

District of Alberta  
Division of Calgary  
Court No. 25-094384  
Estate No. 25-094384

**TRUSTEE'S PRELIMINARY REPORT**  
**IN THE MATTER OF THE BANKRUPTCY OF**  
**GRANTECH ENGINEERING INTERNATIONAL INC.**

**Introduction**

On August 9, 2013, Grantech Engineering International Inc. ("Grantech" or the "Company") filed a Notice of Intention to Make a Proposal (the "NOI") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* (the "BIA"). Deloitte Restructuring Inc. ("Deloitte") consented to act as Trustee under the NOI (the "Proposal Trustee"). On August 26, 2013, the Proposal Trustee issued a Report of the Trustee on Material Adverse Change in Financial Circumstances in respect of Grantech, indicating that certain events had occurred since the filing of the NOI which could prevent Grantech from continuing its operations and from filing a proposal to its creditors.

Subsequently on September 9, 2013, Grantech was deemed to have made an assignment into bankruptcy and Deloitte was appointed as Trustee of the estate of the bankrupt (the "Trustee"). All documents related to the NOI and the subsequent bankruptcy can be found on Deloitte's website at [www.deloitte.ca](http://www.deloitte.ca) under the insolvency and restructuring link.

All amounts included herein are in Canadian dollars and have been rounded to the nearest \$100.

**Background**

Grantech was incorporated under the *Business Corporations Act of Alberta* on December 16, 2005. The Company provided specialized front-end engineering and project management consultancy services for projects related to unconventional gas plays. Mr. (Ronald) Grant Shomody ("RGS") was the sole director and shareholder of

Grantech and was president and CEO of the Company. RGS resigned as the director of Grantech effective September 9, 2013.

Grantech operated out of the same premises as two related companies, Neptune Gas Technologies Ltd. ("Neptune") and O&G Advisor Inc. ("OGA"). Neptune markets and licenses a composite reinforced pressure vessel technology used for compressed natural gas transport. OGA designed online engineering software, which was to be used for estimating capital and operating costs for facility infrastructure. RGS is also the sole director of Neptune and OGA.

Canadian Imperial Bank of Commerce ("CIBC") holds a general security agreement over all of the present and after-acquired personal property of Grantech, Neptune and OGA.

### **Possession & Preservation of Assets**

Following the date of bankruptcy, the Trustee attended Grantech's premises and completed the following steps to take possession of and preserve the Company's assets:

- The locks were changed and the security system was updated;
- Remote access to the Company's computer systems was restricted and a complete computer back-up was completed;
- An inventory of Grantech's assets was completed; and
- An inventory of the Company's books and records was completed and they were removed and stored at a secure location.

In contacting the Company's insurer, the Trustee determined that the Company's insurance policy had expired on July 2, 2013 and that Grantech had failed to renew their insurance coverage. The Trustee obtained alternate insurance coverage through Marsh Canada Limited (the "Marsh Insurance"), which includes property, commercial general liability and automobile coverage. The Marsh Insurance is effective as at the date of bankruptcy.

## **Preliminary Evaluation of Assets**

The Receiver has the following comments with respect to Grantech's assets:

### Cash on Hand

At the date of bankruptcy, the Company held \$12,400 in their bank account at TD Commercial Banking. These funds have been provided to the Trustee.

### Office Furniture and Equipment

Grantech had office furniture and equipment (the "Equipment"), which was estimated to have a net book value of approximately \$175,600. The Trustee solicited proposals for the outright purchase or on-site auction of the Equipment from both Century Services Inc. and Maynard's Industries Ltd. RGS also submitted a proposal to purchase selected pieces of the Equipment (collectively the "Proposals"). Based on their review of the Proposals, the Trustee will be seeking inspector approval with respect to the disposal of the Equipment.

### Accounts Receivable

As at the date of bankruptcy, the Company listed third-party accounts receivable of approximately \$103,800 (the "Receivables"). Of the total Receivables, approximately \$26,500 was estimated to be uncollectible. On September 11, 2013, the Trustee issued letters requesting payment of the Receivables. To date, approximately \$32,900 of the Receivables have been collected.

The Company has filed their GST returns for the period ended June 30, 2013 and has a net outstanding GST receivable in the amount of \$56,800.

### Related Party Accounts Receivable

Also, as at the date of bankruptcy, the Company listed a related-party account receivable from Neptune (the "Neptune Receivable"). The Trustee was provided with limited backup for several adjusting entries, which were made immediately prior to the bankruptcy, which resulted in the estimated value of the Neptune Receivable decreasing from approximately \$1,125,600 as of the date of the filing of the NOI, to \$264,800 as at

the date of bankruptcy. RGS has advised that certain of these adjustments related to prior-year tax planning, which had been done for both Grantech and Neptune. Based on discussions with RGS, the Neptune Receivable was estimated at \$729,200 on the Statement of Affairs. The Trustee is continuing to investigate both the Neptune Receivable and the validity of the adjusting entries.

