

District of Alberta  
Division 01 - Edmonton  
Court No. 24-2169632  
Estate No. 24-2169632

## **TRUSTEE'S PRELIMINARY REPORT**

### **IN THE MATTER OF THE BANKRUPTCY OF CAPITAL STEEL INC.**

Formerly carrying on business in the City of Edmonton in the Province of Alberta

#### **Background**

On September 26<sup>th</sup>, 2016, Capital Steel Inc. (the "Company") filed an assignment in bankruptcy and Deloitte Restructuring Inc. (the "Trustee") was appointed Licensed Insolvency Trustee.

The Company is a private held company incorporated under the laws of Alberta and formerly operated as a supplier of structural steel. The Company operated from a location at 6208 72A Avenue, Edmonton, Alberta, until it ceased operations on September 21<sup>st</sup>, 2016 and subsequently filed the bankruptcy.

#### **Section A – Assets**

##### **Class I – Inventory**

Approximately \$270,000 (purchase price) of inventory was on hand at the date of bankruptcy. The Trustee is advised that most of this inventory was received from suppliers within the 30 day period preceding the date of bankruptcy. The Trustee has received demands under s. 81.1 of the Bankruptcy and Insolvency Act and is in the process of reviewing the demands and associated goods. Minimal, if any, realizations are expected from the remaining inventory as the Trustee is advised that it can only be sold as scrap steel at prices from \$0.03 to \$0.08 per pound before processing costs.

##### **Class II – Plant, Machinery and Equipment and Office Equipment**

###### **Tools and Equipment**

The Company's financial statements showed \$1,100 of tools and equipment owned by the Company. Given the nominal value of these tools, the trustee does not expect any net realizations from these assets.

The Trustee is advised that five cranes and certain other equipment may have been transferred from the Company to 1219358 Alberta Ltd. ("121"). The Trustee is in the process of investigating the transfer to determine if there is any realizable value.

##### **Class III – Building and Real Estate**

The Company owns no real estate and operates out of premises rented from 121.

##### **Class IV – Books and Records**

The books and records are located at the Company's office. The Trustee has obtained an electronic copy of the Company's QuickBooks file as well as documents relating to accounts receivable.

##### **Class V – Other Assets**

###### **Accounts Receivable**

Accounts receivable total approximately \$2,500,000, which the Trustee has signified for payment to the Trustee. Much of the receivables relate to progress billings for uncompleted jobs. Due to the

nature of construction receivables (deficiencies, warranties, disputes, liens, etc.), there is considerable uncertainty as to collection of these progress billings. The Trustee anticipates some collections from holdbacks on completed jobs and is in the process of analyzing collectability, but is unable to provide an estimate of recovery at this time.

### **Litigation Settlement**

Along with 121, the Company is a plaintiff in a lawsuit wherein in excess of \$1.5 million is claimed as a result of alleged oversights of undischarged secured claims relating to the purchase of real property by 121. It would appear that if the plaintiffs are successful with the lawsuit, most of the proceeds would be for the benefit of 121. The Trustee plans to monitor the lawsuit to ensure that the Company's interests are properly protected.

### **Section B – Conservatory and Protective Measures**

The Trustee has had discussions with the Company's bonding company to cooperate in maximizing recoveries on certain construction projects with a view to collecting progress billings that might otherwise be reduced by delay costs, liens by unpaid subcontractors and other events. The Trustee plans to preserve the Company's lien rights to effect realization if necessary.

### **Section C – Legal Proceedings**

The Trustee may require legal counsel to assist with filing liens as well as to advance its interest in the litigation settlement.

### **Section D – Provable Claims**

The Company's records estimate unsecured claims to be approximately \$1,600,000. There will be material adjustments (increase) to the total claims, mainly as a result of the uncertainty as to the Company's exposure for ceasing to continue work on certain construction projects and a guarantee of debt owing by 121 to its financier.

### **Section E – Secured Creditors**

Canada Revenue Agency is anticipated to have a deemed trust claim, in priority to all creditors, over the Company's property of approximately \$220,000 for unpaid payroll source deductions.

Employee wage claims secured to the Company's current assets by virtue of the super-priority provided by s. 81.3 of the BIA are expected to total approximately \$70,000. The Trustee is in the process of notifying the employees of the Wage Earner Protection Program ("WEPP").

Canadian Western Bank holds a General Security Agreement in the amount of approximately \$170,000 (plus costs) over the Company's assets and will be paid in priority to the unsecured creditors. The Trustee has obtained a legal opinion which states that this is a proper secured claim.

Business Development Bank of Canada ("BDC") holds a General Security Agreement over the Company's assets, and has filed a claim for approximately \$4.9 million wherein they value their security at \$200,000 and claim the remainder as an unsecured claim. The Trustee has not yet received a legal opinion as to the validity of BDC's security agreement.

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

Due to the uncertainty of realization of the Company's assets and the general difficulty in recovery of uncompleted construction job billings, there appears to be a real possibility that assets would be insufficient to fully cover the various priority creditors. The Trustee has therefore entered into an agreement with the Canada Revenue Agency to allow its reasonable fees and expenses to be paid ahead of the Crown's deemed trust claim to a maximum of \$50,000. In addition, the Trustee

is indemnified by Canadian Western Bank to the extent of \$25,000 to assist with realization of Canadian Western Bank's security.

For the reasons stated above, 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 previously provided valuation consultative services to the Company as a result of a shareholder dispute. The Trustee is of the view that their current role as Trustee in Bankruptcy does not result in a conflict.

Dated at Edmonton, this 14<sup>th</sup> day of October, 2016.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Licensed Insolvency Trustee of the estate of Capital Steel Inc., a bankrupt, and not in its personal capacity.



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Gordon Smith, CPA, CA, LIT, CBV, CFE  
Licensed Insolvency Trustee