

Court File No. 32-2390056

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

**IN THE MATTER OF THE PROPOSAL OF 1760184 ONTARIO LTD.,
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF ONTARIO,
WITH A HEAD OFFICE IN THE CITY OF HAMILTON,
IN THE PROVINCE OF ONTARIO**

**A. FARBER & PARTNERS INC.
SECOND REPORT OF THE PROPOSAL TRUSTEE**

July 23, 2018

APPENDICES

- APPENDIX A:** **AFFIDAVIT OF STUART TAUBE SWORN JUNE 15, 2018 (WITHOUT EXHIBITS)**
- APPENDIX B:** **FIRST REPORT OF PROPOSAL TRUSTEE DATED JUNE 18, 2018 (WITHOUT APPENDICES)**
- APPENDIX C:** **ORDER OF THE HONOURABLE MR. JUSTICE MCEWEN MADE JUNE 21, 2018**
- APPENDIX D:** **SALE PROCESS INFORMATION TEASER**
- APPENDIX E:** **ADVERTISEMENT IN NATIONAL POST**
- APPENDIX F:** **FEE AFFIDAVIT OF PETER CRAWLEY**
- APPENDIX G:** **FEE AFFIDAVIT OF IAN AVERSA**
- APPENDIX H:** **FEE AFFIDAVIT OF BARRY COHEN**

CONFIDENTIAL APPENDIX

- CONFIDENTIAL APPENDIX 1: LIST OF PROSPECTIVE PURCHASERS CONTACTED DURING SALE PROCESS**

INTRODUCTION

1. On June 15, 2018, 1760184 Ontario Ltd. (the “**Company**”) filed a Notice of Intention to Make a Proposal (an “**NOI**”) under section 50.4 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”), and A. Farber & Partners Inc. (“**Farber**”) was named as proposal trustee (in such capacity, the “**Proposal Trustee**”) in the Company’s NOI proceedings (the “**NOI Proceedings**”).
2. On June 15, 2018, the Company also served and filed a motion record containing the Affidavit of Stuart Taube sworn June 15, 2018 (the “**Taube Affidavit**”) in support of the Company’s motion returnable June 21, 2018 to obtain Court approval of, *inter alia*:
 - i) the stalking horse marketing and sale process (the “**Sale Process**”), including, *inter alia*, a stalking horse asset purchase agreement (the “**Stalking Horse APS**”) with Rampart Steel Treating Ltd. (the “**Purchaser**”);
 - ii) a priority charge in the amount of \$100,000 against the Company’s assets, properties and undertakings (the “**Property**”) for the benefit of the Proposal Trustee, its counsel and the Company’s counsel in respect of their professional fees and disbursements;
 - iii) a priority charge in the amount of \$50,000 for the benefit of the Company’s director and officer, or any person who may be deemed as such, from potential liabilities which may be incurred during the NOI Proceedings; and
 - iv) an extension of the time period for the Company to file a proposal with the Official Receiver to and including August 29, 2018.
3. On June 18, 2018, the Proposal Trustee served and filed its first report (the “**First Report**”) with the Court to report on and support the Company’s motion returnable June 21, 2018.
4. Background information about the Company is provided in the Taube Affidavit and the First Report, which are attached hereto without exhibits/appendices as **Appendix “A”** and **Appendix “B”**, respectively.

5. The relief sought in the Company's motion returnable June 21, 2018 was granted by the Order of the Honourable Mr. Justice McEwen made June 21, 2018 (the "**June 21 Order**"). A copy of the June 21 Order is attached hereto as **Appendix "C"**.

PURPOSE OF THIS REPORT

6. The purpose of this second report of the Proposal Trustee (the "**Second Report**") is to report on the Proposal Trustee's activities since the date of the First Report, report on the implementation and results of the Sale Process and report on and support the Company's request for, *inter alia*:
 - i) the approval of this Second Report and the activities of the Proposal Trustee set out herein;
 - ii) authorization for the Proposal Trustee, the Company and the Purchaser to complete the transaction contemplated by the Stalking Horse APS (the "**Transaction**");
 - iii) the vesting in the Purchaser of all of the Company's right, title, and interest, if any, in the Purchased Assets (as defined in the Stalking Horse APS), free and clear of any and all encumbrances except for Assumed Obligations (as defined in the Stalking Horse APS);
 - iv) the sealing of **Confidential Appendix "1"** of this Second Report until the closing of the Transaction or further Order of the Court; and
 - v) the approval of the fees and disbursements of the Proposal Trustee, its legal counsel and the Company's legal counsel, including an accrual for fees and disbursements to the completion of the NOI Proceedings.

DISCLAIMER

7. The Proposal Trustee has relied upon the financial records and information provided by the Company. The Proposal Trustee has not independently audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. The

Proposal Trustee assumes no responsibility or liability for any loss or damage incurred by or caused to any person or entity as a result of the circulation, publication, reproduction or use of or reliance upon this Second Report or for any use which any person or entity makes of this Second Report, or any reliance on or a decision made based upon this Second Report, other than for the express purposes as set out in this Second Report.

8. Unless otherwise stated herein, all references to dollars are in Canadian currency.
9. Pursuant to the E-Service Protocol of the Ontario Superior Court of Justice (Commercial List), which protocol has been adopted in these NOI Proceedings, a copy of this Second Report and all other Court materials in these NOI Proceedings are, and will be, available on the Proposal Trustee's website at:

<https://farbergroup.com/engagements/1760184-ontario-ltd-surface-heat-treat-coatings>.

