

CANADA
District of Ontario
Division No. 09- Toronto
Court No: 31-1172047
Estate No: 31-1172047

IN THE MATTER OF THE BANKRUPTCY OF
HARWELL HESCO ELECTRIC SUPPLY CO. LIMITED
OF THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO

TRUSTEE'S REPORT ON ITS PRELIMINARY ADMINISTRATION

BACKGROUND

Harwell Hesco Electric Supply Co. Limited. ("Harwell" or the "Company") is a private corporation that carried on business as a distributor and wholesaler of electric supplies and components to manufacturers and contractors throughout southern Ontario, via five Company owned and operated outlets, including a head office and warehouse facility in Toronto.

The Company was unable to meet its financial obligations as they came due. In particular, the Company was in default on its loan obligations to HSBC Bank Canada ("HSBC" or the "Bank") to whom it owed approximately \$2.8 million. On March 2, 2009, the Bank made application to the Ontario Superior Court of Justice (Commercial List) (the "Court") for the appointment of Deloitte & Touche Inc. as Interim Receiver and Receiver (the "Receiver") of all of the assets, undertakings, and properties of the Company, which Order was granted by the Court.

Also on March 2, 2009, the Receiver, on behalf of the Company, filed an assignment in bankruptcy and the Office of the Superintendent of Bankruptcy subsequently issued a certificate naming Deloitte & Touche Inc. as Trustee of the estate of the bankrupt.

Causes of Insolvency

The Company experienced deteriorating sales over the last three to four years, accompanied by accumulating net losses as revenues failed to cover operating expenses.

CONSERVATORY AND PROTECTIVE MEASURES

Upon its appointment on March 2, 2009, the Receiver attended at the Company's head office located at 41 Ossington Ave, as well as outlets located in Markham, Mississauga, Burlington, Hamilton and St. Catharines, all located in the province of Ontario, to take possession and control of the property of the Company. All operations ceased and the Receiver commenced the process of soliciting proposals for the sale or liquidation of the Company's assets.

The Company's insurance coverage remains in force and the Receiver has arranged to be added as named insured loss payee.

The Receiver took possession of the Company's books and records. Based on the Receiver's preliminary review, it appears that the Company's books and records were adequate in the circumstances.

Deloitte & Touche Inc., in its capacity as Trustee, has no assets to preserve and protect.

REALIZABLE ASSETS

At the end of February, the realizable assets of the Company consisted primarily of the following:

	<i>Net Book Value *</i>	<i>Estimated Realizations</i>
Accounts receivable	\$3,002,360	\$1,754,638
Inventory	5,840,309	1,168,062
Vehicles, Furniture, and Equipment	<u>158,360</u>	<u>82,000</u>
	<u>\$9,001,029</u>	<u>\$3,004,700</u>

**Net book value according to Management's internal books and records.*

CLASS I: STOCK OF MERCHANDISE.

At March 2, 2009, the Company had just completed a physical count of its inventory, which indicated an inventory value, at cost, of \$4,610,885. The Company's inventory consists of finished goods, with most of this being common electrical supplies regularly purchased by both manufacturers and contractors.

CLASS II: FIXED ASSETS, OFFICE EQUIPMENT, ETC.

Harwells's fixed assets are comprised of office furniture, computer equipment and warehouse equipment located at the five outlets. The Company does not own any high value or major pieces of equipment. The Company also owned nine vehicles, most of which are small delivery vans.

CLASS III: BUILDINGS AND REAL ESTATE

The Company leased all of its premises from either a related or third party landlord, and thus, did not own any real estate.

CLASS IV: BOOKS AND RECORDS

The Receiver took possession of the Company's books and records. Based on the Receiver's preliminary review, it appears that the Company's books and records were adequate in the circumstances. However, it should be noted that the inventory reporting does not appear to be reliable as the system reported an inventory at cost of \$5.8 M while a recent physical count indicates a value of \$4.6 M.

CLASS V: OTHER ASSETS

1) Cash

At the date of the Receiver's appointment, Harwell had an overdraft position in its operating account with HSBC. The Company also held an account with another financial institution and the Receiver has contacted this bank to arrange for a transfer of any remaining cash balance.

