

REPORT OF TRUSTEE'S PRELIMINARY ADMINISTRATION

**IN THE MATTER OF THE BANKRUPTCY OF
CHRIS MECHANICAL SERVICES LTD.**

**of the City of Calgary
in the Province of Alberta**

August 16, 2016

BACKGROUND

Chris Mechanical Services Ltd. (“**CMS**” or the “**Company**”), Duffy Building Corporations, and Duffy Holdings Ltd. (collectively “**CMS Group**”) is a machine shop focusing on well servicing machinery for the oil and gas industry around the world. The company designs and builds oil field service equipment including flush-by and coil tubing units.

Chris Mechanical Services Ltd. is a parent company and has two subsidiaries, Duffy Building Corporation (“**Duffy Building**”) and Duffy Holdings Ltd. (“**Duffy Holdings**”).

- (a) CMS is the operating entity for CMS Group. CMS owns all of the CMS Group’s assets except for the real estate;
- (b) Duffy Building owns the real estate and has no employees.
- (c) Duffy Holdings has no assets, no liabilities and no employees.

On December 18, 2015 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all the assets, undertakings and properties (the “**Property**”) of CMS Group pursuant to an Order of the Honourable Justice Jones.

The Receiver has been operating CMS since the Date of Appointment in an effort to sell the Assets. On March 24, 2016 the Receiver was granted an Auction Approval and Vesting Order (“**Auction Approval**”) for the sale of the Company’s Assets by way of auction. The auction was successful ran by Hilco Acquisitions Canada ULC (“**Hilco**”) on April 14, 2016. As at the date of this report, the Receiver has run a sales process for the real estate owned by Duffy Building but has not yet closed a sale.

The Trustee notes that only Chris Mechanical Services Ltd. has been placed into bankruptcy, as such Duffy Building and Duffy Holdings and their assets remain under the control of the Receiver.

CAUSES OF INSOLVENCY

Our review of the Company’s affairs indicate the following factors contributed to its insolvency:

1. Building of New Office and Shop

- a. In 2011 the Company built and moved into a new office and shop located at 10403 - 50th St SE Calgary, AB. The use of funds to build the new office and shop space forced the Company into financial difficulty and the Company had to refinance its previous loan with the Royal Bank of Canada and enter into a new higher interest loan agreement with Century Services Corp. (“**Century**”).

2. Inability to Sell Completed Products

- a. The Company was unable to complete sales for finished products which lead to significant reduction in the Company’s revenues such that it was no longer able to meet its liabilities as they became due. The Company became insolvent quicker than what would otherwise have been the case due to the higher debt obligations resulting from the new loan with Century.

3. Global Decline in Oil and Gas Prices

- a. The decline in global oil and gas prices resulting in reduction in the demand for the products and services provided by the CMS Group which further hindered its ability to meet its liabilities.

APPOINTMENT OF TRUSTEE IN BANKRUPTCY

The Trustee has performed the following duties as required under the BIA:

- Obtained control of the Company's available books and records;
- Notified the Company's bank and requested the closure of its account; and
- Attended to the various statutory notice requirements.

SECTION A – Summary of Assets

As detailed in the Statement of Affairs, as at July 14, 2016 the Company had no assets.

SECTION B

1. Conservatory and protective measures

There is no property requiring conservatory or protective measures as the Company had no assets at the date of bankruptcy.

2. Carrying on Business

The Company has ceased operations; as such there are no current operations for the Trustee to carry on.

SECTION C: Legal Proceedings

The Trustee is not aware of any legal proceedings.

SECTION D: Provable Claims

As at the date of this report, the Trustee has received 8 claims from unsecured creditors in the amount of \$32,754.17.

SECTION E: Secured Creditors

As at the date of this report, the Trustee has received 1 claim from secured creditors totaling \$5,415,372.63.

SECTION F: Security for unpaid wages – Wage Earner Protection Program Act (“WEPPA”) Claims

At the Date of Appointment employees of CMS were owed a total of \$213,723.69 in unpaid wages under WEPPA. During the Receivership the Receiver completed the WEPP claims process, which resulted in a total of \$60,042.80 being distributed to 18 employees. Accordingly there is \$153,682.89 owed to employees for unpaid wages. The Trustee believes these unpaid amounts to be unsecured claims against the estate.

SECTION G: Anticipated realization and projected distribution

As the Company has no assets there is not likely to be any realization or distribution of funds by the Trustee to creditors.

SECTION H: Preferences and transfers at undervalues

The Trustee is conducting a review of the Company’s bank records for the twelve month period prior to the date of bankruptcy for the purposes of identifying any payments that may be considered preferential under the BIA.

SECTION I: Third Party Deposits & Guarantees

The Trustee was provided a third party guarantee from FTI Consulting Canada Inc. in its capacity as Receiver of CMS.

SECTION J: Other Matters

There are no other matters.

Further information relating to the bankruptcy proceeding may be obtained from the Trustee’s website at <http://cfcanada.fticonsulting.com/chrismechanicalservices/>.

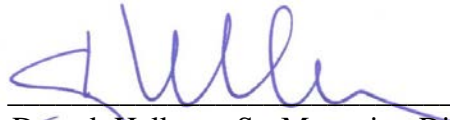
All of which is respectfully submitted this 16th day of August, 2016.

Yours truly,

FTI Consulting Canada Inc.

In its capacity as Trustee of
Chris Mechanical Services Ltd.
and not in its personal capacity

Per: _____



Deryck Helkaa – Sr. Managing Director

