

**SUPERIOR COURT OF PRINCE EDWARD ISLAND
(GENERAL SECTION)**

BETWEEN:

ROYAL BANK OF CANADA

APPLICANT

- and -

**DME LIMITED PARTNERSHIP, DME GENERAL PARTNER INC., ATLANTIC
SYSTEMS MANUFACTURING (2016) LTD., DME CANADA ACQUISITIONS INC. and
DME US HOLDCO INC.**

RESPONDENTS

**SECOND REPORT OF THE RECEIVER
FEBRUARY 14, 2019**

TABLE OF CONTENTS

1.0	INTRODUCTION.....	2
2.0	TERMS OF REFERENCE AND DISCLAIMER.....	3
3.0	SALE PROCESS.....	5
4.0	INTERIM RECEIPTS AND DISBURSEMENTS.....	8
5.0	RECEIVER'S ACTIVITIES.....	9
6.0	CONCLUSIONS AND RECOMMENDATIONS.....	10

INDEX TO APPENDICES

Confidential Appendix A Summary of the bids received for DME Charlottetown

Confidential Appendix B DME Charlottetown – Asset Purchase Agreement

1.0 INTRODUCTION

- 1.1 Pursuant to an order of the Supreme Court of Prince Edward Island (General Section) (the “**Court**”) made on November 26, 2018 (the “**Appointment Order**”), Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed receiver (the “**Receiver**”) of the assets, undertakings and properties of each of DME Limited Partnership, DME General Partner Inc., Atlantic Systems Manufacturing (2016) Ltd., DME Canada Acquisitions Inc. and DME US Holdco Inc. (collectively, the “**DME Group**”).
- 1.2 In connection with these receivership proceedings, the Receiver prepared and filed with this Court a first report dated January 18, 2019 and a supplemental report dated January 25, 2019 (together, the “**First Report**”). The First Report, Appointment Order and other Court-filed documents and notices issued in these receivership proceedings are available on the Receiver’s website at: <https://www.alvarezandmarsal.com/DMEGroup> (the “**Case Website**”).
- 1.3 On January 31, 2019, this Court issued an order (the “**Approval and Vesting Order**”), approving the Abbotsford Transaction and the ASM Transaction (each as defined in the First Report).
- 1.4 As described in the First Report, the DME Group operated through three divisions:
 - (a) the Charlottetown, PEI operations (“**DME Charlottetown**”) include the DME Group’s primary manufacturing and fabrication facilities, head office and senior management;

- (b) the Abbotsford, BC operations (the “**Abbotsford Plant**”) which consisted primarily of manufacturing and fabrication operations in leased premises; and
- (c) Atlantic Systems Manufacturing (2016) Ltd. (“**ASM**”) which was a small subsidiary that manufactured equipment for the seafood processing industry in leased premises.

1.5 The purpose of this report (the “**Second Report**”) is to:

- (a) provide this Court with an update on the Sale Process (defined and described in the First Report) including as it relates to the assets and business of DME Charlottetown;
- (b) describe the Receiver’s activities since the date of the First Report; and
- (c) support the Receiver’s motion for an order (the “**DME Sale Order**”), among other things:
 - i. approving this Second Report and the activities of the Receiver described herein;
 - ii. approving the DME Agreement (as defined and described below); and
 - iii. sealing Confidential Appendix A and Confidential Appendix B (each defined below) until further order of the Court.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Second Report, the Receiver has relied upon unaudited financial information, books and records and other documents provided by the former management

of the DME Group, and discussions with former management (collectively, the **"Information"**).

- 2.2 The Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Receiver has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (**"CASs"**) pursuant to the Chartered Professional Accountants Canada Handbook, and accordingly, the Receiver expresses no opinion or other form of assurance contemplated under CASs in respect of the Information.
- 2.3 This Second Report has been prepared for the use of this Court and the DME Group's stakeholders as general information relating to the DME Group and to assist the Court in making a determination of whether to approve the relief sought herein. Accordingly, the reader is cautioned that this Second Report may not be appropriate for any other purpose. The Receiver will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this Second Report different than the provisions of this paragraph.
- 2.4 The information contained in this Second Report is not intended to be relied upon by any investor or purchaser in any transaction with the Receiver.
- 2.5 Capitalized terms not defined in this Second Report are as defined in the First Report and the Appointment Order. Unless otherwise stated, all monetary amounts contained in this Second Report are expressed in Canadian dollars.

