

**COMPREHENSIVE CASE II**  
**RECEIVERSHIPS CQP 2018**

**1) What are the key risks with this engagement?**

- Once construction season starts, the equipment will be deployed
- Getting control of the equipment would become a challenge
- Easily movable, some equipment is not plated so it would be hard to identify until you get close enough to look for registration numbers
- Would job sites refuse to release equipment to a Receiver
- Would employee's take off with the equipment if they are not paid or at least hide it until paid
- Employees could damage equipment, thereby reducing the value
- If you cannot complete projects, would that affect holdbacks and AR
- Need to get a complete list of equipment
- Need to complete PPSA
- Need to confirm insurance on equipment
- Is all equipment in one location currently?
- Will the owner cooperate?

**2) Do you think suggesting your role would be to monitor the Company and its progress on completion of various contracts, provide reasons for and against?**

- Advantages of a monitor
  - Can convert holdbacks into cash to reduce lender indebtedness
  - Fees and expenses are likely lower than a receiver
  - Still have equipment to liquidate if there is a shortfall
  - Could liquidate assets to help reduce indebtedness, likely hire
- Disadvantages of a monitor
  - No exact way to determine they are making money on projects
  - Can the company get you the reporting you need in a timely manner?
  - Risk the customer will not pay
  - Bank to upfront operating costs until they can convert WIP into progress billings and payment, 60 to 90 days likely
  - Will equipment get damaged or stolen
  - Could you keep other unsecured creditors for seizing assets are filing liens

**3) What would you advise the lawyers and BMO? What would the next steps be?**

- NOI has no affect against the bank
- Have the lawyers advise the trustee of the banks position
- Seek a court date to appoint a receiver
- Consider interim receiver to help keep an eye on equipment
- Company will be deemed bankrupt, will reverse HST priority

**4) What are the initial procedures you would need to take as a receiver?**

- changing of the locks of the rented location
- get a team on the ground to locate equipment
- meet with owner to confirm location of equipment

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- parties taking equipment should have a copy of the court order
- contacting the utilities, alarm and insurance providers to give notice of the receivership and to arrange for continued service
- meeting with management to discuss the plans for the receivership administration, including determining which employees should be retained to assist the Receiver with collection of accounts receivable, sales of inventory, help in moving equipment from job sites, updating and maintaining of accounting records, preparation of payroll and tax returns, and other administrative duties
- collecting relevant information from the books and records of the Company
- Locate contracts and progress draw reports
- reviewing books and records to identify priority claims and any third-party claims, including demands for repossession of goods pursuant to section 81.1 of the Bankruptcy and Insolvency Act (the "BIA")
- responding to creditor inquiries
- preparing and issuing the prescribed notices and statements of the Receiver pursuant to ss. 245(1) and 246(1) of the BIA, which were sent to the creditors
- Prepare Notice of Receiver, to trustee and OSB
- Need to file WEPPA claims within 30 days, must register
- Obtain books and records
- Obtain valuation of equipment
- Reach out for a couple of auction proposals
- Send redirection letters for AR
- Obtain payroll records for current year and prior year
- Contact landlord

**5) In reaction to the above, what procedures/measures would you take?**

- Freeze the new bank account and obtain history of transactions since the account was opened
- Review transactions to ensure in the ordinary course of business
- Have a meeting with the employees once you determine whether you are completing projects or not, if not completing advise they are terminated
- Ensure we have proper contact info to complete WEPP
- Reach out to bonding company and obtain details of lien claims and project status
- Take a backup of the quick books and load it onto your system
- Investigate how up to date the records are
- Get copy of property sale documents to confirm closing, determine if we can be off site before closing
- If we cannot be off site before closing, advise purchaser, court order does allow you to occupy, need to set rent amount
- Need to get details of assets sold and proof funds deposited into the company
- Confirm the value received is reasonable, consult with auction firm
- If value not reasonable, company is bankrupt, maybe consider having the trustee reverse the transactions

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- Consider having the bookkeeper run the t-4's and ROE's from quick books
- Arrange for insurance with receiver as loss payee
- Obtain all contracts and project draw reports
- Hank is likely willing to cooperate because of personal guarantee
- Agree to cover bookkeepers time as it will likely save you time

**6) Provide an estimated security position based on the above.**

- See attached

SAMPLE

**Hanks Ecavation Equipment Inc.**  
**Estimated Security Position**  
(in CDN \$'s)

**Assets comprising the security:**

	01-Jan-18	Projected Realization	
		Low	High
Cash	\$ -	\$ 85,000	\$ 85,000
Accounts Receivable	1,250,000	120,000	195,000
Inventory	150,000	10,000	20,000
Fixed assets	300,000	700,000	900,000
	<u>\$ 1,700,000</u>	<u>915,000</u>	<u>1,200,000</u>

**Less: Prior ranking claims:**

Canada Revenue Agency - HST *	-	-
Canada Revenue Agency - DAS	(25,000)	(25,000)
Wage Earner Protection Priority	(52,000)	(52,000)
<u>On-going operating expenses</u>		
Auctioneer costs	(105,000)	(135,000)
Rent	-	-
Utilities/Insurance	(5,000)	(2,500)
	<u>(187,000)</u>	<u>(214,500)</u>

**Net Proceeds (Deficiency) Available**

**728,000      985,500**

**Advances by Bank/Secured Creditor**

Operating lines (CDN & USD)	(1,200,000)	(1,200,000)
Legal Fees	(12,500)	(12,500)
Professional fees	(45,000)	(45,000)
	<u>(1,257,500)</u>	<u>(1,257,500)</u>

**Estimated Surplus/(Shortfall)**

**before realization on Personal**

**Guarantees**

**\$ (529,500)    \$ (272,000)**

**Say**

**\$ (530,000)    \$ (270,000)**