

**CANADA  
PROVINCE OF NEWFOUNDLAND AND LABRADOR**

Division No: 01-NEWFOUNDLAND AND LABRADOR  
Court No: 20522  
Estate No: 51-2124877

IN THE MATTER OF THE PROPOSAL OF

**BARACO-ATLANTIC CORP.**

a legal person duly incorporated according to law and  
having its head office and principal place of business at  
5 Hallet Crescent, St. John's, NL A1B 4C4

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

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**TO THE CREDITORS**

On May 18, 2016, BARACO-ATLANTIC CORP. (the "Company" or "Debtor") filed a Notice of Intention to Make a Proposal ("Notice of Intention") in accordance with section 50.4(1) of the *Bankruptcy and Insolvency Act* ("Act") and MNP Ltd. was appointed Trustee. A copy of the Notice of Intention was filed with the Official Receiver in the locality of the Debtor.

Within ten (10) days of the filing of the Notice of Intention, the Trustee filed with the Official Receiver a report of the reasonableness of the cash-flow statement, a report by the Debtor on the cash-flow statement as well as a projected cash-flow statement for the period from May 18, 2016 to July 31, 2016.

Starting June 16, 2016, the Debtor filed four (4) successive motions and accordingly obtained Court orders extending the time for filing a proposal through November 7, 2016.

On November 7, 2016, the Company filed a proposal under Part III, Division I of the Act. (hereafter the "Proposal").

We include to the present report a copy of the Proposal, a condensed statement of affairs of the Company, a list of creditors, a form of Proof of Claim / Proxy and a Voting Letter.

The meeting of creditors will take place on November 28, 2016 at 3:00 P.M. at the Fairfield Inn & Suites by Marriott, located at 199 Kenmount Road, St-John's, in order to consider the Proposal and to vote on its acceptance or refusal.

It is important to note that all creditors having proven their claim before the opening of the meeting will be eligible to vote at the meeting. Creditors who do not attend the meeting will be eligible to vote using the voting letter annexed herewith. The voting letter must be accompanied by a duly completed proof of claim.

Representative of a creditor designated to attend the meeting to vote, should submit a proxy duly completed, identifying the individual authorized to vote on behalf of the creditor.

We caution that we have not conducted an audit or an investigation of the books and accounting records of the Debtor and consequently, we cannot render an opinion with respect to the accuracy or completeness of the information contained herein. We have obtained the unaudited information contained in this report from the books and accounting records available and from discussions that we have held with the management of the Debtor.

## **1. HISTORICAL INFORMATION AND CAUSES OF DIFFICULTY**

Founded on August 27, 2010 pursuant to the *Corporation Act of Newfoundland*, the Company principal business activity is commercial construction and contracting services.

The Company is part of the Future Group of Companies (the "Group") held by Mr. Craig Williams who is acting as the CEO of all the companies in the Group.

The Company suffered heavy losses in 2015, largely due to the following factors:

- Poor costing and planning of certain major projects;
- Overall poor economic conditions in Newfoundland;
- Margins were not sufficient to cover Company's overhead structure;
- Increased market competition by larger players led to a price war which reduced the Company's profitability on public projects.

In order to bid on certain public projects, the Company was required to provide a Performance Bond and a Labour and Material Payment Bond. Aviva Insurance Company of Canada (hereafter "Aviva") and Jevco Insurance Company (hereafter "Jevco") provided the required bonds.

Starting in May 2016, the Company has stopped bidding on new projects and is winding down its operations in order to maximise the value of its assets and minimize the impacts to its various creditors.

## 2. SUMMARY OF THE PROPOSAL

We would like to point out that, in order for the Proposal to be binding on the creditors, the following conditions must be met:

- A majority (50 %+ ) in number of the creditors eligible to vote must vote in favor of the Proposal, and
- At least two thirds (2/3) in value of the creditors must vote in favor of the Proposal;
- After the above required majority is attained, the Proposal must be ratified by the Court.

The Proposal provides the following:

- Proposal expenses shall be paid in priority to all other creditors' claims;
- Claims of secured creditors will be paid according to existing agreements;
- The amounts due to Her Majesty in right of Canada or a province, that were outstanding on the date of the filing of the Notice of Intention, and that could be subject to a demand under subsection 224(1.2) of the *Income Tax Act* or under substantially similar provisions of provincial legislation and in accordance with section 60 (1.1) of the Act, shall be paid in full, within six months after the Ratification;
- Claims of preferred creditors shall be paid in priority to all ordinary claims;
- Any excess amount from the realization of assets will be paid to the ordinary creditors after all of the above claims are paid in full.

For more details, please consult the full proposal that is annexed herein.

### 3. FINANCIAL INFORMATION

The financial data below was extracted from the statutory balance sheets filed on November 7, 2016 with the Official Receiver, the books and records of the Debtor, the unaudited financial statements and the discussions held with the directors of the Company. This information is provided solely to assist the reader in assessing the current financial information of the Debtor. The Trustee makes no representation and cannot ensure that the financial information is accurate.

