

IN THE MATTER OF THE BANKRUPTCY OF
1420561 Ontario Inc.
of the City of Brantford
in the Province of Ontario

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

BACKGROUND

1420561 Ontario Inc. (“**142**” or the “**Company**”) is a privately held corporation, which was incorporated in 2007 under the *Business Corporations Act* (Ontario). The Bankruptcy Trustee (as defined below) understands that 142 operated as a real estate holding company with no employees, and that 142’s only asset is the land and metal smelting/manufacturing facility located at 71 Middleton Street, Brantford, Ontario (the “**Premises**”). The only tenant at the Premises, and 142’s sole source of revenue, was Mississauga Metals & Alloys Inc. (“**MMA**” and together with 142, the “**Companies**”), a related entity also subject to bankruptcy proceedings.

The Bankruptcy Trustee understands that MMA operated from the Premises as a recycler/seller of metals, including zirconium, niobium, tungsten, titanium, molybdenum, vanadium, nickel, cobalt and aluminum, and that MMA also operated a ferro alloys division, specializing in ferro titanium and ferro zirconium. Due to, among other things, the Companies’ common ownership and interconnected business activities, the financial status of both Companies was inextricably linked.

As a result of a number of factors, including (i) a catastrophic fire at the Premises in 2017 from which MMA never fully recovered, (ii) difficulties in collecting receivables due to customer disputes regarding product quality/other issues, (iii) the negative impact of the COVID-19 pandemic on MMA’s business operations/activities, and (iv) the significant costs associated with the management, stewardship and required disposal of certain waste nuclear materials stored by MMA at the Premises, MMA has been dependent on capital injections from the Company’s shareholders to fund operations.

In July 2021, it was determined that MMA could not continue operations without significant capital injections and the Company’s management determined it prudent to consider various strategic options, including the potential sale of the business. On July 20, 2021 (the “**NOI Filing Date**”), MMA filed a Notice of Intention to Make a Proposal (the “**MMA NOI**”) pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”). With its only tenant and source of revenue insolvent, and as it was the Companies’ belief that potential interested parties would be interested in investing in or acquiring the assets of both Companies, 142 also filed a Notice of Intention to Make a Proposal (together with the MMA NOI, the “**NOIs**”) on the NOI Filing Date pursuant to section 50.4(1) of the BIA. Richter Advisory Group Inc. (“**Richter**”) was appointed as trustee (the “**Proposal Trustee**”) under the NOIs.

The purpose of the NOIs was to create a stable environment within which the Companies could consider/pursue their restructuring plans.

142 and MMA ultimately failed to present proposals to their respective creditors within the prescribed time period following the filing of the NOIs and, consequently, 142 and MMA were each deemed to have made assignments in bankruptcy on August 20, 2021 (the “**Date of Bankruptcy**”). Richter was appointed as trustee (the “**Bankruptcy Trustee**”) of the 142 and MMA bankrupt estates by the Office of the Superintendent of Bankruptcy, subject to affirmation by the Companies’ creditors.

On August 27, 2021, notice of the first meeting of creditors of 142 (the “**Meeting**”), a list of creditors, proof of claim form/proxy, and registration form to attend the Meeting (which is being held via videoconference) were sent to all known creditors of 142. On September 3, 2021, a notice advising of 142’s bankruptcy and the date/time of the Meeting was published in the Globe and Mail (National Edition).

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA. As the bankrupt estate does not have any interest, economic or otherwise, in 142’s assets (as detailed later in this report), the Bankruptcy Trustee has informed the CNSC and BDC (each as defined later in this report), that the Bankruptcy Trustee will not be taking any steps in respect of the Company’s assets. It is the intention of the Bankruptcy Trustee to discuss the status of the Company’s assets with the Inspectors, if any, appointed at the Meeting.

CAUSES OF BANKRUPTCY

Several factors contributed to the Companies’ bankruptcies. As noted, MMA suffered a catastrophic fire in 2017 at the Premises, which caused significant damage to the Company’s manufacturing facility, equipment and operations (the “**2017 Fire**”). Following the 2017 Fire, MMA operated from a small portion of the manufacturing facility not damaged by the 2017 Fire pending plans to restore/rebuild the Premises (the “**Renovation**”).

The Bankruptcy Trustee understands that the planned restoration/reconstruction activities at the Premises were not entirely completed as a result of disputes with the general contractor, but that MMA was able to recommence certain business activities at the Companies’ unfinished manufacturing facility. However, since the 2017 Fire, MMA was operating from a makeshift and, subsequently, unfinished manufacturing facility, which negatively impacted MMA’s operations/business activities.

Among other negative impacts of the 2017 Fire and its implications on MMA’s operations/business activities, MMA lost several key personnel (MMA laid off many personnel following the 2017 Fire and during the Renovation). The Bankruptcy Trustee understands that the inability to replace certain key personnel, coupled with the ongoing challenges of operating in a makeshift/unfinished manufacturing facility, resulted in quality control issues that further compounded MMA’s financial difficulties, as certain customers refused to pay for product MMA delivered, or MMA sold certain of its products at low/negative margins to mitigate its losses where the original purchaser refused/returned product.

The COVID-19 pandemic, and its impact on the global economy – the majority of MMA’s customers were located outside North America – also negatively impacted MMA’s operations/financial results, as sales declined, and the cost of raw materials and other operating expenses increased.

