$ 3,483,000</b>

\* Estimated amounts are based on the books and records of SAEC as at the NOI Date and, in some cases, have been updated to reflect known transactions up to the Date of Bankruptcy.

TD provided an operating line to the Company and holds a general security agreement ("GSA") over all of the present and after-acquired personal property of SAEC. TD also has a personal guarantee against Mr. Davison and also a cross guarantee from SC. TD was owed approximately \$1.2 million as at the Date of Bankruptcy.

The Business Development Bank of Canada ("BDC") is the principal secured creditor of SC and was owed approximately \$9.6 million as at December 31, 2015. This debt includes a mortgage on the SC Lands for approximately \$6.5 million (the "BDC Mortgage Debt") and various equipment leases and working capital loans for approximately \$3.1 million (the "BDC Lease Debt"). SAEC has guaranteed the obligations of SC to BDC (the "BDC Guarantee") up to \$1.4 million on any shortfall on the BDC Mortgage Debt and up to \$2.9 million on any shortfall on the

BDC Lease Debt and has also provided BDC with a GSA over all of its property to secure its obligations to BDC under the guarantee. The Trustee expects that the BDC will need to pursue the BDC Guarantee as against the Company.

Mr. Davison has a registered security interest against SAEC and was owed approximately \$236,000 as at the Date of Filing (the "Shareholder Loan"). Mr. Davison holds a GSA from the Company.

SC also has a secured loan against SAEC for approximately \$1.5 million as at December 31, 2015 (the "SC Loan"). SC holds a GSA from the Company.

The Company has several equipment and vehicle leases with third parties, but the Trustee understands that most of these assets were returned to the leasing companies prior to the Date of Bankruptcy.

As part of the NOI proceedings, Counsel conducted independent reviews of the security of TD, the Shareholder Loan and the SC Loan as against the Company and opined, subject to standard assumptions, qualifications and limitations, that the security for each of TD, the Shareholder Loan and the SC Loan is valid and enforceable and ranks in priority to the unsecured creditors of SAEC and to any subsequently appointed Trustee in bankruptcy (each a "Security Opinion"). Counsel did not review BDC's security as the documents were not available, but this will be completed if required.

### 3. Preferred Unsecured Claims

The amount of any preferred unsecured claims is still to be determined, but may include employees and the landlord.

### 4. Ordinary Unsecured Claims

The ordinary unsecured claims listed above for approximately \$6.8 million do not include any estimated shortfall in respect to the secured or preferred unsecured claims.

## **Section F – Realization and Projected Distribution**

At this time, it appears very unlikely that there will be any funds available for distribution to any of the preferred or any ordinary unsecured creditors.

**Section G – Transactions at Under Value**

The Trustee will be undertaking a review of the Company's financial transactions over the past 12 months to determine if any reviewable transactions or preferences have occurred.

The Trustee is in possession of certain of SAEC's books and records and is obtaining additional records and computers from Mr. Davison. In addition, the Trustee is aware that certain information may have been deleted from the Company's server and is further reviewing this matter.

The Trustee is also aware of certain transactions between SAEC, SC and Spectre where assets have been transferred or sold between the entities in the past 12 months and certain intercompany debts were offset as a result. In addition, various payments have been made between the related party entities. The Trustee has gathered the supporting information available and will be discussing these transactions with Mr. Davison as part of its review.

During the NOI proceedings, Mr. Davison attempted to sell assets of SAEC out of the normal course of business, including three owned pick-up trucks to a third party dealer and other owned assets and inventory to SC. These transactions did not close after Mr. Davison was made aware that these transactions required Court approval and these assets remain with SAEC.

**Section H – Other Matters**

Deloitte is acting in a dual role as the Receiver and Trustee of the Company and pursuant to section 13.4(1) of the BIA is required to obtain an independent legal opinion stating that TD's security is valid and enforceable and ranks in priority to the unsecured creditors of SAEC and the Trustee. As outlined previously, the Security Opinion opines that the TD GSA is valid and enforceable.

Deloitte received a retainer of \$75,000 from SC as part of the NOI proceedings and the remaining retainer is being used to cover the costs of the bankruptcy.

There are no other reportable matters at this time.

Dated at Calgary, this 4<sup>th</sup> day of April, 2016.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Trustee of the Estate of  
Stealth Acoustical & Emission Control Inc.  
and not in its personal capacity



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Jeff Keeble, CA, CIRP, CBV

Trustee