



Estate File No.: 31-459628

**IN THE MATTER OF THE BANKRUPTCY OF
UTIL CANADA LIMITED
OF THE CITY OF VAUGHAN, IN THE PROVINCE OF ONTARIO**

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

1.0 Introduction

1. On August 4, 2023, Util Canada Limited (the "Company") made an assignment in bankruptcy and KSV Restructuring Inc. ("KSV") was appointed as licensed insolvency trustee (the "Trustee") of the Company's bankrupt estate by the Office of the Superintendent of Bankruptcy. The appointment of KSV as Trustee is subject to affirmation by creditors at the first meeting of creditors.
2. Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "Court") made on August 8, 2023 (the "Receivership Order"), KSV was also appointed receiver (the "Receiver") of the Company's property, assets and undertaking (the "Property").

1.1 Restrictions

1. In conducting its review and preparing this report, the Trustee has relied upon certain of the Company's unaudited financial statements and the Company's books and records.
2. The Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the financial information relied upon to prepare this report 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.
3. All references to dollar amounts in this report are to Canadian dollars, unless otherwise stated.

2.0 Background

1. The Company was formed by the amalgamation of Tabco Auto Brake Co. Ltd. and Capital Tool & Design Limited, which amalgamation occurred on January 1, 2005 pursuant to the *Business Corporations Act* (Ontario). The original name of the amalgamated entity was also Capital Tool & Design Limited, before the name was changed to Util Canada Limited on June 20, 2011.
2. The Company is owned by Util Industries S.p.A. ("Util Italy"), based in Italy.
3. The Company, together with Util Italy and another affiliate operating in China, manufactures "fine blanking" parts for automotive braking system back plate components, and is a global provider of braking systems and other solutions for the automotive and other industrial segments, including plates for combustion engines in the agricultural sector and scaffolding disks for the construction industry. Fine blanking technology is principally demanded by high-end original equipment vehicle manufacturers. The Company also uses conventional blanking technology, particularly in its aftermarket division, where the quality/price ratio is of primary importance to the customer, and manufacturing tolerances are less stringent.
4. Immediately prior to its bankruptcy on August 4, 2023, the Company employed approximately 180 individuals, including 140 members of Unifor Local 112. The Company operated around the clock 5-6 days per week. Upon the Company's bankruptcy, all of the employees were terminated. The Receiver has retained several individuals on a term-and-task basis to assist with the administration of the proceedings.
5. The Company operated from leased premises located at 270 Spinnaker Way, Concord, Ontario (the "Premises").
6. Several of the Company's customers stated that they are reliant on the Company for the uninterrupted supply of braking system components which they then supply on a just-in-time basis to several North American automotive original equipment manufacturers (collectively the "OEMS" and individually, an "OEM"). In the days prior to the Trustee's appointment, and since that time, the Trustee and the Receiver have been contacted by substantially all of the Company's customers to express the urgency of the situation and the need for the Company to continue to operate for a period of time to ensure the continuous supply of products. In this regard, the Receiver is nearing completion of an agreement that would result in participating customers fully funding a resumption of the Company's operations for a limited period of time, at their risk and expense, and with incremental revenue to be earned by the receivership estate during the production process.
7. The primary purpose of the receivership proceeding is to facilitate a process to allow the Company's customers to transition the production of their parts by the Company on an orderly basis to another vendor and to market the Company's business and assets for sale. It may also provide the opportunity for future employment for the Company's employees if a transaction can be completed. In this regard, several parties have contacted the Receiver to advise of an interest in acquiring some or all of the Company's business.
8. Further information concerning the bankruptcy and receivership proceedings is available on KSV's website at <https://www.ksvadvisory.com/experience/case/utilcanada>.

3.0 Assets

1. Based on the Company's statement of affairs filed in the bankruptcy proceeding, the estimated value of the Company's assets as of August 4, 2023 totaled approximately \$13.3 million, comprised of cash (\$400,000), accounts receivable (\$1.5 million), inventory (\$3.4 million) and equipment (\$8 million).
2. The Company's assets as of the date of the bankruptcy are summarized below. Pursuant to the Receivership Order, the Property is being administered by the Receiver.

3.1 Cash

1. As at the date of bankruptcy, the Company had balances of approximately \$303,000 in its Canadian dollar bank account and \$137,000 in its US dollar bank account. The funds, net of nominal balances, have been transferred to the Receiver's estate accounts.

3.2 Accounts Receivable

1. The Trustee understands that the Company's largest receivables were factored pursuant to an arrangement with Util Italy whereby Util Italy purchased the Company's interest in the invoices it rendered, which Util Italy then factored with a third party.
2. The non-factored accounts receivable of approximately \$1.5 million represents amounts owing from 26 customers. The Receiver has been in contact with most of these customers to collect the balances owing.

3.3 Inventory

1. The Company's inventory is comprised of raw material (largely steel), work-in-process ("WIP") and finished goods. The Receiver has sold a portion of the finished goods inventory to the customers for which the goods were produced; the Receiver will continue to sell inventory to OEM and aftermarket parts customers. The Receiver also intends to utilize certain of the raw material and the WIP in the resumption of production.

3.4 Equipment

1. The Company's equipment is comprised of presses, computer numerical control (CNC) machines, stamping machines, grinders, welding machines, forklifts, cranes, tooling and other plant equipment.
2. The Company estimated the realizable value of this equipment to be \$8 million. The realizable value will depend on whether the Company's business and assets are sold as a going concern or if the equipment is liquidated following a competitive process to solicit proposals.

