

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-045124-134
ESTATE NO.: 41-1779027

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

IN THE MATTER OF THE PROPOSAL OF:

Romatec Inc, a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at 9485 TransCanada Highway, Ville Saint-Laurent (Quebec) H4S 1V3.

Debtor

- and -

Richter Advisory Group Inc.

Trustee

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL
(Sections 50(5) and 50(10)(b) of the *Bankruptcy and Insolvency Act* ("Act"))**

The purpose of the First Meeting of Creditors is to consider the Proposal filed on January 9, 2014 (hereinafter referred to as the "Proposal") by Romatec Inc. (hereinafter referred to as the "Debtor" or "Romatec").

Pursuant to Sections 50(5) and 50(10)(b) of the *Bankruptcy and Insolvency Act* (hereinafter referred to as the "Act" or "BIA"), and in order to assist the Creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Proposal.

We caution the reader that we have neither conducted an audit nor a verification of the books and records of the Debtor. Consequently, we cannot render an opinion as to the accuracy of the information contained therein. The information discussed herein emanates from the books and records of the Debtor, as well as from discussions with the Management of the Debtor.

INTRODUCTION

On August 16, 2013, the Debtor filed a Notice of Intention to make a Proposal to its Creditors ("NOI") in accordance with the Act. On August 23, 2013, a notice was sent by regular mail to all Creditors of the Debtor, as identified by it, which included a copy of the Debtor's NOI.

On September 13, 2013, October 24, 2013 and December 16, 2013, the Debtor obtained an extension of delay for the filing of a proposal respectively until October 31, 2013, December 16, 2013 and January 30, 2014, to file a proposal and to continue the development and implementation of its restructuring plan initiated since the filing of the NOI.

On January 9, 2014, the Debtor filed a Proposal to its Creditors. We have enclosed herewith the Proposal made by the Debtor to its Creditors, a proof of claim form, a voting form, a proxy and a notice indicating the place and time of the Creditors' meeting to address the Proposal.

This report summarizes the relevant information and key elements that may assist the Creditors in evaluating the Debtor's affairs and the Proposal. The report is presented under the following sections:

- I. Overview of the Company
- II. Causes of insolvency
- III. Restructuring measures
- IV. Financial Information
- V. Proposal
- VI. Estimated distribution to creditors
- VII. Conclusion and recommendation

I. OVERVIEW OF THE COMPANY

Romatec has been involved in the distribution of industrial valves, pumps and instrumentation products and solutions for the manufacturing and process industry for over 50 years, including sectors such as oil and gas, agriculture, mining, industrial and water and wastewater industries.

Romatec's head office and main warehouse is located in Montreal (Quebec). The Debtor has sales offices and warehouses in Jonquière (Quebec), Sarnia (Ontario), Calgary (Alberta), Bakersfield (California) and Edmonton (Alberta).

II. CAUSES OF INSOLVENCY

The Debtor attributes its financial difficulties to the following:

- Increased competition in the valves and pumps distribution market, affecting negatively the gross margin;
- Overhead costs structure not aligned with the reduced sales volume;
- General economic downturn affecting primarily the manufacturing and industrial sectors.

The above factors resulted in significant losses for the last two (2) fiscal years and year-to-date period ended July 31, 2013.

III. RESTRUCTURING MEASURES

During the NOI period, Romatec developed and implemented a restructuring plan, which includes:

- Resiliation of two (2) commercial leases, as well as several equipment rental contracts;
- Consolidation of inventory management and shipping functions in the Montreal main warehouse;
- Reduction of operating expenses and overhead costs, including several headcount reductions and optimization of the information technology system;
- Reduction of inventory level, including the liquidation of slow moving goods.

According to the Debtor's Management, the above restructuring measures represent estimated annual savings of operating and overhead costs totaling approximately \$1 million.

IV. FINANCIAL INFORMATION

The following financial data was extracted either from the books and records of the Debtor, the unaudited financial statements or from discussions held with Management. This information is submitted solely to assist the reader in assessing the current financial position of the Debtor.

The Trustee makes no representation or warranty as to the accuracy of said financial information.

A) Operating results

Romatec Inc. Operating results			
(In \$ CDN)	9-month period ended July 31,		
	2013 Unaudited	F2012 Unaudited	F2011 Unaudited
Revenue	\$ 8 937 898	\$ 16 432 333	\$ 14 153 616
Gross margin	<u>3 174 282</u> 35,51%	<u>5 295 131</u> 32,22%	<u>4 936 677</u> 34,88%
Overhead expenses	3 537 578	5 568 757	5 258 390
Income Tax expense (income)	-	-	(3 944)
Net losses	<u>\$ (363 297)</u>	<u>\$ (273 626)</u>	<u>\$ (317 769)</u>

The above table shows the poor financial performance of the Company for the last two (2) fiscal years and the most recent year-to-date period (the latest internal financial statements available).