3.0 SALE PROCESS

3.1 In the First Report the Receiver provided: (a) an overview of the Sale Process; and (b) a summary of the Receiver's activities undertaken in connection with the Sale Process and the results thereof. The following provides an update on the Sale Process since the date of the First Report.

3.2 On January 31, 2019, this Court issued the Approval and Vesting Order approving the Abbotsford Transaction and the ASM Transaction.

Abbotsford Transaction

3.3 The Abbotsford Transaction was executed on January 17, 2019 in the form of an Auction and Liquidation Services Agreement with Infinity Asset Solutions Inc. and Joiner Sales Corp.

3.4 The liquidation is scheduled to commence via auction on February 27, 2019 and is expected to be completed shortly thereafter.

ASM Transaction

3.5 The ASM Transaction was executed on January 25, 2019 in the form of an asset purchase agreement with Eastern Fabricators Inc. ("EFI") pursuant to which EFI agreed to purchase the business and all of the assets of ASM on an "as is, where is" basis.

3.6 On January 31, 2019, with consent of the Receiver, EFI assigned all its right, title and interest in the ASM Transaction to a recently formed numbered company under the name 11223143 Canada Inc. (the "ASM Purchaser").

3.7 The ASM Transaction closed on February 1, 2019. Subsequent to closing, the Receiver delivered the Receiver's Certificate to the ASM Purchaser and filed same with the Court.

DME Charlottetown

3.8 As was noted in the First Report, the Receiver received four (4) bids for the assets and business of DME Charlottetown (the "**DME Charlottetown Bids**"). A summary of the DME Charlottetown Bids is attached hereto as **Confidential Appendix "A"**.

3.9 After analyzing these bids and consulting with RBC, the Receiver determined that the bid submitted by CIMC Enrie Tank and Process Ltd. ("**CIMC**") was superior to the other offers submitted for reasons including, but not limited to:

- (a) the value and structure of the purchase price;
- (b) the proposed timing to complete the transaction;
- (c) the future employment opportunities for the current and former employees of the DME Charlottetown business;
- (d) the limited conditionality, including that it was not subject to financing conditions or requirements; and
- (e) the limited amount of further due diligence requirements compared to certain of the other DME Charlottetown Bids.

3.10 On January 11, 2019, the Receiver and CIMC entered an exclusivity period to allow the Receiver and the bidder to negotiate a form of asset purchase agreement (the "**DME Agreement**") and to allow the bidder to complete its final due diligence.

- 3.11 During the period January 12 to February 13, 2019: (a) the Receiver facilitated additional information requests and meetings to assist CIMC in its final due diligence; and (b) the Receiver and CIMC negotiated and settled the DME Agreement.
- 3.12 On February 13, 2019, the Receiver and CIMC executed the DME Agreement, a summary of which is as follows:

Purchase Price	Paid on closing
Deposit	10% of the Purchase Price
Closing Date	On or around March 5, 2019, or a later date as agreed to by the Parties
Purchased Assets	<ul style="list-style-type: none"> a. the real properties located at 54 Hillstrom Avenue and 38 McCarville Street in Charlottetown, PEI; b. all machinery and equipment; c. all inventories; d. all prepaid expenses and deposits; e. the DME Group's intellectual property; f. the DME Group's "installed base" including any and all customer lists, engineering drawings and reference lists of delivered projects; g. the books and records; h. all warranty rights, relating to the Purchased Assets; i. the brewery projects that are listed as "Acquired Works-in-Progress" on the schedule attached to the APA; j. certain accounts receivables; and k. certain other assets as included in the APA.
Excluded Liabilities	Save and except for certain limited assumed liabilities, CIMC is not assuming any liabilities of the DME Group
Employees & Operations	<p>The Receiver understands that CIMC intends to:</p> <ul style="list-style-type: none"> a. continue the DME Charlottetown business as a going concern; b. continue the employment of the majority of current employees; and c. consider re-hiring a number of former employees.