3.5 Other

1. In addition to operating from the Premises, as of the date of bankruptcy, the Company operated a manufacturing plant in Monterrey, Mexico (the “Mexican Plant”). The Trustee understands that the Company funded the operations through a “shelter company”, being a special purpose entity set up by a local company in Mexico.
2. The Company and Util Italy each own a significant press located at the Mexican Plant. The Company also owns certain other manufacturing equipment. The Trustee understands that the realizable value of the Company’s equipment in Mexico may be less than USD \$1 million; however, access to such equipment for sale and removal is subject to payment of various obligations incurred at the Mexican Plant, and to be incurred at the Mexican Plant, such as the remaining term of the premises lease (approximately five years), payroll, vendors and other costs. The Receiver is presently in discussions with the Company’s largest customer and Util Italy as to whether operations can be restarted, and if not, whether there is any means by which to generate proceeds of realization for the Company’s assets located at the Mexican Plant.

4.0 Creditors

4.1 Secured Creditors

1. Based on a search under the *Personal Property Security Act* (Ontario) (the “PPSA”), the Company’s largest known secured creditors are¹:
 - DEA Capital Alternative Funds SGR S.p.A. (“DEA”) totaling approximately \$17.3 million in respect of various loans taken out by Util Italy where the Company is a guarantor of the indebtedness owing by Util Italy to DEA; and
 - Illimity Bank S.p.A. (“Illimity”) totaling approximately \$36.5 million in respect of various loans taken out by Util Italy where the Company is a guarantor of the indebtedness owing by Util Italy to Illimity.
2. As the Company is a guarantor of the indebtedness referenced above, the Company’s obligations to DEA and Illimity may not be fully determined until recoveries from Util Italy are also known. Util Italy is continuing to operate in the normal course. Util Italy’s loans from DEA and Illimity do not mature until 2027.

4.2 Potential Priority Claims

1. Demands have been received from six vendors for repossession of goods pursuant to Section 81.1 of the *Bankruptcy and Insolvency Act* (“BIA”). In that regard, the support provided by the claimants is being reviewed and compared with the goods on hand that meet the criteria set out in that section of the BIA.

¹ Estimated balances were converted from Euros to Canadian dollars.

2. As referenced above, the Company's employees were terminated upon the bankruptcy. The Receiver is administering the process under the Wage Earners Protection Program in respect of amounts owing to the former employees, including any amounts that rank as a priority under Section 81.3 of the BIA.
3. The Trustee is not aware of any priority and/or trust claims other than those referenced above.

4.3 Unsecured Creditors

1. Based on the records made available to the Trustee, unsecured claims against the Company are approximately \$33.3 million, including \$18.5 million owing to Util Italy. This amount does not include statements of claim issued against the Company which have not yet been determined.
2. As at the date of this report, the Trustee has received 59 proofs of claim filed against the Company for approximately \$26.2 million.

4.4 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.

5.0 Books and Records

1. The Trustee has taken possession of the books and records located at the Premises. The Trustee has also taken possession of the Company's minute book.
2. The Trustee obtained a backup of the Company's network and servers.

6.0 Preferences and Transfers Undervalue

1. A trustee is required to conduct a review for preferences and transfers at undervalue. In this regard, the Trustee reviewed the Company's bank statements for the year preceding the date of bankruptcy, focusing on all disbursements greater than \$25,000.
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.

7.0 Anticipated Realization and Projected Distribution

1. The proceeds of realization from the Company's assets will be distributed in the receivership proceeding to the Company's secured creditors, if any.

2. It is not presently known whether there will be any distributions available to unsecured creditors from the realization of the Property. Such recoveries will be known once the Company's assets are monetized, either through one or more transactions for the Company's business and assets or a liquidation of its assets, and will depend on whether DEA and/or Illimity make claims against the Company pursuant to the Company's guarantees. As the loans with DEA and/or Illimity only mature in 2027, the proceeds associated with realization of the Property may not be available for distribution for several years.

8.0 Third Party Guarantee

1. In consideration for KSV agreeing to act as Trustee in the Company's bankruptcy proceeding, in the event there are insufficient funds available to pay administration costs incurred by the Trustee and its counsel, the Receiver has guaranteed the Trustee's fees, expenses and costs of administration of the bankrupt estate, including the fees and costs of Aird & Berlis LLP ("Aird & Berlis"), legal counsel to the Trustee. To the extent the Receiver is required to pay the Trustee's fees, expenses and costs of administration of the bankrupt estate, it will be entitled to be reimbursed from any recoveries made by the Trustee on behalf of the estate.

9.0 Other Matters

1. The Trustee intends to seek creditor approval for the appointment of Aird & Berlis as its legal counsel in these proceedings.
2. Aird & Berlis has provided the Trustee with opinions in respect of DEA and Illimity that, subject to usual assumptions and qualifications for opinions of their nature, confirm that the security interests created by such security have been perfected by registration under the PPSA and would rank in priority to the interest of a trustee in bankruptcy in the Company's assets, properties and undertakings.

* * *

DATED at Toronto, Ontario, this 25th day of August 2023.

All of which is respectfully submitted,

KSV Restructuring Inc.

**KSV RESTRUCTURING INC.,
SOLELY IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE
OF THE ESTATE OF UTIL CANADA LIMITED,
AND NOT IN ITS PERSONAL CAPACITY**