**Baraco-Atlantic Corp.**  
Summarized Income Statements  
(Unaudited – In Cdn\$)

	10 months 31-Oct-16	12 months 31-Dec-15	12 months 31-Dec-14
Revenue	\$ 1,365,266	\$ 13,155,604	\$ 16,027,729
Cost of sales	<u>1,375,943</u>	<u>13,510,240</u>	<u>15,015,904</u>
<b>Gross Profit</b>	<b><u>(10,677)</u></b>	<b><u>(354,636)</u></b>	<b><u>1,011,825</u></b>
	-1%	-3%	6%
Salaries and wages	257,895	724,970	470,371
Administration expenses	192,620	317,622	216,747
Amortization	6,544	14,421	52,163
Financial expenses	<u>12,494</u>	<u>9,313</u>	<u>12,186</u>
	<u>469,553</u>	<u>1,066,326</u>	<u>751,467</u>
<b>Income (loss) from operations</b>	<b><u>(480,230)</u></b>	<b><u>(1,420,962)</u></b>	<b><u>260,358</u></b>
Gain (loss) from disposal of preproperty	<u>-</u>	<u>-</u>	<u>(4,358)</u>
<b>Earnings (Loss) Before Income Taxes</b>	<b><u>\$ (480,230)</u></b>	<b><u>\$ (1,420,962)</u></b>	<b><u>\$ 256,000</u></b>

The Company's operating losses over the last twenty-two (22) months were in excess \$1.9 million for the reasons mentioned previously in this report.

**4. IDENTIFICATION AND EVALUATION OF ASSETS**

**Baraco-Atlantic Corp.**

Assets

As at November 7, 2016

(Unaudited – In Cdn\$)

	Book value	
	\$	Note
Accounts Receivables	1,570,121	1
Intercompany Receivable	448,716	2
Equipment	<u>12,871</u>	3
	<u><u>2,031,708</u></u>	

**Note 1:** The accounts receivable are made up of amounts owing on seven (7) projects. All projects are complete except for certain deficiencies. The bonding company, with the assistance of the Company's management, will ensure that the deficiencies are corrected. The surety agreement with the bonding company provides that certain suppliers can file a bond claim with the bonding company for any unpaid amounts. All amounts paid by the bonding company are secured against the Company's accounts receivable. As presented in the following table, to date, the subtrades have files \$1,614,312 of claims against the bonding company of which \$365,988 are currently in dispute.

Any surplus, after the bond claims are settled and paid, will be remitted to the Company for the benefit of the ordinary creditors.

The following table presents the details of projects that make up the accounts receivable:

**Baraco-Atlantic Corp.**

Detail of the account receivables

As at November 7, 2016

(Unaudited – In Cdn\$)

	A	B	C	D	
	Book value	Bonded Claims - Subtrade	Disputed portion of Bond Claims	Net Bond Claims	Net
				(B-C)	(A-D)
	\$	\$	\$	\$	\$
Paradise	671,662	894,875	-	894,875	(223,213)
AC&C	313,392	281,069	223,511	57,558	255,834
Roncalli	253,120	-	-	-	253,120
Baie Verte	238,456	256,111	59,203	196,908	41,548
Wabana	48,138	79,047	-	79,047	(30,909)
KMK	39,703	-	-	-	39,703
Kenmount Road Stora	-	66,519	60,756	5,763	(5,763)
Core Science	-	27,877	18,303	9,574	(9,574)
Whitebourne	5,650	8,815	4,215	4,600	1,050
	<u>1,570,121</u>	<u>1,614,312</u>	<u>365,988</u>	<u>1,248,324</u>	<u>321,797</u>

**Note 2:** The intercompany receivable is made of amounts owing from 10804 Newfoundland Limited, the Debtor's holding company. These advances were recently reduced to the current book balance of 448,716 \$ after the holding company supported some of the restructuring cost and operating deficit.

The probability of collecting any significant amount from the holding company will depend on the ability to limit any exposure from cross collateral claims.

**Note 3:** the Company's equipment is made up of office furniture and tools with a book value of \$12,871.

## 5. LIABILITIES

Liabilities indicated below are based on the books and records the Debtor, the Statement of Affairs as well as information provided by management.

### Baraco-Atlantic Corp.

Creditors

As at November 7, 2016

(Unaudited – In Cdn\$)

	Note	Declared by Company	As of date of this report	Security
<b>Priority debts</b>		\$	\$	
DAS		-	-	
Potential employee claims		-	-	
		<u>-</u>	<u>-</u>	
<b>Secured creditors</b>				
BMO	1	162,000	162,409	All of present and after acquired assets
Aviva	2	1,300,000	1,614,412	All of present and after acquired assets
Blue Chip Leasing	3	-	-	Equipment in a lease contract
TD Bank	4	-	-	All of present and after acquired assets
Ford credit	5	-	-	Motor Vehicle
Moskowitz Capital	6	-	-	All of present and after acquired assets
		<u>1,462,000</u>	<u>1,776,821</u>	
<b>Ordinary Creditors</b>				
Non-related parties		<u>1,381,823</u>	<u>1,381,823</u>	

### i. **Priority debt**

Crown claims (DAS) if any, will be paid in full 6 months after the Court's approval of the Proposal. At the time of this report's preparation, the Debtor's management is not aware of any crown claims.

