

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY and INSOLVENCY**

BETWEEN:

ROYAL BANK OF CANADA

Applicant

- and -

**SLE-CO PLASTICS INC.
SLE-CO PROPERTIES INC., and 1142024 ONTARIO INC.**

Respondents

RESPONDING MOTION RECORD

January 13, 2020

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TAB 1

Court File No. 35-2220172T

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**FIRST REPORT TO THE COURT SUBMITTED BY BDO CANADA LIMITED,
IN ITS CAPACITY AS PROPOSED RECEIVER OF
SLE-CO PLASTICS INC. AND SLE-CO PROPERTIES INC.**

January 13, 2020

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1. Introduction and Background

1.1 Introduction

1.1.1 By motion within these proceedings in the Ontario Superior Court of Justice – in Bankruptcy and Insolvency (the "**Court**") returnable on January 17, 2020 in London, Ontario (the "**Appointment Motion**"), Royal Bank of Canada ("**RBC**" or the "**Bank**") is seeking, *inter alia*, an order of the Court (the "**Appointment Order**") appointing BDO Canada Limited ("**BDO**") as receiver (in such capacity, the "**Proposed Receiver**") without security, of all of the assets, undertakings and properties of Sle-Co Plastics Inc. ("**Plastics Inc.**" or the "**Company**") and Sle-Co Properties Inc. ("**Properties Inc.**" and collectively with Plastics, the "**Companies**") (the "**Property**").

1.1.2 This report is submitted by BDO, in its capacity as Proposed Receiver of the Companies.

1.1.3 In preparing this report we have reviewed the affidavit of Greg Smith sworn January 9th, 2020 in support of the Appointment Motion (the "**Smith Affidavit**").

1.1.4 Based on the information presently known to the Proposed Receiver, it intends (should it be appointed) to take possession of the plant owned by Properties Inc. (located in St. Thomas and defined as 400 South Edgeware below) and to operate the Plastics Inc. business on a short-term basis. If appointed, the Proposed Receiver in a subsequent report may be seeking the approval of the Court of the sale of the assets of Plastics Inc. and Properties Inc., pursuant to a Letter of Intent arising from a sale process undertaken by the Company.

1.1.5 If a sale cannot be consummated the Proposed Receiver may proceed to the liquidation of the Property.

1.2 Background

- 1.2.1 As set out in the Smith Affidavit, Plastics Inc. is a Tier 2 automotive parts supplier serving original equipment manufacturers for both interior and exterior injection moulded plastic parts, and also produces certain injection moulded and assembled consumer products. Plastics Inc. operates from 145,000 square foot industrial premises municipally known as 400 South Edgeware Road, St. Thomas, Ontario ("**400 South Edgeware**") that are leased from the related company, Properties Inc.
- 1.2.2 The Proposed Receiver understands that Plastics Inc. is considered a Tier 2 supplier, however, it does ship certain automotive parts directly to the OEM vehicle assembly plant on behalf of its customer, who is the Tier 1 supplier.
- 1.2.3 The Proposed Receiver also understands that Mr. Jeffrey Slegers ("**Slegers**") is the owner of the shares of 1142024 Ontario Inc., which owns the shares of the Company. As set out in the Smith Affidavit, Slegers is the sole officer and director of the Companies, but is not currently active in the day to day operations.
- 1.2.4 Details regarding RBC's lending arrangements with the Companies are set out in detail in the Smith Affidavit.
- 1.2.5 The Proposed Receiver understands that, during 2018, Plastics Inc. consolidated three production locations located in London, Ontario into 400 South Edgeware, which had been vacant for several years. Cost overruns in preparing the new facility for production, re-location costs, operational issues on start-up and the conclusion of a major contract all negatively impacted the Company's financial position. Three construction liens were registered over 400 South Edgeware.
- 1.2.6 The Companies defaulted on the terms of their borrowing arrangements with RBC, as set out in more detail in the Smith Affidavit. In January 2019, RBC engaged BDO as a financial advisor in respect of the Companies. Several rounds of forbearance were also provided by RBC, as also set out in the Smith Affidavit.
- 1.2.7 In September 2019, Properties Inc. entered into an agreement of purchase and sale for the sale of 400 South Edgeware to a third party, to be leased back to Plastics Inc., subject to certain conditions. The Proposed Receiver understands the conditions have not been waived by the buyer within the required time period, and the agreement has lapsed.

