

Division of: Ontario
Division No.: 08 - Waterloo
Estate Number: 35-3076617
Court Number: 35-3076617

**IN THE MATTER OF THE BANKRUPTCY OF
SHU-PAK EQUIPMENT INC.
OF THE CITY OF CAMBRIDGE
IN THE PROVINCE OF ONTARIO**

REPORT OF THE TRUSTEE'S PRELIMINARY ADMINISTRATION

Background

1. Shu-Pak Equipment Inc. ("**Shu-Pak**" or the "**Company**") was in the business of manufacturing side-loading garbage trucks. The Company employed 23 non-union employees.

Introduction

2. On May 3, 2023, Shu-Pak filed with the Official Receiver a notice of intention ("**NOI**") to make a proposal to its creditors and named Dodick Landau Inc. ("**DLI**") as Proposal Trustee ("**NOI Proceedings**").
3. Subsequent to the filing of its NOI and the granting of an initial 45 day stay extension by the Ontario Superior Court of Justice (Bankruptcy) (the "**Court**"), the Company exhausted its cash reserves, was unable to secure additional financing and therefore, could not pay its bills when they came due. As a result, the Company did not qualify for a further extension to its stay of proceedings.
4. As a result, the Company was deemed bankrupt on July 18, 2024 ("**Date of Bankruptcy**") and DLI became Trustee in Bankruptcy of the Company (the "**Trustee**").

Causes of Financial Difficulties

5. According to management of Shu-Pak ("**Management**"), beginning in 2020, Shu-Pak experienced financial and operational difficulties due to the COVID-19 pandemic. The pandemic affected production in several ways, including: (i) difficulty in sourcing production materials due to supply chain disruptions, and truck chassis shortages; (ii) increased material costs; and (iii) employee attendance affected by exposure to COVID.
6. On June 30, 2023, Shu-Pak was required to move out of its production facility following the sale of its building by the landlord. The new owner required the facility for its own operations and declined to renew Shu-Pak's lease.
7. Consequently, Shu-Pak's production line was shut down for 10 months from June 2023 to March 2024. Temporary facilities were found for the interim shut-down period that allowed

Shu-Pak to sell parts and carry-out truck repairs for customers. However, no manufacturing production occurred during this shut-down period. Shu-Pak temporarily laid off some employees to conserve cash, however, the skilled and experienced production staff were retained to attempt to preserve the long-term viability of the Company.

8. On January 17, 2024, a two-year lease was signed with the landlord of its current facility at 777 Laurel St. Cambridge, Ontario (“**Premises**”). In February 2024, Shu-Pak moved into the Premises and in late March 2024 the production line restarted. Moving from a 60,000 sq. ft. facility into temporary facilities and again into the Premises was very costly and disruptive to the Company’s operations and, consequently, it caused a significant cash drain to the business.
9. According to the financial information provided by Management, Shu-Pak experienced significant cumulative losses totaling approximately \$8.6 million.

Insolvency Proceeding

10. Following its appointment as Trustee, DLI distributed a Notice of Bankruptcy, a copy of the Statement of Affairs and a Proof of Claim form with instructions to all known creditors by July 25, 2024, as well as placed a Notice of Bankruptcy ad in the Toronto Sun on July 24, 2024.

Assets

11. Shu-Pak’s remaining realizable assets, as summarized in the Statement of Affairs, were: accounts receivable of \$5,000, machinery and equipment of \$50,000, a garbage truck valued at \$190,000 and other property valued at \$1,000. In addition, since the Date of Bankruptcy, a Scientific Research and Experimental Development (“**SRED**”) credit refund of approximately \$600,000 was received by the Estate.

Books and Records

12. The Trustee has received the books and records but has not yet had an opportunity to review all of them.

Conservatory and Protective Measures

13. The Trustee has taken possession of the Premises and is in the process of concluding an occupation agreement with the Landlord of the Premises.

Provable Claims

14. The Statement of Affairs lists the Canada Revenue Agency (“**CRA**”) as a secured creditor with a deemed trust claim in respect of unpaid payroll remittances totaling approximately \$1.6 million.
15. The Statement of Affairs lists 29 preferred creditors with potential provable claims totaling \$47,599.14 and 99 unsecured creditors with potential provable claims totalling \$13.3 million.

