

District of Ontario
Division No. 08- Waterloo
Court File No. 35-3008888
Estate No. 35-3008888

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE PROPOSAL OF
MECHTRON INNOVATIONS INC.
OF THE CITY OF CAMBRIDGE,
IN THE PROVINCE OF ONTARIO

FIRST REPORT OF BDO CANADA LIMITED, IN
ITS CAPACITY AS THE PROPOSAL TRUSTEE
December 5, 2023

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INTRODUCTION

1. Mechtron Innovations Inc. (“**Mechtron**” or the “**Company**”) is a corporation incorporated on May 6, 1998 pursuant to the *Business Corporations Act* (Ontario), and, prior to ceasing operations, manufactured parts for the automotive industry. Ray Finnie (“**Finnie**”) and Randolph Straka (“**Straka**”) are the directors of Mechtron (collectively the “**Directors**” or “**Management**”).
2. On November 10, 2023 (the “**Filing Date**”), the Company filed a Notice of Intention to Make Proposal (“**NOI**”) under the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”). BDO Canada Limited was named as The Trustee acting *in re* the proposal of Mechtron (in such capacity, the “**Proposal Trustee**”). A copy of the NOI is attached hereto as **Appendix ‘A’**.
3. This is the first report of the Proposal Trustee (“**First Report**”). The purpose of this Report is to:
 - a) provide this Court with information regarding the activities of the Proposal Trustee from the Filing Date to the date of this Report; and
 - b) support the Company’s request for an order:
 - (i) extending the initial stay of proceedings for 45 days and the time by which to file a proposal to January 24, 2024; and
 - (ii) approving the First Report of the Proposal Trustee.
4. This First Report is to be read in conjunction with the Affidavit of Michael Owens sworn on December 5, 2023 (the “**Owens Affidavit**”).
5. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company’s representatives, the Company’s books and records, and discussions with its Company’s management team. The Proposal Trustee has not performed an audit or other verification of such information. An examination of the Company’s financial forecasts as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this Report is based on assumptions formulated by the Company’s Management and representatives regarding future events; actual results achieved may vary from this information and these variations may be material.

BACKGROUND

6. Mechtron is privately owned and manufactured perforated and louver type muffler tubes for the automotive industry. It operated from leased premises located at 200 Sheldon Drive, Cambridge, Ontario (the “**Premises**”) and employed approximately 114 unionized and non-unionized employees.
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The Company is economically dependent on its major customer, Tenneco Automotive Operating Company Inc. (“Tenneco”). Sales to Tenneco accounted for over 90% of Mechtron’s annual sales. On October 25, 2023, Tenneco issued a letter advising Mechtron that, effective November 10, 2023, Tenneco no longer required Mechtron’s services and terminated its arrangement with Mechtron.

7. With the loss of its major customer, Mechtron could no longer continue to operate and, therefore, ceased operations. The Company has terminated all of its employees (the “Former Employees”), all of whom were paid their outstanding wages and vacation pay in full. Two individuals at the management level will stay with Mechtron through the completion of the liquidation. In addition, two unionized employees have been called back to assist with pulling tools to be delivered to Tenneco. Depending on the urgency of this work, as may be conveyed by Tenneco, additional employees may be called back or, alternatively, Tenneco may provide its own employees to assist with the work.
8. In filing the NOI, Management’s objective was to:
 - a) obtain a stay of proceedings to preserve the status-quo while developing a liquidation plan;
 - b) finalize the negotiations and collection efforts with its customers with outstanding receivable balances, including Tenneco;
 - c) coordinate the return of customer owned tooling and associated assets; and
 - d) obtain liquidation proposals and select an experienced auctioneer to liquidate the Mechtron’s machinery, equipment and residual inventory.
9. The filing allows the Company to maintain control of its assets and potentially maximize the realization to all creditors.
10. In the event of bankruptcy, the assets would vest with the Trustee and Management would continue to assist the Trustee with the collection of receivables and coordinating the return of third-party goods.

