

IN THE MATTER OF THE BANKRUPTCY OF
1817870 Ontario Inc. (formerly known as AFI Hydro Inc.)
of the County of Brant, in the Province of Ontario

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

I BACKGROUND

1817870 Ontario Inc., formerly known as AFI Hydro Inc., (“**181**” or the “**Company**”) was a privately held corporation incorporated under the laws of the province of Ontario and was a supplier of engineered water control gates and related equipment used in the hydroelectric power generation industry. The Company operated out of leased facilities at 6 Adams Street in Paris, Ontario. The Company ceased operations prior to the date of bankruptcy.

The Company was originally founded in 1992 under the name of Allied Fabricators Inc., which was owned by the shareholders of 1101751 Ontario Inc. It commenced operations as a custom fabrication company, manufacturing equipment from customer drawings and specifications. Over time, the Company became a specialized fabricator for projects in the hydroelectric power generation and water control systems sector. The Company had expertise in the design, fabrication and installation of crane and hoisting equipment, intake gates, draft tube gates, sluice gates, trashracks and gate superstructures.

AFI Hydro Inc. was formed on May 4, 2010 by amalgamation of 2240922 Ontario Inc., Allied Fabricators Inc. and 1101751 Ontario Inc. into Allied Fabricators Inc., which subsequently changed its name to AFI Hydro Inc. on October 4, 2010. The Company once employed a highly skilled labour force in Paris, Ontario, with trades ranging from engineers, sheet metal workers, millwrights, fitters, iron workers, welders, structural plate fitters and machinists. The Company was the largest employer in Paris, Ontario employing approximately 100 individuals in 2013.

On February 24, 2014, on application by Bank of Montreal (together with Bank of Montreal Capital Corporation, “**BMO**” or the “**Lender**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order appointing Richter Advisory Group Inc. (“**Richter**”) as receiver (the “**Receiver**”) over all the assets, undertakings and properties of the Company.

The Receiver recognized immediately that the Company’s business was extremely unique and subject to rapid deterioration in value and goodwill if a sales process was not commenced immediately. The Receiver, with the powers authorized by the appointment Order immediately began soliciting interest from prospective parties on an expedited basis. This process resulted in a binding offer from Andritz Hydro AFI, Inc. (the “**Purchaser**”), in the form of an asset purchase agreement dated April 25, 2014 (the “**APA**”), to the Receiver for the purchase of substantially all of the assets of the Company.

On April 30, 2014, the Court issued an order (the “**Approval and Vesting Order**”) approving the sale transaction contemplated by the APA between the Receiver and the Purchaser, and vesting in the Purchaser the

Purchased Assets as defined in the APA. As contemplated by the Approval and Vesting Order, articles of amendment were filed changing the name of the Company from AFI to 1817870 Ontario Inc., effective as of May 15, 2014.

The Receiver filed three reports with the Court (the “**Receiver’s Reports**”), which among other things provided the Court with information relating to the receivership proceedings, described the Receiver’s activities and conduct, the results of the marketing and sales process undertaken by the Receiver, the sale transaction between the Receiver and the Purchaser, the proposed payment to BMO on account of its indebtedness with the Company, the Receiver’s receipts and disbursements and a summary of the security opinion prepared by Davies Ward Phillips & Vineberg LLP (“**Davies**”), independent counsel to the Receiver in this matter. Copies of the Receiver’s Reports and orders granted by the Court can be obtained from Richter’s website at <http://www.richter.ca/en/insolvency-cases/a/afi-hydro-inc>.

On July 30, 2014, the Court issued an order approving the application for bankruptcy made by BMO and appointing Richter as the trustee in bankruptcy (the “**Trustee**”), subject to affirmation by the creditors at the first meeting of creditors or substitution by another trustee by the creditors.

On August 7, 2014, notice of the first meeting of creditors, a list of creditors, a proof of claim form and a proxy were sent to all known creditors of the Company. On August 8, 2014, notice of the bankruptcy and the first meeting of creditors was published in the Globe and Mail (National Edition).

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”).

II CAUSES OF BANKRUPTCY AND FINANCIAL POSITION

The Company had incurred significant net losses of approximately \$7.5 million in fiscal 2012 and \$5.1 million in fiscal 2013. By February 2014, the losses had consumed a significant portion of the Company’s working capital and it was no longer able to pay its obligations as they became due.

The Trustee understands that the principal causes of the Company’s financial difficulties can be summarized as follows:

- (a) Significant cost overruns on the Lower Mattagami River Project were the primary reason for the Company's liquidity constraints. The Company signed this contract with Kiewit-Alarie Partnership in March 2012. Due to a variety of reasons, AFI had cost overruns of approximately \$6 million that they were not able to recover;
- (b) The above cost overruns contributed to the Company’s reduced liquidity and the Company subsequently failed to pay certain trade creditors. This resulted in certain trade creditors registering liens against the Company’s project sites as well as various trust claims, which prevented the release of funds from customers on the related projects; and
- (c) The Company's deteriorating financial position resulted in a breach of lending covenants and restrictions on operating line availability.

III FINANCIAL POSITION/ASSETS

As detailed in the Statement of Affairs, the Company did not have any realizable assets as at the date of bankruptcy as substantially all of its assets were sold pursuant to the APA, and any remaining assets are subject to the concurrent receivership proceedings. In addition, based on the amounts realized to date from the Company's assets, BMO, the Company's principal secured creditor, will likely suffer a significant shortfall on its security. Accordingly, it is unlikely that there will be any monies available to fund a distribution to unsecured creditors of the Company.

IV SECURED CREDITORS

The Company's primary secured lender is BMO who was owed approximately \$13.1 million as of the date of bankruptcy.

The Receiver obtained an independent legal opinion on the validity and enforceability of the security held by BMO as against the Company. As detailed in the Receiver's Reports, based on its review, and subject to the standard assumptions, qualifications and limitations contained therein, Davies is of the opinion that the Company has granted valid security interests to BMO against the assets of the Company, which have been properly perfected pursuant to the *Personal Property Security Act* (Ontario). The opinion also confirms that there are no registrations prior in time to those of BMO.

V SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

All of the Company's employees were terminated on February 24, 2014 and any amounts owed to the Company's former employees for wages and vacation pay were addressed in the receivership proceedings. The Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA.

VI PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there were no known preferred creditors as at the date of bankruptcy.

VII UNSECURED CREDITORS

The Company's Statement of Affairs indicates that there are approximately 450 unsecured creditors with claims totalling approximately \$10.3 million.

VIII PROVABLE CLAIMS

As at the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Number	Amount (\$)	Proxy in Favour of Trustee
Secured	1	6,870.40	0
Unsecured	23	1,901,178.46	7
TOTAL	24	1,908,048.86	7

IX PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Trustee has not performed a review of the Company's books and records, with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the Inspectors to be appointed at the first meeting of creditors.

X TRUSTEE'S FEES

The Trustee's fees and disbursements for statutory work in accordance with the provisions of the BIA will be funded by the applicant creditor, subject to taxation by the Court.

Further information relating to the receivership or bankruptcy proceeding may be obtained from our website at <http://www.richter.ca/en/insolvency-cases/a/afi-hydro-inc>.

Dated at Toronto, Ontario, this 15th day of August, 2014.

RICHTER ADVISORY GROUP INC.,
in its capacity as Trustee of the estate of
1817870 Ontario Inc. (formerly known as AFI Hydro Inc.),
and not in its personal capacity



Adam Sherman, MBA, CIRP