Based on the information received to date by the Trustee, it appears that Neptune does not have sufficient funds to repay the Neptune Receivable; however, the Trustee understands that RGS has been seeking to sell his shares in Neptune to a third-party investor and that, should this sale be completed, Neptune may receive additional funds that may enable it to repay the Neptune Receivable. As noted above, CIBC holds a general security agreement over all of Neptune's present and after-acquired property; therefore, any claim by Grantech against Neptune would rank behind CIBC's secured claim.

#### Vehicles

At the date of bankruptcy, Grantech leased two vehicles (the "Leased Vehicles") through Nissan Finance Canada Inc. ("Nissan"). A preliminary review of the leases suggests that there is no equity in the Leased Vehicles. Subject to a review of the proof of claim and security documentation from Nissan, the Trustee anticipates that they will be disclaiming their interest in the Leased Vehicles.

Grantech also listed a third vehicle, which is owned outright and was estimated to have a re-sale value of approximately \$3,500. The Trustee will be seeking inspector approval to have Regal Auctions include the vehicle in their next scheduled auction.

#### Engineering Design Software

The Trustee is currently investigating options with respect to the disposal of engineering design software held by Grantech.

### Prepaid Expenses

As of the date of bankruptcy, the Company listed pre-paid expenses estimated at \$40,000. Any recovery of the pre-paid expenses is unlikely.

### Real Property Lease

Granttech operated out of leased premises located at 600, 906 12<sup>th</sup> Avenue SW in Calgary, AB. Following the date of bankruptcy, the Trustee reviewed Grantech's real property lease (the "Lease") to determine whether it may be possible to obtain a recovery for the estate by assigning the Lease to a third party. The Trustee met with two leasing agents, who both advised that the Lease did not provide a sufficiently discounted lease rate to facilitate an assignment. As such, following the sale of the office furniture and equipment, which will likely take approximately three to four weeks, the Trustee will be seeking to disclaim their interest in the Lease.

## **Analysis of Claims & Estimated Recoveries**

The following is a summary of Grantech's known creditors at the date of bankruptcy:

<b>Type of Claim*</b>	<b>Estimated Amount</b>
Deemed Trust/Contingent/Property Claims	\$ 27,600
Secured Claims	466,800
Preferred Unsecured Claims	18,500
Ordinary Unsecured Claims	2,405,600
Total Debt	<u>\$2,918,500</u>

\* Estimated amounts are based on the books and records of Grantech.

### Deemed Trust/ Contingent/ Property Claims

As of the date of bankruptcy, Canada Revenue Agency ("CRA") was estimated to have a net claim of \$13,000, which was comprised of outstanding payroll source deductions of \$80,500 and a GST refund of \$67,500 (the "Refund"). Following further review of the Company's records, it was determined that CRA's claim for outstanding source

deductions is only approximately \$10,700, which will be offset against the Refund and result in a net GST receivable of approximately \$56,800 being due to Grantech. We note that CRA has initiated an audit of Grantech's payroll and GST records (the "Audit") and that the amount due to CRA may vary based on the results of the Audit.

Grantech's employees are eligible to make claims under the Wage Earner Protection Program ("WEPP", the "WEPP Claims"). Subject to each employee submitting a valid proof of claim, Service Canada will issue payments to employees for unpaid wages, salaries, commission or compensation up to a maximum of \$3,646. Each employees' wage claim will be subrogated to Service Canada in the amount of the payment received pursuant to WEPP. Service Canada will then have security over the current assets of Grantech to the extent of \$2,000 per employee. The Trustee estimates that the secured amount payable to Service Canada in respect of the WEPP Claims will be approximately \$27,600.

#### Secured Claims

As noted above, CIBC holds a general security agreement over all of the Company's present and after-acquired personal property. As of the date of bankruptcy, CIBC's claim was estimated at \$358,700.

Also noted above, Grantech leased two vehicles through Nissan, who holds specific security against the Leased Vehicles, which have no equity for the estate.

#### Preferred Unsecured Creditors

Grantech's landlord has a preferred claim for rental arrears, which is estimated at \$18,500.

#### Ordinary Unsecured Creditors

The ordinary unsecured claims listed above of \$ 2,405,600 do not include any estimated shortfall in respect of the secured claims.

### **Projected Distributions**

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

### **Legal Proceedings**

The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the estate since the date of bankruptcy.

The Trustee does not intend to obtain independent legal counsel at this time.

### **Preferences and Transfers at Undervalue**

The Trustee is in possession of Grantech's books and records. 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.

### **Dual Appointment**

The Trustee may accept an appointment as agent for CIBC, Grantech's primary secured lender. Pursuant to Section 13.4(1) of the BIA, the Trustee may act in a dual capacity, provided they have obtained an independent legal opinion as to the validity and enforceability of CIBC's security. Should the Trustee seek to enter into an agency agreement with CIBC, they will proceed to obtain such a legal opinion.

**DELOITTE RESTRUCTURING INC.,**  
in its sole capacity as Trustee of the estate of  
Grantech Engineering International Inc. and not in  
its personal capacity.



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Jeff Keeble, CA•CIRP, CBV  
Senior Vice-President