

IN THE MATTER OF THE BANKRUPTCY OF

HC PIPER MANUFACTURING INC.

**OF THE CITY OF CALGARY,
IN THE PROVINCE OF ALBERTA**

**REPORT ON THE TRUSTEE'S
PRELIMINARY ADMINISTRATION**

ESTATE NO. 25-2004629

Background

On June 11, 2015, HC Piper Manufacturing Inc. ("Piper" or the "Company") filed a voluntary assignment into bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* ("BIA") and Alvarez & Marsal Canada Inc. was appointed as trustee in bankruptcy ("A&M" or "Trustee") by the official receiver, subject to affirmation by the creditors of the trustee's appointment or substitution of another trustee by the creditors.

Piper was incorporated on August 9, 2006 in the Province of Alberta. Piper specialized in fabricating solvent and vapour recovery units, injection packages, pressure vessels and other products used in the energy industry.

The Company housed its operations in Calgary, Alberta at a leased premise with equipped shop and office space located at 10630 Enterprise Way SE, Calgary, AB (the "Facility").

The shareholders of the Company are HC Process System Inc. and Piper Fabrication (2003) Ltd.

Piper began to experience financial difficulty as a result of the significant decline in commodity prices in the energy sector. The result of these market conditions led to numerous project cancelations and difficulty sourcing new work. Piper found itself without liquidity and an inability to satisfy its outstanding obligations when they came due. As a result, the Company determined that it was insolvent and assigned itself into bankruptcy.

Conservatory & Protective Measures and Preliminary Evaluation of Assets

At the date of its appointment the Trustee secured and inventoried all material assets, which included cash on hand, machinery and equipment, office furniture and fixtures, and the project materials located at the Company's Facility. To the Trustee's knowledge, substantially all of the assets of Piper were located at their Facility. Any third parties known to be in possession of the assets of Piper have been notified of the bankruptcy and have agreed to release to the applicable assets.

Piper maintained two separate bank accounts held at different financial institutions. The Trustee has taken measures to ensure that the bank accounts of Piper have been frozen for "deposit only" and any balances in its accounts transferred to the Trustee's trust account. The Trustee has

received the requested bank funds from one of two financial institutions and is in the process of obtaining the frozen funds from the other. The Trustee has requested copies of Piper's bank statements from both institutions and has yet to receive them.

The Company has indicated on their Statement of Affairs ("SOA") that they are currently due approximately \$1,400,000 in accounts receivables (the "Receivables") from various parties. In order for the majority of these receivables to be deemed collectable numerous works currently in progress at the date of bankruptcy must be completed (valued on the Company's SOA at \$370,000). The Trustee has agreed to facilitate the completion of unfinished projects (the "Projects") in order to collect on the Receivables due to the Company.

The Trustee has entered into an agreement with one of the former customers of Piper to fund the completion of one of the Projects. The bankruptcy assignment automatically terminated the employee contracts of former Piper employees. Consequently, in order to facilitate the completion of the Project, the Trustee has hired back the applicable staff to complete the required fabrications to the Project. In addition, one of the secured creditors of Piper has informed the Trustee that there is an outstanding performance bond of \$937,000 with respect to this work and the completion of this project will avoid the calling of that bond.

In order to complete these Projects, the Trustee has entered into an agreement with the secured creditors of Piper and 1344861 (defined below). The agreement states that the secured creditors of Piper and 1344861 will postpone their security to the Trustee's administrative fees and expenses in order for the Trustee to complete the Projects.

The Trustee has taken possession and inventory of the machinery and other equipment of the Company. The assets consist mainly of fabrication equipment, welders, tools, vehicles, c-cans, other hand held tools, office furniture and various IT equipment (the "Equipment"). The Equipment is also located at Piper's Facility.