2) Accounts Receivable

Of the total accounts receivable of approximately \$3 million, the Receiver estimates that approximately \$1.25 million is doubtful or uncollectable.

Since all of the Company's assets were subject to HSBC's security, no assets vested in the Trustee.

REALIZATION STRATEGY

1. The Receiver provided an information package to interested parties and solicited proposals for either the purchase of the Company on a going concern basis, or an en bloc purchase of the assets. As of the March 13, 2009, the Receiver had not received any expressions of interest in acquiring the Company as a going concern, and three proposals were received for the orderly liquidation of Harwell's assets. The Receiver expects to enter into an agreement with one of the liquidators.
2. The Receiver continues to pursue the collection of Harwell's outstanding accounts receivable.

Based on information available to date, the Trustee is of the view that the proceeds of realization from the Company's assets will not be sufficient to repay the outstanding secured claims and, accordingly, there will be no funds available for distribution to the Company's unsecured creditors.

LEGAL

The Trustee requested and received a written legal opinion from Aird & Berlis LLP, dated March 18, 2009 with respect to the validity and enforceability of the security registered by the Bank. The opinion received indicates that the Bank's security is valid and enforceable as against the Trustee.

SUMMARY OF PROVABLE CLAIMS

The Trustee is not aware of any material changes in the nature of liabilities from that shown on the list of creditors circulated with the notice of the First Meeting of Creditors.

	<u>Claims Per Statement of Affairs</u>	<u>Claims Received To March 20, 2009</u>
Secured	\$3,004,701	\$3,173,990
Preferred	NIL	
Unsecured	<u>\$5,735,894</u>	<u>\$1,843,238</u>
Total	<u>\$8,740,595</u>	<u>\$5,017,228</u>

SECURED CREDITORS AND TRUST CLAIMS

A list of the creditors that appear to have a registered security interest against the assets, property and undertakings of the Company was provided as List "B" to the Statement of Affairs. The following represent the most significant of the known claims:

HSBC Bank Canada	\$2,685,518
Estate of Laurie M. Vassallo	755,133
George T. Vassallo	215,723
Joseph G. Vassallo	<u>538,472</u>
	<u>\$4,194,846</u>

Claims that may rank in priority to the Bank's security include claims of Canada Revenue Agency ("CRA") with respect to employee wage claims pursuant to S.81.4 of the *Bankruptcy & Insolvency Act*. S.81.4 employee claims are estimated at \$16,500. As the Company used an outside payroll service, no amounts are owed to CRA with respect to source deductions.

LEGAL PROCEEDINGS

The Trustee is not involved in any legal proceedings at this time.

ASSET REALIZATION AND PROJECTED DISTRIBUTION

The Trustee is of the view that the proceeds of realization from the Company's assets will likely not exceed the secured claims against those assets and the costs of the receivership administration. Consequently, it is expected that there will be no funds available for distribution to the unsecured creditors of the estate.

REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

We have been advised that Harwell held three term-life insurance policies on L.M. Vassallo, J. Vassallo and G. Vassallo. When L.M. Vassallo died in September 2008, the resulting death benefit of \$1,000,000 was paid by the insurer to the Company in October 2008 and immediately distributed by way of a capital dividend to L.P. Vassallo, the chief executive officer and sole shareholder of Harwell. We have also been advised that in February 2009, the policies on J. Vassallo and G. Vassallo were assigned to J. Vassallo.

The Trustee is of the view that these transactions may be open to challenge by the Trustee pursuant to Sections 100 and 101 of the *Bankruptcy and Insolvency Act*.

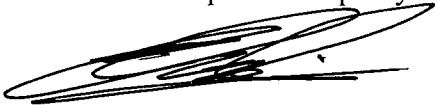
TRUSTEE'S FEES

The Receiver has agreed to pay for the reasonable professional fees and disbursements of Deloitte & Touche Inc. for the administration of the bankruptcy estate.

Dated at Toronto, in the Province of Ontario, this 23th day of March, 2009.

DELOITTE & TOUCHE INC.

In its capacity as Trustee of the Estate of
Harwell Hesco Electric Supply Co. Limited, a bankrupt,
and not in its personal capacity

A handwritten signature in black ink, appearing to read "Robert J. Bougie", written over a horizontal line.

Robert J. Bougie, CA • CIRP
Senior Vice President