B) Assets

The Debtor's statement of affairs reflects the following as at December 6, 2013, based on information provided by Management:

Romatec Inc. - Assets As at December 6, 2013	
(In \$ CDN)	Book value
Accounts receivable	\$ 1 186 689
Inventory	689 432
Prepays	130 502
Capital assets	283 193
	<u>\$ 2 289 816</u>

Accounts receivable (\$1,186K)

Aged Accounts Receivable					
(In \$ CDN)					
	<u>Total</u>	<u>0-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>90+ days</u>
Accounts receivable	\$ 1 186 689	\$ 633 908	\$ 316 556	\$ 107 234	\$ 128 991
	100%	53%	27%	9%	11%

The accounts receivable amount to \$1,186K and are related to 469 customers in Canada and the United States. The accounts receivable are subject to a first rank in favour of TD Bank of Canada, the Debtor's secured operating lender.

Inventory (\$689K)

The inventory is primarily comprised of finished goods located in Canada and in the USA. Management has taken a reserve of approximately \$260K to account for slow moving and obsolete items. The inventories are subject to a first rank in favour of TD Bank of Canada, the Debtor's secured operating lender.

Prepays (\$130K)

Prepays as at December 6, 2013, amounted to \$130K and included deposits made for rent and utilities.

Capital Assets (\$283K)

The Debtor's fixed assets consist of office equipment, leasehold improvements, computer equipment and rolling stock.

C) Liabilities

The Debtor has provided us with a list of its creditors. Notices have been sent to the known creditors. However, at the present date, we are unable to determine if the Debtor's records agree with those of its creditors. Upon reception of the proofs of claim, we will review them with representatives of the Debtor and deal with any discrepancies for purposes of collocation of claims.

Romatec Inc. - Liabilities	
As at December 6, 2013	
(In \$ CDN)	
Secured Creditors	\$ 958 740
Preferred Creditors	-
Ordinary Creditors	2 545 487
	<u>\$ 3 504 227</u>

The secured creditors are primarily comprised of the TD Bank for the operating line of credit secured by all assets for a total of \$888K. The balance (\$70K) includes various secured creditors that have specific liens on movable assets.

Based on the information provided by the Debtor, there are no known preferred creditors.

Ordinary Creditors are based on the Debtor's books and records, and include trade suppliers, sales taxes and accrued liabilities.

We caution that these amounts may change as proofs of claims are filed.

V. PROPOSAL

A) Summary

We note that the following is only a summary of the Terms of the Proposal and creditors are advised to read the Proposal for complete details of the Terms of the Proposal.

The Terms of the Proposal provide that the ordinary creditors shall be paid by three (3) instalments made by the Debtor to the Trustee in a total amount of \$300K, to be distributed by the Trustee as follows:

- i. The first \$100,000 installment shall be disbursed 15 days following the approval of the Proposal by the Court;
- ii. The second installment of \$100,000 on June 30, 2014; and
- iii. The third installment of \$100,000 on December 15, 2014.

B) Funding

The Proposal will be financed by a \$100K investment from Management as well as with the operating cash flow from Romatec.

C) Amounts to be paid as a priority

According to the Terms of the Proposal, the following amounts must be paid in priority:

- Crown Claims, which shall be limited to the claims of Her Majesty in right of Canada or a province described in subsection 60(1.1) of the Act that were outstanding on the Date of the Proposal, shall be paid in full, within six (6) months of the approval of the Proposal by the Court, or as may otherwise be arranged with the Crown;
- Employees Claims, if any, will be paid in full, immediately after the approval by the Court of the Proposal. (It should be noted that with respect to all of the employees creditors who are currently employed by the Debtor, all of their employees' claims have been or shall have been paid in full by the Debtor to such employees in the normal course of business.);
- Professional Fees shall be paid in full by the Debtor in the normal course of business;

- Secured Creditors, if any, shall be paid in accordance with existing contracts, or as may otherwise be arranged with the Secured Creditors. For greater certainty, the Proposal is not addressed to the Secured Creditors and they shall not be bound by the Proposal in respect of their Secured Claim;
- The claims arising in respect of goods supplied, services rendered or other consideration given to the Debtor subsequent to the Date of the Proposal, including (without limitation) salaries and other compensation of employees, if any, shall be paid in full by the Debtor in the normal course of business, and on regular trade terms;
- Preferred Claims shall be paid, without interest or penalty, in full, in priority to all claims of Ordinary Unsecured Creditors upon approval of the Proposal by the Court or as may be otherwise arranged with the Preferred Creditors or in accordance with clause 2 hereof if such Preferred Claim is also an Employee's Claim.

D) Amounts to be Disbursed to Ordinary Unsecured Creditors

The Ordinary Unsecured Claims shall be paid from the \$300,000.00 remittance made by the Debtor to the Trustee (the "Cash Consideration"), to be distributed by the Trustee, on a pro rata basis amongst the Ordinary Unsecured Creditors.