3.13 The DME Agreement is attached hereto as **Confidential Appendix “B”**.

4.0 INTERIM RECEIPTS AND DISBURSEMENTS

4.1 A summary of the Receiver’s interim receipts and disbursements from November 26, 2018 to February 8, 2019 is provided below (all amounts are inclusive of HST where applicable):

Receipts & Disbursements	\$000's
Receipts	\$3,273
Disbursements	
Post-filing payroll	(563)
Rent, utilities & insurance	(386)
Raw materials & supplies	(68)
Other costs	(51)
Total Disbursements	(1,068)
Net subtotal	\$2,205
Pre-filing payroll & vacation pay	(1,070)
Professional fees	(875)
Appraisal fees	(49)
Net cash flow	\$211
Beginning Cash balance	-
Net cash flow	211
Receiver’s Certificates	930
Closing cash balance	\$1,141

4.2 The closing cash balance in the Receiver’s trust accounts as at February 8, 2019 was approximately \$1.1 million. Those funds, together with operating cash flow and net realizations anticipated to be generated from the Abbotsford Transaction and the DME

Agreement are forecast to provide sufficient liquidity through the remainder of the Proceedings.

- 4.3 As at the date of this Second Report, the Receiver has borrowed \$930,000 from RBC under Receiver's Certificates.

5.0 RECEIVER'S ACTIVITIES

- 5.1 In addition to the activities described above, the Receiver's activities since the commencement of these Proceedings have included the following:

- reviewing and commenting on Court materials filed in the context of the Proceedings;
- carrying out the Receiver's duties and responsibilities in accordance with the Appointment Order;
- attending at the DME Group's premises and assisting with continuing certain operations at DME Charlottetown;
- preparation of employee T4s and correspondence with former employees regarding same;
- collecting outstanding accounts receivable and other amounts owed to the DME Group;
- reviewing the DME Group's assets and operations in the United States to determine what actions, if any, might be necessary;

- assisting in communications with key stakeholders, including the DME Group's former employees, customers, landlords and suppliers;
- communicating with legal counsel to the Receiver on a number of receivership matters;
- maintaining the Case Website;
- preparing this Second Report and reviewing and commenting on materials in respect of this motion; and
- addressing all other matters pertaining to the Proceedings.

6.0 CONCLUSIONS AND RECOMMENDATIONS


6.1 The Receiver is of the view that the DME Agreement should be approved by the Court for the following reasons:

- (a) the Sale Process was carried out in accordance with the terms of the Court-approved Sale Process, and was commercially reasonable;
- (b) the duration of the Sale Process was sufficient to allow parties to perform diligence and submit offers on the assets and business of DME Charlottetown; and
- (c) further time spent marketing the business and assets related to DME Charlottetown would not result in a superior transaction.

- 6.2 The Receiver recommends that: (a) the summary of the DME Charlottetown Bids; and (b) the DME Agreement be filed with the Court on a confidential basis and remain sealed until further order of the Court, as disclosure of this commercially sensitive information and/or the identities of the other bidders and the terms of their bids could negatively affect any future Sale Process transactions if the DME Agreement does not close for any reason. The Receiver is not aware of any party that would be prejudiced if this information is sealed on the terms described above.
- 6.3 Based on the foregoing, the Receiver respectfully recommends that the Court make an order granting the relief sought in the Receiver's Notice of Motion and detailed in Section 1.5(c) of this Second Report.

All of which is respectfully submitted this 14th day of January 2019.

**Alvarez & Marsal Canada Inc., in its capacity as Receiver of
DME Limited Partnership, DME General Partner Inc., Atlantic Systems
Manufacturing (2016) Ltd., DME Canada Acquisitions Inc. and DME US Holdco
Inc., and not in its personal capacity**



Per: Alan J. Hutchens, Senior Vice-President