In addition, MMA stored certain waste nuclear materials at the Premises that require proper disposal in accordance with applicable environmental regulations. The Bankruptcy Trustee understands that, prior to 2007, MMA imported a variety of metals/alloys contaminated with natural/slightly enriched (< 5%) uranium (the "**Nuclear Materials**"), which Nuclear Materials were decontaminated/reprocessed for resale by MMA.

The Bankruptcy Trustee understands that MMA held a Waste Nuclear Substance Licence (the "**Licence**") issued by the Canadian Nuclear Safety Commission (the "**CNSC**"), which authorized MMA to possess, store and manage nuclear substances. The Licence did not, however, authorize MMA to recover/process uranium and no new Nuclear Materials were to be accepted by MMA for that or any other purpose. MMA's prior recycling of Nuclear Materials (which activities, the Bankruptcy Trustee has been advised, were carried out with all required regulatory approvals) has, however, resulted in the accumulation of Nuclear Materials at the Premises. Although the cost to dispose of the Nuclear Materials is unknown, based on communications with the CNSC and previous estimates obtained by MMA, the Bankruptcy Trustee understands these costs to be substantial.

In the face of a liquidity crisis and the substantial costs to dispose of the Nuclear Materials, the Companies could no longer continue to operate as going concerns absent significant additional funding and a restructuring of the Companies' business. As noted previously, the Companies filed the NOIs to create a stable environment to consider/pursue restructuring options. However, without the necessary funding to continue restructuring efforts, the Companies were not in a position to present proposals to their respective creditors and, as a result, on August 20, 2021, the Companies were deemed to have made assignments in bankruptcy.

FINANCIAL POSITION/ASSETS

As detailed in 142's Statement of Affairs, 142's only asset is the Premises, which is estimated to realize approximately \$4,295,000. The Bankruptcy Trustee understands that the estimated realizable value of the Premises takes into consideration that the Renovation was never completed, and certain required expenditures are necessary to complete construction of the building located at the Premises.

As noted below, the Bankruptcy Trustee understands 142's primary secured lender, the Business Development Bank of Canada ("**BDC**"), is owed approximately \$5.2 million. As a result, even without consideration of the substantial costs to dispose of the Nuclear Materials (or the priority of these costs), it does not appear that there will be any funds available for 142's unsecured creditors.

SECURED AND OTHER POTENTIAL PRIORITY CREDITORS

Secured Creditors

According to the Company's Statement of Affairs, the Company's only secured creditor is BDC, which was owed approximately \$5.2 million as at the Date of Bankruptcy. As at the date of this report, the Bankruptcy Trustee has not obtained a legal opinion concerning the validity and enforceability of the security granted by the Company in favour of BDC.

In addition to BDC, the Bankruptcy Trustee is aware that the Bank of Nova Scotia has registered a security interest against 142 under the *Personal Property Security Act* (Ontario).

Other Potential Priority Creditors

As discussed above, the costs to appropriately dispose of the Nuclear Materials stored at the Premises are estimated to be significant. Regardless of their classification (i.e. provable claims with or without a priority ranking, or obligations outside the BIA's priority scheme), neither of the Companies' bankrupt estates has funding to address the Nuclear Materials. As communicated to the CNSC, at no time has the Proposal Trustee or the Bankruptcy Trustee taken possession of the Companies' property, and the Bankruptcy Trustee does not have any funding or intention to do so.

SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Bankruptcy Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA. As previously noted, 142 did not have any employees.

The Bankruptcy Trustee, where applicable, will comply with the requirements of the *Wage Earner Protection Program Act*.

PREFERRED CREDITORS

The Company's Statement of Affairs indicates that, as at the Date of Bankruptcy, there were no known preferred creditors.

UNSECURED CREDITORS

According to 142's Statement of Affairs, the Company's unsecured obligations totalled approximately \$1.3 million.

CLAIMS FILED

As at 5:00 p.m. on September 8, 2021, the Bankruptcy Trustee has recorded Proofs of Claim filed, as follows:

	Claims Filed (#)	Amount (CAD)	Proxies in Favour of Trustee (#)	Amount (CAD)
Secured	1	\$5,141,356.50	-	-
Preferred	-	-	-	-
Unsecured	3	\$19,624,042.35	-	-
TOTAL	4	\$24,765,398.85	-	-

PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Bankruptcy Trustee has not performed a review of the Company's books and records with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Bankruptcy Trustee to discuss the scope of its review with the Inspectors, if any, appointed at the Meeting.

TRUSTEE'S FEES

In consideration for Richter consenting to act in these proceedings, Mr. D. Sharpe guaranteed payment of the fees and disbursements of the Proposal Trustee and the Bankruptcy Trustee, including the fees and disbursements of its legal counsel, to a maximum of \$20,000 (the "**Guarantee**"). In support of the Guarantee, Mr. Sharpe provided a deposit in the amount of \$20,000.

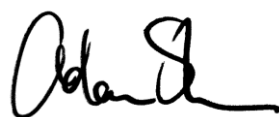
OTHER

Further information relating to 142's bankruptcy proceedings may be obtained from Richter's website at: <https://www.richter.ca/insolvencycase/1420561-ontario-inc/>.

Dated at Toronto, Ontario, this 9th day of September, 2021.

RICHTER ADVISORY GROUP INC.

in its capacity as Bankruptcy Trustee of the estate of
1420561 Ontario Inc.
and not in its personal or corporate capacity



Adam Sherman, MBA, CIRP, LIT