

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
YELLOW ARROW OILTOOLS LTD.**

TRUSTEE'S REPORT TO CREDITORS

May 10, 2021

BACKGROUND AND INSOLVENCY EVENTS

Yellow Arrow Oiltools Ltd. (the "**Company**" or "**Yellow Arrow**") provided engineering services in the manufacturing, design, and customization of drilling motors and downhole drilling equipment to the oil and gas industry in Edmonton, Alberta, Canada (the "**Edmonton Division**") and Conroe, Texas, United States of America (the "**Conroe Division**"). The Company operated from leased premises in Edmonton, Alberta and Conroe, Texas.

The Company's directors are Ms. Luise Cioceanu and Mr. Nicu Cioceanu ("**Cioceanu**"). The Company was incorporated in Alberta on May 31, 2005.

We understand the Company ran into financial difficulties during the downturn in the oil and gas economy, and unexpected health issues of key personnel resulting in significant operational challenges and difficulty meeting their financial obligations as they become due.

On April 23, 2021, the Company made an assignment into bankruptcy. The Bowra Group Inc. was appointed Licensed Insolvency Trustee (the "**Trustee**") of the Company.

FINANCIAL SITUATION

As a result of the insolvency, we understand the Company does not have externally compiled financial statements for the fiscal year ending August 31, 2020.

Table 1 summarizes the management prepared draft income statements for the fiscal year ending August 31, 2020 and for the stub period ending April 22, 2021.

	Year Ended August 31, 2020 (000's)	Period Ended April 22, 2021 (000's)
Revenue	1,225	88
Cost of sales	1,780	3,106
	<u>(555)</u>	<u>(3,017)</u>
Operating and admin expenses	1,207	222
Other income (expenses)	273	(3,727)
Net Income (loss)	<u>(1,489)</u>	<u>(6,966)</u>

The Companies incurred net losses of \$1,489,000 and \$6,966,000 in the fiscal years 2020 and 2019, respectively.

Table 2 summarizes the management prepared balance sheet as at August 31, 2020 and April 22, 2021.

	As at August 31, 2020 (000's)	As at April 22, 2021 (000's)
Cash	(122)	29
Accounts receivable	198	2
Inventory	3,807	-
Prepays and deposits	35	12
Due from related party	-	9,796
	3,918	9,839
Capital assets	4,521	-
	8,440	9,839
Bank indebtedness	406	26
Accounts payable and accrued liabilities	665	312
Other current liabilities	(166)	(162)
	905	175
Long-term debt	3,138	3,238
	4,042	3,413
Shareholder's equity (deficit)	4,397	6,425
	8,440	9,839

CONSERVATORY AND PROTECTIVE MEASURES

The Trustee understands the Conroe Division terminated its employees and generally ceased operations in January 2020. The machinery and equipment related to the Conroe Division was sold in two separate auctions hosted in November 2020 and February 2021. The proceeds from the sale were remitted to BMO Bank of Montreal (“**BMO**”) pursuant to their security. The Conroe Division vacated the leased premises in February 2021.

The Trustee understands the Edmonton Division terminated its employees and generally ceased operations in November 2020. All employees were terminated prior to the date of the Bankruptcy. In December 2020, the Company sold all the machinery and equipment related to the Edmonton Division. The proceeds from the sale were remitted to BMO pursuant to their security. The Edmonton Division vacated the leased premises in December 2020.

We understand the Company prepared and provided all 2020 T4s and ROEs to the former employees prior to the date of Bankruptcy. The Trustee has prepared and provided a former employee with their claim in respect to unpaid severance pay under the *Wage Earner Protection Program Act*, SC 2005, c 47, s1.

Based on correspondence with the directors and review of the books and records, the Trustee is not aware of any other assets of the Company that would be available to the bankrupt estate.

The Trustee sent correspondence to BMO requesting the Company's bank accounts be frozen and any funds remaining in the accounts be remitted to the Trustee. BMO has confirmed the accounts have been frozen and there are no funds remaining in the account.

BOOKS AND RECORDS

The Trustee has taken possession of certain books and records of the Company, including financial statements, bank statements, employee records, and general ledgers.

The Trustee is in the process of obtaining access to the tax records of the Company through the authorized representative process of the Canada Revenue Agency (“**CRA**”). Delays in this process have occurred due to recent security threats to the CRA.