- 1.2.8 The Companies were unable to obtain re-financing, and, on November 5, 2019, Sle-Co Plastics Inc. filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act* (the "**NOI**") and BDO was appointed Proposal Trustee (in such capacity, the "**Proposal Trustee**").
- 1.2.9 The Proposed Receiver understands that RBC was not stayed from enforcing its security by the filing of the NOI, and agreed to forbear and provide credit on a day-to-day basis, as set out in more detail in the Smith Affidavit.
- 1.2.10 Plastics Inc. continued to carry on business in the normal course subsequent to the filing of the NOI. On consent, one major customer terminated its supply contract with Plastics Inc., paid its outstanding accounts receivable balance and removed certain moulds used to make automotive parts for the customer. Plastics Inc. continued to supply its three largest customers, which represent more than 90 per cent of its current revenues.
- 1.2.11 The Companies entered into discussions with several parties, including major customers and other companies in the industry, to restructure their affairs through the sale of all, or some portion of their assets, including 400 South Edgeware. As Proposal Trustee, BDO was actively involved in this process, as outlined in Section 4 of this report (the "**Sale Process**").
- 1.2.12 In order to allow for additional time to conduct the Sale Process, Plastics Inc. sought an extension to the 30-day period for the filing of the Proposal. By Order of Justice Hockin dated November 29, 2019, the Court extended the time for the filing of the Proposal to January 18, 2020.
- 1.2.13 Based on the outcome of the Sale Process, the Company has determined that it will be unable to file a viable Proposal and will therefore not ask for an extension to file same. Accordingly, Plastics Inc. will be deemed to have made an assignment in bankruptcy following January 18, 2020.
- 1.2.14 As of January 9, 2020, the Proposed Receiver understands that the Companies are insolvent, in that, in addition to amounts owed to other creditors, Plastics Inc. was indebted to RBC in the amount of CAD\$5,621,793.54 and US\$2,313,971.97 and Properties Inc. was indebted to RBC in the amount of CAD \$3,506,309.59.

1.2.15 RBC has advised that it is not willing to forebear any further, and is now seeking the appointment of the Proposed Receiver to facilitate the sale of the Companies' assets. The form of Appointment Order sought by RBC on the return of the Appointment Motion, if granted, would empower but not obligate the Proposed Receiver to, among other things (with additions to the template order black lined):

- (a) take possession of and exercise control over all of the Property;
- (b) take possession of and exercise control of any and all proceeds, receipts and disbursements arising out of or from the Property; and
- (c) receive, preserve and protect the Property, or any part or parts thereof, including, but not limited to, changing the locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable.

2. Terms of Reference

- 2.1 In preparing this First Report, the Proposed Receiver has relied upon unaudited and draft internal financial information obtained from the Companies' books and records and discussions with former management and staff (the "**Information**"). The Proposed Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information and expresses no opinion, or other form of assurance, in respect of the Information.

3. Purpose of the Proposed Receiver's First Report

- 3.1 This constitutes the Proposed Receiver's First Report to the Court (the "**First Report**") in this matter. The First Report is filed to provide this Court with information to assist the Court in hearing RBC's motion and to provide information on the process undertaken by the Companies thus far for the sale of their Property.