Piper currently Leases its Facility located at 10630 Enterprise Way SE which is owned by 1344861 Alberta Inc. ("1344861"). The Trustee will continue to occupy Piper's Facility in order to complete the Projects and pay its lease obligations on a temporary basis. In addition, the Trustee has been contacted by 1344861 and has been asked to act as Agent to 1344861 in order to facilitate the sale of the Facility upon completion of the Trustee's administration.

It is the Trustee's intention to market the assets described above on an enbloc basis. The Trustee has yet to obtain any appraisals of the assets described above and at this time is uncertain of recovery that may be available to the secured and unsecured creditors of Piper. Upon completion of the Projects, collection of outstanding Receivables due to the Company, and the marketing and sale of the Company's assets the Trustee will have a better understanding of the recoveries available to the creditors.

Books and Records

The Trustee has taken possession of the books and records of Piper.

Provable Claims and Secured Claim

At the date of bankruptcy, the Trustee was aware of approximately \$4.18 million of indebtedness owed to various creditors of Piper. In addition to this indebtedness, Business Development Canada ("BDC") is due approximately \$6,500,000 from 1344861 and HC Piper has been identified as a joint borrower. The Trustee has received a secured proof of claim from BDC with respect to this amount due to BDC.

The Trustee notes that the SOA of the Company indicates numerous creditors with amounts due to them of \$1.00 which is due to the fact that at the time of the filing of the assignment the Company was uncertain of the amounts that was due to the Creditor. The Trustee has received numerous claims from various creditors, including former employees, of Piper. The Trustee has reviewed the claims received and to date notes that the majority appear to have been filed correctly and are admissible to the bankruptcy estate.

The Trustee has discussed any potential deemed trust claims with Piper and there appears to be no potential deemed trust claims for unremitted source deductions; however, it is likely the Canada Revenue Agency will complete an audit of the payroll accounts of the Company to confirm this fact.

Legal Proceedings

No legal proceedings have been instituted by the Trustee to date.

The Trustee is not aware of any outstanding law suits initiated by or against HC Piper.

Reviewable Transactions and Preference Payments

The Personal Property Registry indicates that the two shareholders registered security immediately prior to the date of bankruptcy. The Trustee has not reviewed the registration, nature of transaction, or validity of the security and will be taking the proper steps to ensure the secured claims are valid prior to making any distributions to creditors.

Trustee has conducted a preliminary review of the general transactions and notes that two transactions occurred in September of 2014 between Piper and HC Processing Systems Inc. and Piper and Piper Fabrications 2013 Ltd. The Trustee will be further investigating these transactions and their nature.

Trustee's Intention to Act

A&M has not acted for any secured creditors, as set out in subsection 13.4(1.1) of the BIA.

A&M has accepted this engagement to act as Trustee, subject to affirmation by the creditors of the trustee's appointment at the first meeting of creditors. It is normal course that the Trustee is compensated based on its standard hourly rates for time hours actually ensured during the administration of the estate. A&M will be seeking approval from the creditors that its fees and costs will be paid on this basis.

Other Matters

Prior to its appointment as the Trustee, A&M was engaged by the Company to act as its financial advisor and provide advice on the financial matters of the Company.

Anticipated Realization and Projected Distribution

As stated above, the Trustee has agreed to facilitate the completion of Projects in order to collect the Receivables due to the Company and to reduce any potential claim on the performance bond.

The Trustee intends to immediately commence a marketing process for the assets of the Company. Until the completion of the Projects, collection of outstanding Receivables due to the Company, and the marketing and sale of the Company's assets the Trustee will be uncertain of the amount of recoveries to the estate and is uncertain whether there will be any distribution to unsecured creditors

Consequently, the Trustee is uncertain of any range of recovery the creditors can expect after associated costs of its administration.

ALVAREZ & MARSAL CANADA INC.

In its capacity as the Trustee in Bankruptcy of

HC Piper Manufacturing Inc.

and not in it's personal capacity

"Signed"

Tim Reid, CA
Managing Director