THE SALE PROCESS

10. Upon issuance of the June 21 Order, the Proposal Trustee began marketing the Property in accordance with the approved Sale Process by, *inter alia*:
 - i) preparing a non-confidential information teaser (the “**Teaser**”), a copy of which is attached hereto as **Appendix “D”**;
 - ii) placing an advertisement in the National Post (appearing in the June 26, 2018 edition), a copy of which advertisement is attached hereto as **Appendix “E”**;
 - iii) posting the Teaser and a form of confidentiality agreement on the Proposal Trustee's website;
 - iv) emailing the Teaser to nine (9) potentially-interested parties in the Southern Ontario steel treatment marketplace, eleven (11) business investors seeking acquisitions and five (5) equipment liquidators;

- v) negotiating and finalizing forms of the template confidentiality agreement with various parties; and
 - vi) establishing a secure online virtual data room (the “**Data Room**”) and providing access to those interested parties that provided satisfactory confidentiality agreements to conduct due diligence on the Company and the Property.
11. Attached hereto as **Confidential Appendix “1”** is a summary of those parties approached by the Proposal Trustee or who approached the Proposal Trustee about the Sale Process. The Proposal Trustee believes that a sealing order is required with respect to this appendix, as it contains commercially-sensitive information, the release of which could prejudice the Company’s stakeholders if the Transaction were not to close.
12. A total of 28 parties were approached by, or had communications with, the Proposal Trustee in respect of the Sale Process. Of these, three parties signed and returned satisfactory confidentiality agreements and were given access to the Data Room. Two additional parties informed the Proposal Trustee that they were interested, but they requested modifications to the confidentiality agreement that were not acceptable to either the Company or the Proposal Trustee. Accordingly, these additional two parties did not proceed with due diligence.
13. Of the three parties who signed and returned satisfactory confidentiality agreements, two conducted site visits to the Company’s premises to inspect the Property and make enquiries of the Company’s management.
14. As set out in the Sale Process, the deadline for the submission of offers was 5:00 PM EDT on July 18, 2018 (the “**Bid Deadline**”). The Proposal Trustee received no Superior Bid (as defined in the Stalking Horse APS) or any other bid before (or after) the Bid Deadline.
15. As no other offer was received, the Proposal Trustee recommends to this Court that it approve the Transaction contemplated by the Stalking Horse APS and authorize the Proposal Trustee and the Company to complete such Transaction as contemplated thereunder with the Purchaser.

MONITORING OF THE COMPANY'S CASH FLOW

16. In addition to implementing the Sale Process and liaising with applicable stakeholders (including mailing the notice of the NOI Proceedings to the Company's creditors and e-filing the Company's statutory cash flow with the Official Receiver in accordance with section 50.4(2) of the BIA), the Proposal Trustee also continued to monitor the Company's cash position and disbursements.
17. The projected weekly cash flow statement appended to the First Report was for the period to the week ending September 7, 2018. The Proposal Trustee has reviewed the actual weekly cash flow of the Company to July 13, 2018. The Company has experienced slightly better sales than originally projected which has resulted in \$33,000 more in cash collections during the period than had been forecasted. The Company's disbursements were approximately \$55,000 lower than forecasted during this same period, largely due to utility companies not requesting anticipated security deposits as of July 13, 2018. As a result, the Company's actual cash position at July 13, 2018 was approximately \$83,000 better than forecasted.

FEES AND DISBURSEMENTS OF THE PROPOSAL TRUSTEE, ITS LEGAL COUNSEL AND THE COMPANY'S LEGAL COUNSEL

18. The total fees and disbursements of the Proposal Trustee for the period to July 13, 2018 total \$59,172.18 (inclusive of HST), as more particularly set out in the Affidavit of Peter Crawley sworn July 20, 2018, a copy of which is attached hereto as **Appendix "F"**.
19. The total fees and disbursements of the Proposal Trustee's legal counsel for the period to July 19, 2018 total \$39,488.07 (inclusive of HST), as more particularly set out in the Affidavit of Ian Aversa sworn July 20, 2018, a copy of which is attached hereto as **Appendix "G"**.
20. The total fees and disbursements of the Company's legal counsel in these NOI Proceedings for the period to July 20, 2018 total \$14,775.82 (inclusive of HST), as

more particularly set out in the Affidavit of Barry Cohen sworn July 20, 2018, a copy of which is attached hereto as **Appendix “G”**.

21. The Proposal Trustee estimates that it along with its counsel and the Company’s counsel will incur additional fees in the collective amount of \$20,000.00 (excluding disbursements and HST) to the completion of the NOI Proceedings (the “**Fee Accrual**”).

22. The Proposal Trustee believes that its fees and disbursements and those of its counsel and the Company’s counsel are fair and reasonable in the circumstances and have been properly incurred.

RECOMMENDATIONS

23. The Proposal Trustee supports, for those reasons herein stated, the requested relief summarized at paragraph 6 of this Second Report.

All of which is respectfully submitted this 23rd day of July, 2018.

**A. FARBER & PARTNERS INC. IN ITS CAPACITY AS TRUSTEE
IN RE THE PROPOSAL OF 1760184 ONTARIO LTD.,
AND NOT IN ITS PERSONAL OR ANY OTHER CAPACITY**


