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Estate File No.: 32-2859284

**IN THE MATTER OF THE BANKRUPTCY OF
2806401 ONTARIO INC. O/A ALLIED TRACK SERVICES INC.
OF THE TOWN OF GRIMSBY, IN THE PROVINCE OF ONTARIO**

**TRUSTEE'S REPORT TO CREDITORS ON
PRELIMINARY ADMINISTRATION**

1. Introduction

1. On August 25, 2022 (the "Filing Date"), 2806401 Ontario Inc. o/a Allied Track Services Inc. ("Allied" or the "Company") filed a Notice of Intention to Make a Proposal ("NOI") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA"). KSV Restructuring Inc. ("KSV") was appointed as the proposal trustee (the "Proposal Trustee").
2. On September 6, 2022, the Ontario Superior Court of Justice (Commercial List) (the "Court") made an Order (the "Interim Receivership Order") appointing KSV as the interim receiver (the "Interim Receiver"), without security, of all of the assets, undertakings and properties of Allied (collectively, the "Property") pursuant to an application brought by the Proposal Trustee under section 47.1 of the BIA. Allied's principal secured creditor, Bridging Finance Inc. ("Bridging"), and its sole shareholder, Bridging Income Fund LP ("Bridging Income"), supported the application.
3. On September 23, 2022, the Court made an order (the "Receivership Order") appointing KSV as the receiver and manager (the "Receiver") of the Property pursuant to an application brought by PricewaterhouseCoopers Inc., in its capacity as Court-appointed Receiver of Bridging (the "Bridging Receiver"). As a result of the Receivership Order, the appointment of the Interim Receiver was terminated.
4. On September 23, 2022, the Court made two orders in the NOI proceeding: (a) extending the period for the Company to file a proposal to its creditors by 45 days to November 8, 2022, and (b) transferring the NOI proceeding from Hamilton to the Commercial List in Toronto.
5. As the Company did not file a proposal or obtain an extension to do so by November 8, 2022, it was deemed to have made an assignment in bankruptcy on November 9, 2022. KSV was appointed the Licensed Insolvency Trustee (the "Trustee") of Allied, subject to affirmation at the first meeting of creditors.

1.2 Currency

1. All currency references in this report (“Report”) are to Canadian dollars unless otherwise noted.

1.3 Restrictions

1. In conducting its review and preparing this Report, the Trustee has relied upon financial and other information supplied by the Company.
2. The Trustee has not audited, or otherwise attempted to verify, the accuracy or completeness of the financial information relied on in a manner that complies with Canadian Auditing Standards (“CAS”) pursuant to the Chartered Professional Accountants of Canada Handbook and, accordingly, the Trustee expresses no opinion or other form of assurance contemplated under the CAS in respect of such information. Any party wishing to place reliance on the financial information contained in this Report should perform its own diligence.
3. The Trustee accepts no responsibility for any reliance placed by any third party on the Company’s financial information presented herein, nor for any information concerning potential recoveries in these proceedings, which are presently based on preliminary estimates and will be affected by various uncertainties.

2. Background

1. The Company is a railroad maintenance service provider, offering track maintenance and repair, construction, bridging, civil engineering, flagging, signaling and related services. The Company operated in Ontario, Alberta, Manitoba and British Columbia.
2. The Company employed approximately 160 individuals as of the Filing Date, including members of the Labourers' International Union of North America. Since the Filing Date, substantially all of the Company’s employees have been terminated as the Company discontinued all of the projects that it was undertaking pursuant to construction, repair and track services contracts (the “Service Contracts”).
3. The Company was incorporated on January 8, 2021 by Bridging for the purposes of acting as a stalking horse bidder in the proposal proceedings of a company formerly known as Allied Track Services Inc. (“Old Allied”). Bridging was Old Allied’s largest secured creditor.
4. After a sale process in the Old Allied proposal proceedings, the Company’s stalking horse bid was determined to be the superior bid, and the Company bought substantially all tangible assets, intellectual property and undertakings of Old Allied (the “Old Allied Assets”) in a Court-approved transaction that closed on April 30, 2021. This transaction permitted the Company to continue the operations of Old Allied as a going concern and to continue to provide services to its customers, uninterrupted.
5. Also on April 30, 2021, in proceedings unrelated to the Old Allied proposal proceedings, the Court appointed the Bridging Receiver as the receiver of Bridging and certain related entities and investment funds pursuant to section 129 of the *Securities Act* (Ontario), upon application by the Ontario Securities Commission. Bridging is presently the Company’s largest secured creditor, owed approximately \$60 million, and a related party (Bridging Income) is its sole shareholder.

