

**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-045124-134
ESTATE NO.: 41-1968640**

**SUPERIOR COURT
(Commercial Division)
*Bankruptcy and Insolvency Act***

**IN THE MATTER OF THE BANKRUPTCY
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 Hwy
Saint-Laurent QC H4S 1V3

Debtor

- and -

Richter Advisory Group Inc.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On August 16, 2013, due to a general economic downturn and increased competition, Romatec (the "Company" or "Debtor") filed a Notice of Intention ("NOI") in accordance with the *Bankruptcy and Insolvency Act* ("Act") and Richter was appointed Trustee thereunder.

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

On January 10, 2014, the Debtor filed a proposal to its creditors ("Proposal"). The Proposal was accepted by the statutory majority of creditors at the creditors' meeting held on January 30, 2014.

The Motion for the Approval of the Proposal was approved by the Court on February 17, 2014.

The terms of the Proposal provided that the ordinary creditors were to be paid in three (3) installments made by the Debtor for a total amount of \$300K.

The first \$100,000 installment under the Proposal was paid by Romatec to the Trustee on April 14, 2014 and a dividend was issued.

On June 25, 2014, the Company requested that the second and third installments be postponed to November 30, 2014 and April 30, 2015 respectively, due to the continued financial difficulties and lack of liquidities experienced by the Debtor. This first postponement of the Proposal's dividend was accepted by the Inspectors appointed under the terms of the Proposal.

On December 2, 2014, the Company requested that the second and third installments be further postponed to March 30, 2015 and September 30, 2015, respectively, as the liquidity crisis continued to prevent the Debtor from funding the dividend and post-filing overhead expenses. This second postponement was again accepted by the Inspectors appointed under the terms of the Proposal.

During the NOI period, as part of Romatec's restructuring process, management, with the assistance of Richter, approached potential interested parties to seek their interest for an equity investment and/or financing opportunity.

On February 6, 2015, Valtrol Equipment Limited ("Valtrol") made a binding offer to purchase all the assets of the Debtor ("Valtrol Offer").

On February 13, 2015, the Debtor accepted the Valtrol Offer ("Transaction") as time was of the essence due to the increasing lack of liquidities preventing the Debtor from funding the ongoing expenses, including payroll and rent.

On February 26, 2015, an Order was rendered by Maître Chantal Flamand of the Superior Court (Commercial Division) appointing Richter as Receiver ("Receiver"). The Order also approved the Transaction.

On March 6, 2015, the Company made a Voluntary Assignment in Bankruptcy under s. 49 of the BIA. On the same date, Richter was appointed Trustee to the Bankrupt Estate of the Company ("Trustee").

The purpose of this report is to inform all the interested parties of our preliminary administration and our findings.

The information contained in this report has been prepared based on the books and records of the Company and from discussions with the Company's management. The books and records have not been audited or verified by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.

I- INTRODUCTION

Romatec has been engaged 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 had sales offices and warehouses in Sarnia (Ontario), Calgary (Alberta), Bakersfield (California) and Edmonton (Alberta).

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.

II- 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.

Romatec Inc Operating results				
(In S CDN)	F2014 Unaudited	F2013 Unaudited	F2012 Unaudited	F2011 Unaudited
Revenue	\$ 6,603,480	\$ 10,977,891	\$ 16,008,213	\$ 14,153,616
Gross margin	<u>2,512,944</u> 38.05%	<u>3,540,272</u> 32.25%	<u>5,244,055</u> 32.76%	<u>4,936,677</u> 34.88%
Overhead expenses	3,099,372	4,820,842	5,823,618	5,258,390
Income Tax expense (income)	-	-	17,557	(3,944)
Net loss	<u>\$ (586,428)</u>	<u>\$ (1,280,570)</u>	<u>\$ (597,120)</u>	<u>\$ (317,769)</u>

The above table shows the poor financial performance of the Company for the last four (4) fiscal years.

III- STATEMENT OF AFFAIRS

As per the BIA, a representative of the Debtor is required to inform the Trustee, by way of a declaration, of the Debtor's assets and liabilities as at the date of the bankruptcy ("Statement of Affairs"). The following summarizes the information contained in the Debtor's Statement of Affairs.

Romatec Inc. Statement of affairs As at March 6, 2015 (In \$ CDN)		Book value
Assets		
Accounts receivable	\$	-
Inventory		-
Prepays		-
Capital assets		18 091
		<u>18 091</u>
Liabilities		
Secured creditors		64 090
Preferred creditors		-
Unsecured creditors		3 443 408
		<u>3 507 498</u>
Deficiency	\$	<u>(3 489 407)</u>

A) Assets

The only asset of the Debtor as at March 6, 2015 was a car for which there was an unpaid balance of \$26,090.

The Trustee was recently informed that the car had been sold and the related secured creditor was paid in full. Therefore, at the date of this report, the Debtor has no asset.

B) Liabilities

It is important to note that the exact amount of the Debtor's liabilities as at March 6, 2015, will only be determined once all proofs of claim have been submitted by the creditors and have been compiled and analyzed by the Trustee. Nonetheless, the following is a summary of the Company's liabilities based upon preliminary information.

- **Secured creditors**

As per the Statement of Affairs, the Company's secured creditors are as follows:

Employees - \$38,000 (security interest over the Company's short term assets by virtue of s. 81.3 of the BIA). Amount based on the maximum secured portion per employee (\$2,000) to be adjusted based on the actual amounts owed.

St-Laurent Automotive Group – \$26,090 (security on one car owed by the Debtor). As mentioned above, this secured creditor was paid in full.

- **Preferred creditors**

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

- **Unsecured creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$3.4 million. As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to the ordinary unsecured creditors.

IV- SUMMARY OF THE PRELIMINARY ADMINISTRATION

A) Books and records, security and protective measures

As all the assets were sold before the bankruptcy, as described above, therefore no security or protective measures had to be taken.

Richter made an agreement with Valtrol in order to maintain the books and records of the Debtor for future reference.

The Trustee opened a trust bank account and also redirects the Company's mail to Richter's office.

B) Reviewable transactions and preferential payments

The Trustee has not performed a review of the payments to creditors preceding the date of the bankruptcy which may be reviewable, preferential or undervalue as defined within the meaning of the BIA. It is the intention of the Trustee to discuss this matter with the Inspectors to be appointed at the first meeting of the creditors. On the instructions of the Inspectors, the Trustee may or may not perform the aforementioned review.

V- ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

As of the date hereof, there appears to be a significant deficit/shortfall for the secured creditors. As such, it is the Trustee's view that no dividends will be available to the preferred (if any) and ordinary creditors.

DATED AT MONTREAL, this 18th day of March 2015

Richter Advisory Group Inc.
Trustee

A handwritten signature in blue ink, appearing to read "Stephane De Broux", with a long horizontal flourish extending to the right.

Stephane De Broux, CPA, CA, CIRP
Administrator of the Bankruptcy