

District of Alberta
Division 01 - Edmonton
Court No. 24-2446286
Estate No. 24-2446286

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF WESTERN MANUFACTURING LTD.

Formerly carrying on business in the Village of Hythe in the Province of Alberta

Background

On November 21, 2018, Western Manufacturing Ltd. (the "**Company**") filed an assignment in bankruptcy and Deloitte Restructuring Inc. (the "**Trustee**") was appointed Licensed Insolvency Trustee.

The Company is a 100% owned subsidiary of Hyduke Energy Services Inc. ("**Hyduke**"), and is incorporated under the laws of Alberta. The Company formerly operated as a fabrication company for the oil and gas industry, and was based in Hythe, Alberta, before it was purchased by Hyduke in March 2017, and relocated to Hyduke's premises at 2107 6 Street, Nisku, Alberta ("**HDS**"). The Company's sole director is Mr. Patrick Ross.

Section A – Assets

Class I – Inventory

The Company estimated, on its Statement of Affairs, a total inventory value of \$100,000. The Company's inventory is primarily located in HDS's yard. There is also some steel inventory situated at the premises of B.W. Rig Supply, a related company, located at 407 22 Ave, Nisku, AB ("**BW**"). The Trustee has attended at both HDS and BW to view and photograph the inventory. The Company's inventory has been marked to segregate them from Hyduke's assets.

The Trustee has not removed the inventory as there would be a high cost to move and store the inventory relative to its value. In particular, large pieces of steel inventory that may only have scrap value would need to be cut down before transportation.

The Trustee has been advised by Hyduke that the BW premises have been sold and the Company's assets should be removed by December 14, 2018. The Trustee has also been advised by Hyduke that the HDS location has also been sold and the Company's assets should be removed by January 7, 2019. Collectively, these dates will be referred to hereafter as the "**Departure Dates**".

Subject to Inspector approval, the Trustee intends to request proposals from auctioneers to consider the inventory value and conduct a coordinated sale process (the "**Sale Process**") of the Company's assets at an appropriate time so that the Estate does not incur unnecessary occupation rent.

Class II – Plant, Machinery and Equipment and Office Equipment

The Company estimated, on its Statement of Affairs, a total equipment value of \$420,000. The Company has provided the Trustee with a fixed asset list (the "**Fixed Asset List**") comprising rolling stock, tools, parts, and office equipment. The Fixed Asset List was provided to Hyduke at the time of Hyduke's purchase of Western. However, after the acquisition, some assets were disposed of in Hythe before the relocation to HDS. There were also disposals by way of auction and some assets were sold to Hyduke as well. As a result, the fixed asset list is outdated and inaccurate. Hyduke management has reviewed the list and indicated the assets that remain in their possession. The Trustee has requested the particulars of the asset disposals from Hyduke.

The Trustee has attended at six locations where the Company's equipment is located. The locations and possession activities of the Trustee are described below.

All equipment currently remains at the locations until the Trustee considers valuation of the assets and costs to remove in conjunction with the Sale Process and Departure Dates. The locations are all secure with the exception of the Sil area; however, the Silo at Sil is costly to move and requires special cranes, so the Trustee believes it is not easily removable. The Trustee will routinely attend at all the locations excluding Beaver Lodge and Foremost due to cost. The landlords at Foremost and Beaver Lodge have been informed to notify the Trustee of any risks and material adverse change to the assets.

HDS

The majority of the Company's equipment is located in the HDS yard and fabrication shop. The Trustee has attended at HDS to view and photograph the equipment. The Trustee has taken possession of keys to the Company's rolling stock, which have been parked. The Company's equipment has been marked to segregate them from Hyduke's assets.

Hyduke has advised that a 2012 Hyundai Loader H740TM-9 on the Fixed Asset List was sold by the Company to Hyduke in the pre-bankruptcy period. The Trustee has requested documentation of this transaction to verify that consideration was paid and that the transaction took place at fair market value.