SECURED LENDERS

11. The Company is current with both its source deductions and HST obligations.
 12. Mechtron has three credit facilities with The Toronto-Dominion Bank (“TD”) including: i) a revolving line of credit; ii) a term loan; and iii) a revolving loan. TD holds a general security interest against all of Mechtron’s assets, which has been registered under the *Personal Property Security Act* (Ontario) (the “PPSA”). As of the date of this Report, Mechtron is indebted to TD in the amount of approximately \$5.8 million.
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13. The Company received a COVID-19 loan from Business Development Bank of Canada (“**BDC**”). BDC has registered under the PPSA in respect of this loan. As of the date of this Report, Mechtron is indebted to BDC in the amount of \$575,560.
14. Export Development Bank of Canada (“**EDC**”) has also extended a capital loan to the Company. EDC has registered under the PPSA in respect of this loan. As of the date of this Report, Mechtron is indebted to EDC in the amount of \$491,480.
15. The Company leases 2 forklifts from De Lage Landen Financial Services (“**De Lage**”). De Lage has registered its security interest against the forklifts under the PPSA. The Company continues to use the forklifts as they are necessary in winding down the operations, removing tools and equipment from the facility, and leaving the premises in a broom swept condition. The Cash Flows reflect that payments will be made to De Lage during this process.

OTHER CREDITORS

16. As previously reported, all unpaid wages and vacation pay were paid to the Former Employees prior to the NOI filing. Certain statutory obligations regarding termination and severance pay remain.
17. The Proposal Trustee is aware of approximately \$2.9 million in amounts owing to trade creditors.
18. As of the date of the NOI, the Company is current with its occupancy rent. The Company leases its premises from a related party (the “**Landlord**”) who has agreed not to charge rent to Mechtron as the Company completes its orderly liquidation.
19. The Landlord is aware of the Company’s intention to wind down its operations and the need to disclaim the lease for the Premises.

ACTIVITIES OF TRUSTEE

20. In accordance with its obligations under the BIA, the Trustee issued a notice by mail or email on November 14, 2023 to all known creditors of the Company regarding the filing of the NOI.
 21. The Company’s cash-flow projection and related assumptions for the 13-week period ending February 16, 2024 (the “**Cash Flows**”), together with Management’s report on the Cash Flows (as required under subsection 50.4(2)(c) of the BIA), is attached as **Appendix ‘B’**.
 22. Based on the Trustee’s review of the Cash Flows, there are no material assumptions that seem unreasonable in the present circumstances. The Trustee’s report for the Company on the Cash Flows (as required under subsection 50.4(2) (b) of the BIA) is attached as **Appendix ‘C’**.
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23. The Trustee has arranged reporting and monitoring processes with management, including reviewing all cash-flow and financial reporting and receipts and disbursements of the Company on a weekly basis.
24. The Trustee has, and continues to, receive calls, answer questions and update the Former Employees, and other creditors with respect to the proposal process, etc.

EXTENSION OF STAY OF PROCEEDINGS

25. Given the date on which the NOI was filed, the Company is currently required to file a Proposal by December 10, 2023. Management continues to negotiate and collect the accounts receivable on an orderly basis and will be obtaining liquidation proposals for its machinery, equipment and residual inventory in the near term. The Company is requesting additional time to formulate what it believes is the best proposal to its creditors.
26. The Company is requesting an extension of the stay of proceedings of 45 days and the time by which to file a proposal from December 10, 2023 to January 24, 2024. The extension will provide the Company with additional time to finalize settlements with customers, enter into a liquidation agreement with an auctioneer and determine the proceeds available to distribute to the creditors.
27. The Proposal Trustee supports the Company's request to extend the stay of proceedings, and the time by which to file a proposal, by 45 days for the following reasons:
 - a) thus far, the Company has co-operated, and been transparent, with the Trustee and, in the opinion of the Trustee, has complied with the requirements of the BIA;
 - b) the Cash Flows reflect the Company will have sufficient liquidity through the extended stay of proceedings;
 - c) the Company has acted, and continues to act, in good faith and with due diligence;
 - d) in the opinion of the Trustee, no creditor will be materially prejudiced if the extension is granted; and
 - e) the extension eliminates the need for a further Court attendance solely to consider an extension of the stay of proceedings and saves the costs of doing so.

CONCLUSION AND RECOMMENDATION

28. The Proposal has allowed the Company to control and maximize the realization of its assets, as well as minimize costs while doing so.
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29. Both the Company and the Trustee estimate a greater recovery for ordinary creditors on the realization of assets under a proposal administration than a bankruptcy administration.
30. Based on the above, the Trustee respectfully recommends that the Court grant an order providing the relief described in section 3(b) of this Report.

All of which is respectfully submitted this 5th day of December, 2023.

BDO CANADA LIMITED
in its capacity as Trustee
in the Proposal of
Mechtron Innovations Inc.
Without personal or corporate liability
Per:



Josie Parisi, CPA, CA, CBV, CIRP, LIT
Senior Vice President

55178371.4

Appendix A



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of Ontario
Division No. 08 - Waterloo
Court No. 35-3008888
Estate No. 35-3008888

In the Matter of the Notice of Intention to make a proposal of:

Mechtron Innovations Inc.