Potential employee's claims, if any, will be paid in full at the time of the Court's approval of the Proposal. At the time of this report's preparation, the Debtor's management is not aware of any preferred claims.

**ii. Secured Creditors**

Below is a summary of the various security registered on the assets of the Debtor.

**Note 1:** General collateral by the BMO to secure debt of the company. PPSA registration 11576832 made on 09/12/2013.

**Note 2:** General collateral by AVIVA to secure performance and payment bonds. PPSA registration 13915590 on 05/13/2016. Amount estimated based on bond claims to date.

**Note 3:** Collateral on equipment in a lease contract Blue Chip Leasing. PPSA registration 12202511 on 06/08/2014.

**Note 4:** General collateral by the TD Bank to secure debt of affiliated companies. PPSA registration 11576832 on 09/12/2013. No claim has yet been made by this creditor since the affiliated companies are still operating.

**Note 5:** Three (3) motor vehicles secured by the following PPSA registrations with Ford Credit (9339030 on 23/08/2011) (9992948 on 18/05/2012) (9769725 on 27/02/2012). These vehicles were returned to the secured lender. Any shortfall will be an ordinary claim.

**Note 6:** General collateral by Moskowitz Capital Mortgage Fund II Inc to secure debt of affiliated companies. PPSA registration 13100847 on 15/07/2015. No claim has yet been made by this creditor since the affiliated companies are still operating.

We remind the reader that the amounts owed to creditors by the Debtor will be confirmed following the filing of proofs of claim by creditors.

**iii. Ordinary Creditors**

The ordinary creditors consist mainly of trade creditors including sub-trades who have not filed a claim with the bonding company.

The exact amount owing to ordinary creditors will not be known until the creditors submit their proof of claim.



## 6. ESTIMATED DIVIDENDS TO CREDITORS

In the event that the creditors reject the Proposal, the Debtor will be automatically bankrupt and the net proceeds from subsequent liquidation of the assets, net of realisation costs, will be distributed by the Trustee to the creditors according to their respective rights and rank.

The following analysis compares the dividend available to creditors in a Proposal scenario and in a Bankruptcy scenario.

**Baraco-Atlantic Corp.**  
Analysis of Liquidation Scenarios  
(Unaudited – In Cdn\$)

	PROPOSAL	
	LOW	HIGH
A) Estimated realizable value of assets	\$ 2,031,708	\$ 2,031,708
B) Less - cost to complete	50,000	150,000
C) Less - Reserve on intercompany receivable	100,000	-
D) Less - Secured claims	1,776,821	1,410,833
E) Less - Proposal expenses	<u>50,000</u>	<u>50,000</u>
<b>F) Amount available for ordinary claims (A-B -C-D-E )</b>	<b><u>\$ 54,887</u></b>	<b><u>\$ 420,875</u></b>
G) Ordinary debt eligible for dividends	<u>\$ 1,381,823</u>	<u>\$ 1,747,811</u>
<b>Estimated dividends (G/F)</b>	<b><u>4%</u></b>	<b><u>24%</u></b>

An analysis of the liquidation scenarios is briefly commented on below:

### A) **BANKRUPTCY SCENARIO**

The bankruptcy of the Debtor would likely impact the collectability of the accounts receivable and likely result in no dividend for the unsecured creditors.

### B) **SCENARIO OF A PROPOSAL**

The quantum of the dividend to ordinary creditors will largely depend on the settlement of the bond claims filed by the sub-trades. As previously mentioned, they are more than \$365,000 bond claims filed by the sub-trade that are being disputed by the bonding company. Also, the collectability of the intercompany receivable will impact the dividend.

As presented above, the dividend to ordinary creditors may range between 4% and 24% in a proposal scenario

**7. CONDUCT OF THE INSOLVENT DEBTOR**

The Trustee has not carried out a review of preferential payments for the period preceding the filing of the Notice of Intention. The Trustee wishes to clarify that according to para. 7 of the Proposal, a review of preferential payments will not be conducted. The Trustee is not aware of any breach of conduct by the Debtor.

**8. RECOMMENDATIONS**

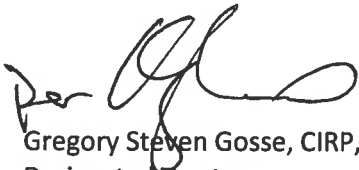
Should the Proposal be accepted by the required majority, the ordinary creditors could receive a dividend ranging between 4% and 24% of their claim. The Trustee is of the opinion that the creditors will benefit from the acceptance of the Proposal considering that in a bankruptcy the creditors will receive no dividend.

The Trustee recommends the acceptance of the Proposal.

Respectfully submitted, this 21<sup>st</sup> day of November 2016.

**MNP LTD.**

In its capacity of Trustee in the Proposal of  
Baraco-Atlantic Corp.



Gregory Steven Gosse, CIRP, LIT  
Designated Trustee