SECURED CREDITORS

Table 3 provides a listing of the secured claims, according to the books and records of the Company and the Personal Property Registry.

Creditor	Assets Secured	Table 3 Estimated Claim (\$000's)
BMO Bank of Montreal	All present and after-acquired property; Specific Serial Numbered Equipment/Vehicles	374
Canada Revenue Agency	Deemed Trust - all present and after- acquired property	Unknown
MCP Torquelease Ltd.	Specific Serial Numbered Equipment	Unknown
Wage Earner Protection Program	Current assets	Unknown

BMO holds a registered general security agreement granting them a priority charge over all the assets and after acquired property of the Company. As at the date of Bankruptcy, the Company is indebted to BMO in the approximate amount of \$374,000.

The Wage Earner Protection Program (“**WEPP**”) has security for unpaid wages, vacation pay, and severance pay up to a maximum of \$2,000 over current assets. The Trustee has provided a former employee with an individual calculation of their entitlement under WEPP. The employee is entitled to a maximum of \$7,578 for 2021. To the extent there is a distribution to the unsecured creditors the first \$7,578 of any individual employee claim will be paid to WEPP and the balance to the employee. Any amounts owing to employees may be subject to a WEPP claim rank ahead of all creditors, except the deemed trust claim of CRA, if any.

It is unknown if there are any amounts owing to the CRA for payroll source deductions. Any amounts owing to the CRA would be considered a deemed trust claim which would rank ahead of all creditors.

UNSECURED CREDITORS

We are aware of 13 unsecured creditors owed approximately \$893,704 based on the Company’s books and records. Table 4 provides the major unsecured creditors.

Creditor	Table 4 Estimated Claim (\$000's)
Baker & McKenzie LLP	354
C.S. Design Ltd.	263
1584266 Alberta Ltd.	183
BMO Bank of Montreal (CEBA)	40
Tammy J. McRae Tax Assessor	36
Astralloy Steel Products	9

It is unknown if there are any amounts owed to CRA for GST arrears. CRA has not filed a proof of claim as of the date of this report and as such the amount of their current claim, if any, is unknown. CRA’s claim for unpaid GST would rank as an unsecured claim in the bankruptcy.

IDENTIFICATION AND VALUATION OF ASSETS

The Trustee noted that in prior tax years the Company was the recipient of the Scientific Research and Experimental Development (“**SR&ED**”) investment tax credit. The directors of the Company have confirmed that no SR&ED credit is available for the periods ending August 31, 2020 and April 23, 2021 due to the winddown of the Company.

Based on discussions with management and review of the books and records there are no assets available for realization by the Trustee. Accordingly, we estimate there will be no recovery to the unsecured creditors.

LEGAL ACTIONS

The Trustee is aware of the following legal action:

Laszlo Mihaly (“**Mihaly**”) and Cioceanu are equal shareholders of 1584266 Alberta Ltd. (“**158**”). 158 is the registered owner of a two-tenant industrial property located in Edmonton, Alberta. Yellow Arrow and Turner’s Machine Ltd. (“**Turner’s**”) were tenants of the property owned by 158. Mihaly and Turner’s have filed a Statement of Claim against Cioceanu and Yellow Arrow for breaches of duty and contract, wrongful conduct, unjust enrichment, and damages related to the tenancy. As a result of the bankruptcy, the claim against Yellow Arrow is stayed.

REVIEW OF RECORDS & CONDUCT OF THE DEBTOR

The Trustee has reviewed the books and records of the Company that were made available, including bank statements and general ledgers for the period of May 1, 2020 to April 22, 2021. The Trustee did not identify any transactions that could be regarded as preference payments or transfers undervalue in accordance with the *Bankruptcy and Insolvency Act*.

CONCLUSION

We estimate the secured creditors will suffer a substantial shortfall on their claims. Therefore, the Trustee does not believe there will be any recovery to the unsecured creditors.

The Bowra Group Inc.

Licensed Insolvency Trustee of Yellow Arrow Oiltools Ltd.

Per:

A handwritten signature in black ink, appearing to read "Keele", written over a faint circular stamp.

Kristin Gray, CPA, CA, CIRP, LIT