The Cash Consideration shall be payable by the Debtor to the Trustee in the following manner:

- i. The lesser of \$500 or the amount of its ordinary Unsecured Claim, payable out of the Cash Consideration shall be disbursed 15 days following the approval of the Proposal by the Court. With respect to the balance of its ordinary Unsecured claim, if any, its pro rata share of the balance of the Cash Consideration shall be paid in three (3) installments, the first \$100,000 installment shall be disbursed 15 days following the approval of the Proposal by the Court;
- ii. The second installment of \$100,000 on June 30, 2014; and
- iii. The third installment of \$100,000 on December 15, 2014.

E) Other

The Proposal provides that the statutory terms of Sections 91 to 101 of the Act, and similar civil Code of Quebec provisions, shall not apply as permitted by Section 101.1 of the Act.

The Proposal will constitute a compromise of all claims against directors and will operate as a full and complete discharge in favor of such directors with respect to such claims.

The proposal shall be deemed to be accepted by the creditors if, and only if, the Unsecured Creditors vote for the acceptance of the Proposal by a majority in number and two thirds in value of the Unsecured Creditors present, personally or by proxy, at the meeting and voting on the resolution.

It is the responsibility of the Creditors to review and analyse the Proposal submitted by the Debtor.

VI. ESTIMATED DISTRIBUTION TO CREDITORS

In the event that the Creditors reject the Proposal, the Debtor will automatically be bankrupt and the net proceeds from the liquidation of the assets (after payment of the Trustee's fees and expenses) will be distributed to the Creditors in the order provided for under the Act. The following information is to inform the Creditors on the estimate as to the distribution to Creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

A) Proposal

Based on Management's representations and the aggregate amount of the Unsecured Claims, as reflected in the Debtor's statement of affairs, at the present time, we estimate that the funds of \$300K available for distribution to Ordinary Unsecured Creditors would represent an estimated recovery of 12% of Unsecured Claims, as follows:

Romatec - Proposal Estimated Distribution			
(In \$ CDN)	Number of creditors	% of distribution	
Dividend paid by Romatec			\$ 300 000
First \$500 dividend			
Claims equal or less that \$500	62	100%	(10 203)
Claims greater than \$500	108	2,2%	<u>(54 000)</u>
Remaining dividend to be distributed to Unsecured Creditors			<u>\$ 235 797</u>
Unsecured claims, net of the first \$500 dividend (1) (2)	108	9,5%	<u>\$ 2 481 284</u>
Estimated total percentage of distribution to Unsecured Creditors			12%
(1) Claim amounts are based on the liabilities included in the statement of affairs filed on January 9, 2014.			
(2) The Unsecured Claims, including the first \$500 payment, total \$2,545,487.			

B) Bankruptcy

In a bankruptcy scenario, based on the value of the assets and liabilities, as reflected in the statement of affairs, we estimate that the distribution would possibly be as follows:

Romatec - Bankruptcy - Estimated Distribution			
(In \$ CDN)	Book Value	Estimated realization values (1)	
Accounts receivable	\$ 1 186 689	\$ 583 692	49%
Inventory	689 432	73 711	11%
Prepaid expenses/deposits	130 502	-	0%
Fixed assets	283 193	79 323	28% (2)
	<u>2 289 816</u>		
Estimated Gross realization		<u>736 726</u>	32%
		(191 117)	
Less Estimated priority claims		(100 000)	
Less Estimated professional fees			
Estimated net realization value (Available for Secured Creditors)		<u>\$ 445 609</u>	
		958 740	
Secured Creditors (3)			
Projected deficit for Secured Creditors *		<u>\$ (513 132)</u>	
Distribution to Unsecured Creditors		<u>\$ NIL</u>	

* Before taking into account safeguard measures and occupancy costs.
 (1) Estimated values of assets as per values declared in the statement of affairs filed on January 9, 2014.
 (2) Value of vehicles subject to lien (\$70 881).
 (3) The Unsecured Claims, including the first \$500 payment, total \$2,545,487.

The above analysis indicates that the estimated realization values of the Debtor's assets are not sufficient to reimburse in full the secured creditors' claims.

C) Other considerations

The following are additional elements to be considered:

- Sections 95 to 101 of the Act will not be applicable to the Proposal. The remedies pursuant to these provisions relate to the recovery of certain amounts under reviewable transactions, preferential treatments and asset disposals.

• **Ongoing Operations**

Approval of the Proposal will avoid a bankruptcy and will be of benefit to the following constituents:

- In excess of twenty-five (25) employees will have continued employment;
- Merchandise suppliers and service providers will have a going concern entity with which to continue doing business.

VII. CONCLUSION AND RECOMMENDATION

After having estimated the amount that may be available for the Creditors in the context of a bankruptcy, we are of the opinion that the present Proposal is more advantageous to the Creditors.

It is estimated that the Proposal would provide the Creditors with a dividend of approximately \$0.12 on the dollar to the Unsecured Creditors, compared to an estimated dividend of nil in the event of a bankruptcy.

For these reasons, the Trustee recommends the approval of the Proposal.

Dated at Montreal, Province of Quebec, this 10th day of January 2014.

A handwritten signature in cursive script that reads "Richter Advisory Group Inc.".

Richter Advisory Group Inc., Trustee
Stephane De Broux, CPA, CA, CIRP