BW

Three sea cans with miscellaneous equipment were locked by the Trustee. A 2014 Manitou M50.4 Forklift has been parked and the Trustee is in possession of the key. Loose pieces of equipment have been marked to segregate them from other assets.

Academy Fabricators

An ESAB Arc welder (the "**Arc Welder**") was leased to Academy Fabricators LP ("**Academy**") by Hyduke Drilling Services Inc. Although the lease is under Hyduke Drilling Services Inc., the Trustee is advised that the Arc Welder is property of the Company. The Arc Welder is currently located within Academy's fabrication shop located at 4066 78 Ave NW, Edmonton, AB. According to the terms of the lease with Academy, the lease has not commenced as it was to commence upon assembly of the Welder by the Company and upon provision of training in the Welder's use by the Company.

The Trustee has attended at Academy to photograph the Welder and has advised Academy that the Welder has vested in the Trustee. Academy has advised the Trustee that there is no immediate need for welder, but may need it moved in late December.

The Trustee intends to consider the best method of realization of the Welder in the Sale Process.

Sil Industrial Minerals

The Company participated with Sil Industrial Minerals ("**Sil**") in the research and development of and the production of a prototype sand silo (the "**Silo**"), which is currently located on Sil land at 570079 Range Road, Bruderheim, AB. The Silo is also connected to a dispute between Sil and the Company further described in the accounts receivable section of this report.

The Trustee has attended at the site to photograph and confirm the condition of the Silo. The Trustee has also advised Sil that the Silo is an asset of the Company's that has vested in the Trustee.

Sil has advised the Trustee that the Silo needs to be relocated shortly, otherwise Sil intends to charge rent and storage fees. Sil estimates that removal of the Silo would cost approximately \$20,000.

The Trustee intends to consider the value of the Silo and the status of the dispute with Sil in how and if the Silo can be realized in the Sale Process.

Beaver Lodge

The Company was renting a 10' x 15' storage unit from Hayfield Storage ("**Hayfield**") located in Beaver Lodge, AB. The rent for the storage unit is outstanding from the date of bankruptcy to December 21, 2018, and the monthly rental rate is \$168. The Trustee has taken possession of the key and attended

at Hayfield to view the unit's contents and to take photographs. The contents are comprised of appliances, office equipment, supplies, and furniture of relatively low value.

The Trustee has informed Hayfield that the assets have vested in Trustee. Hayfield has advised the Trustee that the code to access the gate has been disabled and a second lock has been placed on the storage unit.

The Trustee will consider the value of the contents and method of realization in the context of the Sale Process.

Foremost Hythe

Prior to the bankruptcy, the Company entered into a lease with Foremost located at 9816 100 Ave, Hythe, AB ("**Foremost**") to rent a portion of their yard for storage. The rent is \$1,500 per month and is in seven months' arrears. Foremost has advised the Trustee that it intends to charge rent pursuant to the lease if the assets continue to be stored on their land.

The Trustee has attended at Foremost to confirm and photograph the assets being stored comprising a number of tanks fabricated by the Company. Two of the tanks were sold by the Company to a creditor shortly before the bankruptcy. The Trustee has obtained the contact information for the creditor and will request additional information.

The Trustee has informed Foremost that assets vest in Trustee and to notify the Trustee of any third party claims to the tanks while it considers the value of the tanks.

Class III – Building and Real Estate

None.

Class IV – Books and Records

The books and records are being stored at the Company's office. The Company has advised the Trustee that it will deliver an electronic backup of the Company's accounting records. The Trustee has also requested any physical copies of the payroll, GST, and CRA records, bank statements, and any information to assist in the collection of accounts receivable.

Class V – Other Assets

Garnishee funds

Enforcement creditors garnisheed funds of the Company prior to the date of bankruptcy. The Trustee has been notified that funds in the amount of \$31,142.54 have been paid into Calgary Court. The Trustee has requested that the Court forward the garnishee funds to the Trustee.