4. Process for the sale of the Property

- 4.1 Following the filing of the NOI, Plastic Inc. contacted major customers to advise them of the Companies' pressing need to formally restructure its financial affairs, including the possible sale of some or all of the Property, including 400 South Edgeware.
- 4.2 Senior management of Plastics Inc. engaged in discussions with some customers regarding the possible acquisition of the Property and/or the assumption of major equipment leases. In addition, the Companies were contacted by other parties, including parties having business relationships with customers or suppliers, as well as third parties in the industry who were aware of Plastic Inc.'s financial difficulties.
- 4.3 Several parties expressed serious initial interest. Potential purchasers who contacted the Companies or the Proposal Trustee were provided with a Confidentiality and Non-Disclosure Agreement ("NDA").
- 4.4 Potential purchasers (each, an "Offeror") who executed the NDA were provided with certain financial information by the Companies, including an appraisal of 400 South Edgeware, equipment lists and other documents
- 4.5 The CIM invited Letters of Intent ("LOI" or "LOIs") for the purchase of Property (including the Companies' business). Letters of Intent would be considered for either: A) all of the Property on an en bloc basis; or B) all Property, save and except 400 South Edgeware.
- 4.6 The form and content of each LOI was to be determined by the corresponding Offeror, provided the LOI was signed by the Offeror and included sufficiently detailed information, to the extent possible, for the Companies and the Proposal Trustee to evaluate the LOI. No more than one LOI would be selected for further negotiation, and it would form the basis for a binding Agreement of Purchase and Sale.
- 4.7 The CIM outlined that several larger injection moulding machines were leased from third parties and it may be possible for Offerors to assume existing leases, subject to the approval of the lessor in question.
- 4.8 The Companies and the Proposal Trustee established a deadline for the submission

of LOIs of 5:00 pm, January 9, 2020.

- 4.9 To assist prospective purchasers in conducting due diligence, the Proposal Trustee established an electronic data room utilizing the third party Venue platform of Donnelly Financial Solutions ("**DFIN/Venue**"), with access to the data room controlled and monitored by the Proposal Trustee (the "**Data Room**"). DFIN/Venue provides electronic data room services to major financial institutions and BDO has successfully utilized DFIN/Venue services on other engagements. Prospective purchasers who executed the NDA were provided with access to the Data Room.
- 4.10 The Data Room contains various information including:
- (a) Confidential Information Memorandum;
 - (b) Plastics Inc. draft fiscal 2019 financial statements ;
 - (c) Company prepared financial model;
 - (d) 400 South Edgeware appraisal; and
 - (e) Machinery and equipment lists and copies of Plastics Inc. leases with RBC and HSBC Bank Canada ("**HSBC**") for major pieces of machinery.
- 4.11 Plastics Inc. has entered into leases with RBC for various equipment and machinery, with a combined, current outstanding lease balance of approximately CAD \$2.9 million, exclusive of HST. They include three leases for five large injection moulding machines that are critical to producing current customer requirements.
- 4.12 Plastics Inc. entered into three leases with HSBC with a combined, current outstanding balance of approximately CAD \$1.9 million, exclusive of HST. There are two leases for three pieces of robotic equipment, with an outstanding balance of approximately CAD \$250,000. A third lease, which commenced on March 14, 2019, covers a 2018 Engel Duo 17060/2200 Horizontal Injection moulding machine ("**Engel 2200T**"). The balance of payments outstanding on this lease is approximately US\$ 1.2 million. The Engel 2200T machine is critical to producing current customer requirements for Plastic Inc.'s largest automotive customer.
- 4.13 From all sources, approximately 15 parties contacted the Companies or the Proposal

Trustee. Some were provided with preliminary information, but did not execute an NDA. Of these, six parties executed the NDA and were provided access to the Data Room.

- 4.14 The Proposed Receiver is currently working with an offer but if a satisfactory agreement cannot be negotiated, the Proposed Receiver will proceed with an orderly wind-down of Plastics Inc.

All of which is Respectfully Submitted this 13th day of January, 2020

BDO Canada Limited in its capacity as Proposed Court Appointed Receiver of
Sle-Co Plastic Inc. and Sle-Co Properties Inc. and not in any personal capacity.

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Per: Stephen N. Cherniak, CPA, CA, CIRP
Licensed Insolvency Trustee
Senior Vice President

ROYAL BANK OF CANADA

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-and-

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