16. At the date of this report, the Trustee has received one proof of claim from CRA totalling \$2,671,597, consisting of a secured deemed trust claim totaling \$1,601,5412, and an unsecured claim of \$1,070,055, both relating to employee and employer unremitted payroll source deductions including accumulated interest and penalties. CRA is in the process of carrying out a payroll audit which may result in its claim being amended. The Trustee has engaged James Tanner on a temporary basis to assist the Trustee with, among other things, gathering the information required by the payroll auditor.
17. In addition, the Trustee has also received proofs of claim from 27 preferred and unsecured creditors totalling \$9,969,342. To date, the claims received from all creditors total \$12,640,938.

Sales Process, Anticipated Realizations and Projected Distribution

18. As at the Date of Bankruptcy, there was one unfinished garbage truck on hand which had been built for the Town of Whitby. Following the Date of Bankruptcy, the Trustee obtained a \$17,000 loan from Victor Mele, one of the shareholder's of the Company, to continue to employ certain staff for several days, and purchase the remaining parts needed, to complete the garbage truck and have it delivered to its customer. Following the completion and delivery of the truck, the operations at the Premises ceased, as there were insufficient funds available to operate the business. The Trustee is in direct communication with the Town of Whitby which agreed to fund the cost to purchase the chassis from the sale proceeds to be able to transfer ownership of the truck to the Town of Whitby, and then collect the balance owing to the bankrupt Estate for the truck.
19. The Trustee has conducted a short sales process for Shu-Pak's assets ("**Sales Process**") which included:
 - i. contacting prospective purchasers;
 - ii. receiving signed non-disclosure agreements from interested parties;
 - iii. providing access to a data room with information about the business; and
 - iv. arranging visits to the Premises
20. As a result of the Sales process, the Trustee obtained offers for the purchase of the assets of the business. The Trustee will review the offers with inspectors at a Meeting of the Inspectors.
21. According to Management, the Company can claim further SRED tax credits as part of the Company's fiscal year-ended June 30, 2024, corporate tax return which Management has estimated to be approximately \$400,000. The Trustee will investigate further the possibility of making this claim.

22. Based on the claims received to date, the first \$1.6 million realized from the sale of assets will be payable to CRA in respect of its secured deemed trust claims for unremitted payroll source deductions.
23. The Trustee has contacted CRA about entering into an Administrative Agreement, which will allow the Trustee to complete its realizations, and is awaiting a formal response. However, CRA has indicated verbally that it is supportive of the Trustee's efforts to date to realize on the assets of the Company.
24. Based on the projected realizations to date by the Trustee, total realizations may not be sufficient to repay CRA's secured claim in full, in which case CRA will experience a shortfall. As such, there will be no proceeds remaining for distribution to Shu-Pak's unsecured creditors.
25. Employee claimants may also be eligible to receive funding of a portion of their claims from the Federal government's Wage Earner Protection Program ("WEPP"). The creditor packages mailed to the employees provides them with information about the program and how to apply. The Trustee has also begun making submissions to the WEPP program, which is required in order for the employees to make their WEPP applications and receive WEPP payments.

Transfers at Undervalue and Preferential Payments

26. To date, the Trustee has not commenced a review of Shu-Pak's records in the Trustee's possession to determine if there are any potential transfers at undervalue or preferential transactions.

Third-Party Deposit

27. Prior to the commencement of the NOI proceeding, the Trustee obtained a retainer deposit totalling \$5,000 from a third-party as security for a portion of the costs of the NOI administration ("**Deposit**"). The Deposit was applied in full to the Proposal Trustee's fees and disbursements during the NOI proceeding. No additional deposit was received for the Bankruptcy administration.

Dated at Toronto, Ontario, this 6th day of August 2024.

DODICK LANDAU INC.

Acting solely as Trustee in Bankruptcy
of the Estate of Shu-Pak Equipment Inc.
and not in its personal or corporate capacity.

Per:



Rahn Dodick CPA, CA, CIRP, LIT
President