

Division of: Ontario
Division No.: 09 - Mississauga
Estate Number: 32-3137745
Court Number: 32-3137745

**IN THE MATTER OF THE BANKRUPTCY OF
DATEC COATING CORPORATION
OF THE CITY OF MISSISSAUGA
IN THE PROVINCE OF ONTARIO**

REPORT OF THE TRUSTEE'S PRELIMINARY ADMINISTRATION

Background

1. Datec Coating Corporation (“**Datec**” or the “**Company**”) was in the business of developing and manufacturing custom heating, coating, and thermal solutions for customers across Canada and the United States (the “**Business**”). The Company employed nine full-time salaried employees, three specialized contractors and two students from September 2024 to December 2024.

Introduction

2. On October 4, 2024, Datec 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 completed a sale of its assets to a third-party purchaser, Urecka Canada Corporation (the “**Purchaser**”). The sale is discussed further in this report.
4. As there were insufficient proceeds from the sale of its assets to the Purchaser to make a Proposal to its creditors, on December 28, 2024 (“**Date of Bankruptcy**”) Datec was deemed bankrupt on account of its non filing of a Proposal within the Court-granted extension period and DLI became Trustee in Bankruptcy (the “**Trustee**”) of the estate of Datec.

Causes of Financial Difficulties

5. In and around 2020, Datec began experiencing cash flow pressures due to increasing debt servicing requirements, increasing rent payments for its leased premises, and decreasing revenues caused by extrinsic conditions including high interest rates, the effects of COVID-19 on the Company’s customers in the food service industry, and the rising cost of labour and material.
6. In response to the Company’s cash flow pressures, the Company implemented an operational restructuring to decrease the Company’s operating costs and enhance the Company’s market

position. The restructuring included decreasing the number of employees, modifying the employment structure of the Business, scaling its operations in the kitchen appliance industry, increasing the price of their products, trying to obtain payment on delivery from the Company's customers, and reducing its number of suppliers.

7. The Company also obtained a fixed term rate loan from the Royal Bank of Canada ("**RBC**") pursuant to the Highly Affected Sectors Credit Availability Program (HASCAP) in the amount of \$250,000 ("**RBC Loan**"). Despite its operational restructuring and the RBC Loan, the Company continued to suffer liquidity challenges as sales remained slower than expected due to the high interest rates and the long-term effects of COVID-19 on certain industries.

Pre-Filing Sales Process

8. The Company determined it required a long-term solution to restructure its Business and balance sheet. Accordingly, in early 2022, the Company retained XL Business Consulting & Financing Inc. ("**XL**"), an investment banker to conduct a marketing and sale process for the Company (the "**Pre-Filing Sale Process**").
9. During the Pre-Filing Sale Process, XL contacted over 30 parties that were in the industry or were in a complimentary industry about a strategic investment in or purchase of the Business.
10. The Pre-Filing Sale Process lasted over a year and a half until approximately November 2023 but did not generate an offer from any of the parties for the Business. As such, the Company terminated the Pre-Filing Sale Process to preserve the Company's cash flow.
11. After the completion of the Pre-Filing Sale Process, the Company was approached by a company affiliated with the Purchaser, who advised it was interested in investing in the Company.
12. During the negotiations, the Company's cash flow pressures continued to mount. As a result, in September 2024, the Company was unable to make its debt service payment to its principal secured lender, Western Ontario Community Futures Development Corporation Association ("**WOCFDCA**") or in respect of its monthly lease payments to De Lage Laden Financial Services Canada Inc. ("**De Lage**") for the equipment leased by the Company pursuant to an Equipment Leasing Agreement dated April 25, 2023 (the "**Equipment Lease**").

SISP

13. To preserve its ongoing operations and value, the Company filed the NOI on October 4, 2024.
14. After filing the NOI, the Company, in consultation with the Proposal Trustee, had continued to solicit interest in a sale or investment in the Company. On October 23, 2024, the Court approved the Sale and Investor Solicitation Process ("**SISP**"), a formal sales process undertaken by the Trustee. These efforts successfully led to the agreement of purchase and sale from the Purchaser. Five other parties advised the Company they were interested in exploring a sale or investment transaction, signed a Non-Disclosure Agreement with the Proposal Trustee and carried out due diligence.

