



MEYERS NORRIS PENNY LIMITED

CANADA
Province of Ontario

COURT NO. 32-1265673
ESTATE NO. 32-1265673

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF **BAY CITY STEEL COMPANY LIMITED** OF THE CITY OF BURLINGTON IN THE PROVINCE OF ONTARIO

On September 24, 2009, Bay City Steel Company Limited (the "Company") filed an assignment pursuant to the *Bankruptcy and Insolvency Act (Canada)* (the "BIA") and Meyers Norris Penny Limited ("MNP") was appointed the Trustee. Subsequently, on the same day MNP was appointed the Receiver and Manager (the "Receiver") of the property and undertakings of the Company pursuant to a General Security Agreement entered into between the Company and The Toronto-Dominion Bank.

The Company was incorporated in Ontario. The Company was a steel plate manufacturer, located in the City of Burlington, Ontario.

The Trustee understands that the bankruptcy was the result of declining gross margins, failure of a number of the Company's customers and an inventory shortfall.

On September 28, 2009, the Notice to Creditors advising of the bankruptcy and the First Meeting of Creditors, a list of creditors and a proof of claim form, along with a proxy, were sent to all known creditors of the Company. Pursuant to subsection 102(4) of the BIA, the Notice of Bankruptcy was published in the October 1, 2009, edition of the Globe & Mail newspaper.

The information contained in this report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited 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.

ASSETS

The assets of the Company and their realizable value according to its Statement of Affairs are summarized as follows (the "Assets"):

- Inventory \$200,000
- Accounts receivable \$1,680,000
- Capital assets consisting of machinery, office furniture and equipment \$1,285,000
- Vehicles \$40,000
- Loans receivable \$102,000
- Leasehold improvements \$20,000



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On September 24, 2009, subsequent to the filing of the assignment in bankruptcy, the Receiver took possession of the Company's Assets. The Receiver advertised for solicitation of offers in the October 1, 2009 edition of the Globe & Mail. The final date to submit an offer is October 16, 2009,

BOOKS AND RECORDS

The Trustee has in its possession certain records of the Company. The following is a revenue summary from the Company's financial statements for the fiscal years ended December 31, 2007, 2008 and the period January to August 31, 2009:

	<u>2007</u>	<u>2008</u>	<u>January 1 to August 31, 2009</u>
Revenue	\$ 9,208,615	\$ 10,191,239	\$ 5,796,103

We are unable to determine the Company's net income as a result of a write down of the Company's inventory by approximately \$5.0 million in September 2009. We believe that the adjustment may have impacted a number of prior years and therefore are unable to determine the impact to the above reporting periods.

CONSERVATORY AND PROTECTIVE MEASURES

The Receiver has undertaken the following measures:

- Changed the locks and limited access to the Company's premises
- Ensured that the alarm system is fully operational at the premises of the Company
- Arranged the continuance of the Company's insurance coverage
- Arranged for the continuance of electricity, gas and the alarm system

LEGAL PROCEEDINGS

Prior to accepting the appointment as Receiver, Meyers Norris Penny Limited requested the law firm of Fogler, Rubinoff LLP ("FG") to provide an opinion on the validity of the security agreement of The Toronto-Dominion Bank FR has provided a written opinion that the security of The Toronto-Dominion Bank is valid and enforceable against the Trustee.

No other legal procedures have been initiated by the Trustee prior to the First Meeting of Creditors.

PROVABLE CLAIMS

	<u>Statement of Affairs</u>	<u>Total claims filed to date</u>
Secured	\$ 6,472,001	\$ 2,599,676
Preferred	0	0
Unsecured	<u>1,811,705</u>	<u>1,532,091</u>
	<u>\$8,283,706</u>	<u>\$ 4,131,767</u>

SECURED CREDITORS

According to List "B" of the Statement of Affairs, there are eight secured creditors that are owed \$6,472,001.

The Toronto-Dominion Bank holds a first security charge upon the property, assets and undertaking of the Company pursuant to, among other things, a General Security Agreement dated August 26, 2002 (the "Security").



As noted above, the Trustee has obtained a legal opinion of the validity of the Security held by The Toronto-Dominion Bank

The total realization from the sale of Assets will not be sufficient to repay all the secured creditors in full.

ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION

There will be no funds available for the unsecured creditors.

REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Trustee is reviewing the Debtor's records for the twelve months preceding the Bankruptcy in order to ascertain if any reviewable transactions or preference payments have taken place.

The Trustee will report its findings to the Inspectors upon completion.

OTHER MATTERS

The Trustee's fees and expenses to perform its statutory duties have been guaranteed by The Toronto-Dominion Bank

Dated: October 13, 2009

Meyers Norris Penny Limited
Trustee