Insolvent Person

BDO CANADA LIMITED / BDO CANADA LIMITÉE

Licensed Insolvency Trustee

Date of the Notice of Intention:

November 10, 2023

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act;

Pursuant to subsection 69. (1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: November 10, 2023, 17:02

E-File/Dépôt Electronique

Official Receiver

Federal Building - London, 451 Talbot Street, Suite 303, London, Ontario, Canada, N6A5C9, (877)376-9902

Canada

Appendix B

FORM 30

IN THE MATTER OF THE PROPOSAL OF

MECHTRON INNOVATIONS INC.
OF THE CITY OF CAMBRIDGE
IN THE PROVINCE OF ONTARIO

Report on Cash-Flow Statement by the Person Making the Proposal

(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

Mechtron Innovations Inc. has developed the assumptions and prepared the attached statement of projected cash flow, as of the 20th day of November 2023, consisting of a 13-week period beginning on November 17, 2023 through February 16, 2024.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the Notes 2 through 8.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in Note 1, using a set of hypothetical and probable assumptions set out in Notes 2 through 8. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Cambridge, Ontario, this 20th day of November 2023.

Mechtron Innovations Inc.



Raymond Finnie

IN THE MATTER OF THE PROPOSAL OF

MECHTRON INNOVATIONS INC.
OF THE CITY OF CAMBRIDGE
IN THE PROVINCE OF ONTARIO

NOTES AND ASSUMPTIONS TO
THE STATEMENT OF PROJECTED CASH FLOW

1. This projected cash flow statement has been prepared for the purposes of filing a proposal pursuant to Part III of the Bankruptcy and Insolvency Act ("BIA"). Mechtron Innovations Inc. ("Mechtron") has prepared the projected cash flow and the accompanying notes to the cash flow in support of the Notice of Intention to Make a Proposal ("NOI") that Mechtron filed under the BIA on November 10, 2023. BDO Canada Limited is the Trustee named on the NOI and has consented to act. The notes and assumptions to the cash flow should be read in conjunction with the Report on Cash Flow Statement of Mechtron (Form 30 under the BIA) and with the Trustee's Report on Cash Flow Statement (Form 29 under the BIA).
2. The projected cash-flow has been prepared by management of the Insolvent person.
3. Operations ceased during the week of November 6, 2023. Payroll and related costs to the date of closure are shown as disbursements consistent with the normal payroll cycle for hourly and salaried employees, respectively.
4. Accounts receivable collections are management's projections based on best estimated considering discussions with customers and historical information.
5. Disbursements are management's estimates based on historical information.
6. Payroll beyond the date of closure reflects the wages of employees assisting with the realization of the Company's assets.
7. Management will seek to monetize inventory, capital assets, tax credits and all other assets. The proceeds of certain of these assets cannot be estimated at this time.
8. Loan payments to secured creditors other than the Toronto Dominion Bank are not expected to be made during the cash flow period.

MECHTRON INNOVATIONS INC.

Per: RAY FINNIE
Chairman

RT Finnie

[TITLE]

Nov 20, 2023

Date

BDO CANADA LIMITED

Per: Matthew Marchand

Matthew Marchand
Senior Vice President

November 20, 2023

Date

Appendix C

Form 29

IN THE MATTER OF THE PROPOSAL OF

**MECHTRON INNOVATIONS INC.
OF THE CITY OF CAMBRIDGE
IN THE PROVINCE OF ONTARIO**

**Trustee's Report on Cash Flow Statement
Paragraph 50(6)(b) and 50.4(2)(b) of the Act**

The attached statement of projected cash flow of Mechtron Innovations Inc. ("**Mechtron**" or the "**Company**") as of November 20, 2023, consisting of a 13-week Cash-Flow for the period from November 17, 2023 through February 16, 2024, has been prepared by the management of Mechtron for the purpose described in Note 1, using the probable and hypothetical assumptions set out in Notes 2 through 8.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of Mechtron. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

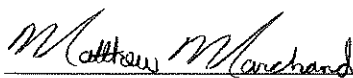
Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the projections;
- b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent Company or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, this 20th day of November 2023.



BDO Canada Limited
Trustee re the Proposal of
Mechtron Innovations Inc.
and not in its personal capacity

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF MECHTRON INNOVATIONS INC.

District of Ontario
Division No. 08 – Waterloo
Court No. 35-3008888
Estate No. 35-3008888

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY

Proceedings commenced at London

FIRST REPORT OF THE PROPOSAL TRUSTEE
December 5, 2023

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Lawyers for BDO Canada Limited, in its capacity The
Trustee