

CANADA  
Province of British Columbia

District of British Columbia  
Division No. 03  
Estate No. 11- 1946231

**TRUSTEE'S PRELIMINARY REPORT**  
**IN THE MATTER OF THE BANKRUPTCY OF**  
**Contech Enterprises Inc.**

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**Introduction**

Contech Enterprises Inc. ("Contech" or the "Company") was founded in 1987 and designs, manufactures and markets environmentally-friendly products for the pet and garden industries. The Company has approximately 30 employees in Canada. The head office of the Company is located at 115-19 Dallas Road, Victoria, British Columbia and has production facilities, distribution centres and sales offices located in Delta, British Columbia; Perth-Andover, New Brunswick; Grand Rapids, Michigan; and Vista, California. The latter two locations are leased through the Company's wholly owned US subsidiary, Contech (U.S.) Inc. ("Contech US"). Contech US has approximately 30 employees in the two US locations.

As a result of the Company's various acquisitions of assets, Contech faced significant challenges to its traditional business model moving from a distribution model to also include direct-to-consumer sales. The Company also took on additional debt to finance the asset and share acquisitions, which it then struggled to service. Ultimately, the changes to its business model, operational and integration challenges, the highly seasonal nature of the business, debt-servicing challenges and unsuccessful attempts at refinancing and recapitalization have resulted in continued operating losses of over \$4.5 million over the last three fiscal years in the Company's operations.

The Company unsuccessfully attempted to refinance the business during 2014. The Company had approached several institutional lenders, including asset-based lenders, and other specialty financiers.

Contech filed a proposal to its creditors ("Proposal") under *Part III, Division I of the Bankruptcy and Insolvency Act* ("BIA") with Deloitte Restructuring Inc. ("Deloitte"), on December 23, 2014. The Proposal was approved by the Supreme Court of British Columbia on January 27, 2015, but was overturned by the Court of Appeal for British Columbia on March 6, 2015, resulting in the immediate deemed bankruptcy of Contech. Deloitte was deemed to be appointed as Trustee in Bankruptcy ("Trustee") of Contech by the Official Receiver which is subject to affirmation by the creditors at the first meeting of creditors on March 26, 2015.

On March 11, 2015, Deloitte was privately appointed as Receiver by HSBC Bank Canada ("HSBC") pursuant to a General Security Agreement dated September 29, 2011, granted by Contech in favour of HSBC. On March 20, 2015, the Supreme Court of British Columbia appointed Deloitte as Receiver and Manager ("Receiver") of Contech. Information on these insolvency proceedings can be found at <http://www.insolvencies.deloitte.ca/en-ca/Pages/Contech.aspx>.

**Conservatory and Protective Measures**

At the time of the deemed bankruptcy, the Trustee took possession and control of all assets of the Company and took all necessary conservatory measures. The Receiver has continued limited

operations to facilitate the sale of the Company's assets with a view to maximize realizations for the benefit of creditors.

The Receiver will be conducting a formal sales process of all of the assets and business of the Company. The Trustee's preliminary review of the process and liquidation value of the assets indicates that realizations from Contech's assets will be insufficient to satisfy all debts owed to secured creditors and, therefore, no anticipated realizations to unsecured creditors.

#### **Books & Records**

As Trustee, we attended at the Company's premises and met with management. The Trustee has had a preliminary review of the books and records of the Company.

#### **Assets**

##### **I) Inventory**

As at the date of the Company's deemed bankruptcy, the Company's Statement of Affairs indicated an inventory balance of \$700,000.

##### **II) Accounts Receivable**

The Company's Statement of Affairs indicates that it is owed approximately \$765,000 for its Accounts Receivable.

##### **III) Trade Fixtures**

The Company indicated on its Statement of Affairs that it had fixed assets with a realizable value of \$73,000. These fixed assets include computer, office, and warehouse equipment at the Company's various locations.

##### **III) Intangible Assets**

The Company indicated on its Statement of Affairs that it had intangible assets with an estimated realizable value of \$248,000. These assets include various intellectual property and patents held by the Company.