6. Despite the successful implementation of the transaction related to Old Allied's proposal proceeding, the Company continued to generate losses, resulting in the NOI proceeding on August 25, 2022.
7. As a result of personnel departures and stakeholder uncertainty triggered by the NOI proceeding, the Proposal Trustee brought an application under section 47.1 of the BIA seeking the appointment of KSV as Interim Receiver. This was done in order to bring stability to the Company's operations and wind-down, and in order to facilitate the Company completing one of the Service Contracts. As a result of this application, the Interim Receivership Order was granted on September 6, 2022.
8. As the Interim Receivership Order was intended to be temporary and for other reasons set out in the Proposal Trustee's Second Report to Court dated September 16, 2022, Bridging brought an application to appoint KSV as Receiver, which was granted on September 23, 2022.
9. As set out in the Receiver's First Report to Court dated October 20, 2022, the Receiver conducted a process to request proposals from liquidators and other parties for the sale of substantially all of the Company's owned equipment, machinery, vehicles and tools (the "Equipment").
10. The Receiver entered into an Auction Services Agreement with Corporate Assets Inc. (the "Auctioneer") for all of the Equipment and certain of the Company's leased assets (the "Leased Assets"). The Auction Services Agreement and the appointment of the Auctioneer was approved by the Court on October 28, 2022. As at the date of this Report, the Auctioneer has sold substantially all of the Equipment and Leased Assets.
11. The proceeds from the sale of the Equipment and Leased Assets are approximately \$9.6 million, which is significantly less than Bridging's secured loan to the Company.
12. The Interim Receiver and the Receiver have collected over \$2.5 million in accounts receivable as of the date of this Report.
13. Based on the Company's records, it has approximately \$3 million in outstanding accounts receivable. The Receiver is in the process of collecting these receivables, including by sending demand letters to former Allied customers; however, it is premature at this point to estimate the likely recoveries.

3. The Bankrupt Estate

1. The Assets, being the proceeds from the sale of the Equipment and Leased Assets and collection of accounts receivable, are being administered by the Receiver in the receivership proceeding. Accordingly, as set out in the Company's Statement of Affairs, the Company's bankrupt estate does not have any assets.

3.1 Property of the Bankrupt Not Divisible Amongst Creditors

1. The Trustee is not aware of any property that would not be divisible among the Company's creditors by virtue of subsection 67(1) of the BIA or otherwise.

4. Creditors

4.1 Secured Creditors

1. As set out above, Bridging is the Company's primary secured creditor, owed approximately \$60 million. In addition to Bridging, six other parties have registered security interests under the personal property security registries in British Columbia, Alberta and Ontario, five of which are equipment lessors.
2. Certain former employees have deemed secured claims against the Company, currently estimated to be approximately \$132,000, pursuant to Section 81.4 of the BIA in respect of unpaid wages, salaries and/or vacation pay and pursuant to Section 81.6 of the BIA in respect of pension contributions that were deducted from employees' remuneration but not remitted to their pension funds.
3. Service Canada has a secured claim against the Company, currently estimated to be approximately \$44,000, with respect to amounts paid to employees under the Wage Earner Protection Program relating to Section 81.4 of the BIA.
4. A Action Towing And Recovery Inc. has claimed a lien under the *Repair and Storage Liens Act* in the approximate amount of \$116,000. The Receiver will assess the validity and priority of this lien.
5. As noted above, secured claims against the Company will be addressed in the receivership proceeding.

4.2 Priority Claims

1. Canada Revenue Agency ("CRA") may have a deemed trust claim with respect to unpaid source deductions. CRA is presently performing an audit of the Company's records in order to quantify its claims.

4.3 Unsecured Creditors

1. Based on the Company's books and records, the claims of unsecured creditors are estimated to exceed \$4.4 million.

5. Books and Records

1. The Trustee has taken possession of the books and records it requires to complete its duties and obligations under the BIA, including bank statements for the year preceding the date of bankruptcy, and is in the process of obtaining the Company's minute books.

6. Preferences and Transfers at Undervalue

1. As part of its statutory duties, the Trustee conducted a review for preferences and transfers at undervalue by reviewing the Company's bank statements and records for the year preceding the Filing Date.
2. Based on the Trustee's review, it appears that the payments made by the Company during that period were for normal course operating expenses.
3. The Trustee will advise the Inspector(s), once appointed, and/or creditors should it become aware of any transaction(s) which require further investigation.

7. Anticipated Realization and Projected Distribution

1. As noted above, the proceeds of realization from the Company's assets will be distributed in the receivership proceeding. Accordingly, no distributions are expected to be available for creditors in the bankruptcy proceeding.

8. Other Matters

1. In consideration of KSV agreeing to act as Trustee in the bankruptcy proceeding, the Receiver guaranteed the Trustee's fees, expenses and costs of administration of the bankrupt estate. The Trustee's fees are expected to be administrative in nature to complete its statutory requirements under the BIA.
2. The Trustee has been advised that a representative of the Bridging Receiver will be nominated to be appointed as an Inspector in this estate.
3. There are no other matters to discuss at this time.

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DATED at Toronto, Ontario, this 29th day of November, 2022.

KSV Restructuring Inc.

**KSV RESTRUCTURING INC.
IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE OF
2806401 ONTARIO INC. O/A ALLIED TRACK SERVICES INC.
AND NOT IN ITS PERSONAL CAPACITY**