15. The SISP provided a mechanism to widely expose the Company's Business to the market and provide a structured and orderly process for interested parties to perform due diligence and submit offers for a potential transaction.
16. The SISP involved a stalking horse bid in the form of the Stalking Horse Agreement (the "**Stalking Horse Bid**"). The Stalking Horse Bid was intended to stimulate market interest by setting a "floor" price that bidders would bid against.
17. The SISP contemplated a 30-day sale process managed by the Proposal Trustee, with a potential auction phase to be conducted if one or more qualified bids were received. This process was in addition, and as a continuation, of the sale and investment process started by the Company.
18. The Stalking Horse Bid was the only Qualified Bid (as defined in the SISP) received and on December 2, 2024, the Trustee declared the Stalking Horse Bid to be the successful bid under the SISP.
19. The sale transaction closed on December 20, 2024 ("**Closing**").
20. Certain key terms and conditions of the Stalking Horse Agreement are summarized below.
 - a) **Purchased Assets:** All of the Company's assets, properties and undertakings other than the Excluded Assets. The Purchased Assets include, books and records, equipment, inventory, intellectual property, licences and permits, receivables, customer deposits and Assumed Contracts.
 - b) **Excluded Assets:** The purchase price, all cash and money in the Company's bank accounts except for customer deposits, and the SR&ED Credit (all as defined in the Stalking Horse Agreement).
 - c) **Purchase Price:** \$300,000 comprised of: (i) a credit bid of the amount outstanding under the Purchaser's DIP loan to the Company; and (ii) the balance in Cash. In addition to the cash portion required to fulfill the \$300,000 purchase price the Purchaser will pay any cash required to pay the cure costs for all the assumed contracts, if any.
 - d) **Treatment of Employees:** After the Closing Date, the Purchaser re-hired the majority of the employees.
 - e) **Treatment of SR&ED Credit:** The Purchaser will provide the Trustee with assistance for the application of the Scientific Research and Experimental Development tax credit (the "**SR&ED Credit**"), which will provide additional funds to the estate for the benefit of the creditors if approved.

Insolvency Proceeding

21. 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 January 9, 2025, as well as placed a Notice of Bankruptcy ad in the National Post.

Assets

22. As noted above on Closing, the Proposal Trustee was paid approximately \$130,000 by the Purchaser, net of closing costs, in respect of the balance of the Purchase Price (in addition to the credit portion of the offer). The Trustee allocated (i) \$27,000 of the funds to the professionals for outstanding fees and disbursements with respect to the Proposal proceeding pursuant to the Administrative Charge approved by the Court on October 23, 2024; and (ii) approximately \$103,000 remains with the Trustee (“**Net Sale Proceeds**”).
23. The SR&ED tax credit will be filed by former management on behalf of the estate in the first quarter of 2025. The quantum of the refund is unknown at this time as it has not yet been calculated and will still need to be accepted by CRA once filed.
24. The Purchaser advised the Trustee that it does not require the equipment secured with DeLage, which has a remaining balance of \$20,000 owing under its lease. The Trustee is attempting to sell this equipment to see if it has a market value over and above the \$20,000 owing to DeLage. Danbury Global is currently marketing the equipment for sale.

Books and Records

25. The Trustee has received certain books and records, and has access to the balance of the books and records in the possession of the purchaser.

Provable Claims

26. At the date of this report, the Trustee has received five proofs of claim from unsecured creditors totalling \$137,917 and one secured claim from WOCFDC, the Company’s principal secured creditor, for \$350,000, for total claims of \$487,917.
27. The Statement of Affairs lists 47 creditors with potential provable claims totalling \$800,681.

Anticipated Realizations and Projected Distribution

28. The Net Sale Proceeds in the Trustee’s possession together with the future SR&ED credit, if any, will first be distributed to: (i) former employees of Datec in respect of super priority claims of up to \$2,000 each, or if funded by Wage Earner Protection Program (“**WEPP**”) to the employees then as a reimbursement to WEPP; and (ii) remaining proceeds will be paid to WOCFDC up to the value of its secured debt of \$350,000, subject to the Trustee’s review of WOCFDC’s security prior to a distribution.
29. At this time, it is anticipated that the total anticipated net realizations will be insufficient to repay WOCFDC’s secured claim in full and WOCFDC will experience a shortfall.

30. Employee claimants may also be eligible to receive funding of a portion of their claims from the 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 for those employees who have submitted claims to date in the Bankruptcy, as required prior to the employees making their applications.

Transfers at Undervalue and Preferential Payments

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

Third-Party Deposit

32. Prior to the commencement of the NOI proceeding, the Trustee obtained a retainer deposit totalling \$15,000 from Datec 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 24th day of January 2025.

DODICK LANDAU INC.

Acting solely as Trustee in Bankruptcy
of the Estate of Datec Coating Corporation
and not in its personal or corporate capacity.

Per:



Rahn Dodick CPA, CA, CIRP, LIT
President