#### **Secured creditors**

The Company's Statement of Affairs shows approximately \$8.85 million in secured liabilities outstanding at the time of deemed bankruptcy. The secured creditors include, but are not limited to:

##### **I) HSBC**

On September 29, 2011, Contech granted a General Security Agreement ("GSA") to HSBC securing all present and after acquired property, which was duly registered in the British Columbia *Personal Property Registry*. HSBC's security ranks in priority to the interests of the other secured creditors, except for Business Development Bank of Canada ("BDC"), which has priority to equipment only. As indicated on the Statement of Affairs, Contech was indebted to HSBC for the total sum of \$1.41 million.

**II) First West Credit Union ("FWCU")**

On February 28, 2013, Contech entered into a Loan agreement with FWCU for \$1.45 million which granted a security interest by way of a GSA to FWCU. FWCU ranks in priority subsequent to HSBC's security interests. As indicated on the Statement of Affairs, Contech was indebted to FWCU for the total sum of \$1.45 million.

**III) Various Equipment Lenders**

As indicated above, BDC has a priority interest in Contech's equipment. As indicated on the Statement of Affairs, Contech was indebted to BDC for the total sum of approximately \$85,000.

Other equipment lenders include, but is not limited to: Dell Financial Services Canada Limited, K'(Prime) Technologies Inc., Royant Inc., and Wells Fargo Equipment Finance Company.

**IV) Various Secured Debenture Holders**

The Company's Statement of Affairs shows approximately \$5.88 million in secured debenture holdings at the time of the deemed bankruptcy.

**Legal Proceedings, Reviewable transactions and preference payments**

We are aware of various legal proceedings against the Company regarding for matters including but not limited to sales, investors, and commission payments. Legal proceedings pertaining to Contech will be stayed as a result of the bankruptcy proceedings.

A preliminary review of the Company's books and records has not identified any reviewable transactions or preference payments.

**Provable Claims**

At the time of finalizing this report, proofs of claims have been filed by seventeen unsecured creditors totaling approximately \$2.66 million.

The Receiver has been advised that the Company owes employees' wages in-arrears, vacation and severance pay as at the date of bankruptcy. As part of the Receiver's realization strategy to continue limited operations, the wages in-arrears have been paid to employees. Claims by eligible Canadian employees will be filed pursuant to the *Wage Earner Protection Program Act*.

**Anticipated Realization and Projected Distribution**

The Receiver made a preliminary assessment of Contech's business and estimated a shortfall to HSBC in the event of an immediate closure of the business and a forced liquidation of the Company's assets. However, an orderly wind down of the business and limited operations concurrent with a sales process may result in a payout of HSBC in full and remaining funds for subsequent secured creditors. Accordingly, the Receiver intends to operate the business on a limited basis in the short term in order to maximize the realization value over and above an immediate business closure and forced liquidation.

We do not anticipate that there will be any funds available for distribution to unsecured creditors.

**Dual Appointment as Trustee and Receiver**

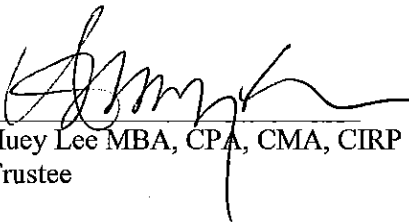
As required under Section 13.4 of the BIA, Deloitte has retained Borden Ladner Gervais LLP as independent legal counsel to provide an opinion on the validity and enforceability of HSBC's security. The Trustee has been advised that HSBC's security is valid and enforceable as against a Trustee in Bankruptcy. The Receiver's remuneration will be funded by proceeds from the Contech estate.

Dated at Vancouver, this 26<sup>th</sup> day of March, 2015.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Court-appointed Receiver and Manager and Trustee in Bankruptcy of Contech Enterprises Inc.  
and not in its personal capacity.

Per:

  
Huey Lee MBA, CPA, CMA, CIRP  
Trustee