The Trustee has also notified the Grande Prairie and Edmonton Courts to forward funds to the Trustee in the event garnishee funds are received by them post-bankruptcy.

Accounts Receivable

On the Statement of Affairs, the Company disclosed doubtful accounts receivable totalling \$291,217.50 from Sil. The Trustee has reviewed the Company's aged accounts receivable and has identified a further \$615,121.31 of accounts receivable. The Trustee has signified the accounts receivable.

The Trustee is in possession of documents concerning the Sil dispute and will review to determine any further steps to be taken to preserve or realize any value in the receivable while considering the Silo's physical disposition and value.

Section B – Conservatory and Protective Measures

The Trustee signified the Company's bank account with Alberta Treasury Branch ("**ATB**") and requested that any funds on deposit be forwarded to the Trustee. ATB has advised the Trustee that the account was overdrawn by Canada Revenue Agency ("**CRA**") and no funds are available. The Trustee has

requested that ATB provide the Trustee with bank statements to review the bank account activity and if any amounts are recoverable from CRA.

The Company's mail has been redirected to the Trustee's office until the end of January 2019. The Trustee will evaluate the value of continuing to redirect mail at that time.

The Trustee has blanket insurance coverage for 30 days from the date of bankruptcy. The Trustee will review insurance coverage to determine the requirement for further coverage.

Section C – Legal Proceedings

The Company's dispute with Sil involved legal counsel. The Trustee will review for any legal proceedings to be continued and if retaining legal counsel for the Estate is required.

Section D – Provable Claims

The Company's records estimate unsecured claims to be approximately \$11,647,932.87. It is possible that once all proofs of claims are filed, there will be material adjustments to the total claims.

Section E – Secured Creditors

Business Development Bank of Canada ("**BDC**") has registered a security interest on the Personal Property Registry over all of the Company's present and after acquired property. The Company estimated BDC's secured claim to be \$6,300,000. BDC has not yet filed a secured proof of claim.

National Bank of Canada ("**National Bank**") has registered a security interest on the Personal Property Registry over all of the Company's present and after acquired property. The Company estimated National Bank's secured claim to be \$780,000. National Bank has not yet filed a secured proof of claim.

Progress Energy Canada Ltd. ("**Progress**") has registered a security interest on the Personal Property Registry over six serial numbered barrels and a separator. Progress has not yet filed a secured proof of claim.

RCAP Leasing Inc. ("**RCAP**") has registered a security interest on the Personal Property Registry over copiers and office equipment leased from RCAP. RCAP has not yet filed a secured proof of claim with the Trustee.

Roynat Inc. ("**Roynat**") has registered a security interest on the Personal Property Registry over digital systems, copiers, and other office equipment. Roynat has not yet filed a secured proof of claim.

Storm Resources Ltd. ("**Storm**") has registered a security interest on the Personal Property Registry over eight serial numbered barrels. Storm has not yet filed a secured proof of claim.

Wakefield Canada Inc. ("**Wakefield**") has registered a security interest on the Personal Property Registry over two lube carts, two drum packages, and two pre-set digital meters. Wakefield has not yet filed a secured proof of claim.

Section F – Realization and Projected Distribution

Due to the uncertainty of realization of the Company's assets, the Trustee is unable to provide estimated realization and recovery to unsecured creditors at this time.

Section G – Reviewable Transactions and Preference Payments

The Trustee will conduct a review for preference payments and transfers at under value.

Section H – Other Matters

The Trustee has been notified by a creditor of some concerns about certain assets of the Company and some of its dealings with related parties. The Trustee will review these concerns to determine if any further action is required.

Dated at Edmonton, this 11th day of December, 2018.

DELOITTE RESTRUCTURING INC.

In its capacity as Licensed Insolvency Trustee of the Estate of
Western Manufacturing Ltd. in bankruptcy,
And not in its personal capacity.

A handwritten signature in black ink, appearing to read 'D. Crocker', written over a horizontal line.

Darren Crocker, CPA, CGA, CIRP, LIT
Senior Vice-President