

District of ONTARIO
Division 04-Owen Sound
Estate #: 35-2526785
Court # 35-2526785

**IN THE MATTER OF THE PROPOSAL OF
ON TRACK DOOR SYSTEMS CANADA INC.
OF THE CITY OF OWEN SOUND,
IN THE PROVINCE OF ONTARIO**

REPORT OF TRUSTEE TO THE CREDITORS
(Section 50(5) of the Bankruptcy and Insolvency Act)

To the Creditors of On Track Door Systems Canada Inc. (“On Track” or the “Company”):

This report is prepared in conjunction with the Proposal under Part III, Division I, of the *Bankruptcy and Insolvency Act* (the "Act") which has been lodged with MNP Ltd. (the "Trustee"), filed with the Official Receiver in Toronto, Ontario on July 22, 2019, and forwarded by regular mail to all known creditors (the "Proposal").

We caution readers that we have not conducted an audit or investigation of the books and records of the Company. Consequently, we cannot render an opinion as to the accuracy of the financial information contained in this Report. The information discussed herein has been obtained from discussions with management of On Track ("Management").

The following is an outline of the background and financial dealings of the Company, including relevant information that we feel will be of assistance to Creditors in considering their position with respect to the Proposal.

The terms and definitions used in this report have the same meaning as those defined in the Company's Proposal dated July 19, 2019 and all amounts are reported in Canadian dollars unless stated otherwise.

1. Background

On Track is in the business of installation of track door systems for both residential and commercial customers. The Company operates from leased premises, owned and controlled by the principals of the Company, located at 717950 ON-6, Owen Sound, Ontario.

The Company currently has 9 employees and hires additional contractors as needed to complete installations.

On Track was a defendant in two legal proceedings, one with a competitor and another with the principal of the Company's former spouse as it related to the former spouse's constructive trust claim as against the Company. During the legal proceedings, On Track expanded to two additional locations, which ultimately were unsuccessful. Due to the significant startup costs of the new locations and the legal fees being incurred at the time, On Track suffered from large operating and cash losses.

The Company fell behind in its remittances to the Canada Revenue Agency (the "CRA") for employee payroll source deductions. The CRA subsequently had the Company's bank accounts at Royal Bank of Canada garnished such that the Company was left with almost no ability to continue operations. As a result, in order to continue and fund operations, the Company arranged for cash injections on a secured basis from a related party and then filed a Notice of Intention to Make a Proposal on June 24, 2019 (the "NOI").

2. The Proposal

The purpose of this Proposal is to effect a restructuring of the business and affairs of the Company by addressing the cash flow shortfalls of the Company and provide the ability to continue operations. The expectation of this Proposal is that all Creditors and other stakeholders will derive a greater benefit from the proceeds of the Company's future operations than would result from an immediate forced liquidation of On Track's assets in a bankruptcy.

The Proposal at hand is to be funded by the Proposal Fund (as term is defined in the Proposal) as follows:

- On Track shall pay the sum of \$10,000 to the Trustee contemporaneously with issuance of the Approval Order and shall pay an additional \$110,000 to Trustee at a rate of \$13,750 every three months after issuance of the Approval Order; and
- does not include any payments made by the Debtor for amounts owing to Preferred Creditors noted in 1.1(p)(ii) of the Proposal, and any such amount shall not be considered as part of the Proposal Fund.

The Proven Claims of Preferred Creditors are to be paid by the Trustee in full from the Proposal Fund in priority to all claims of Unsecured Creditors in accordance with the scheme of distribution set forth in the Act. As summarized in the Statement of Affairs, the Trustee is not aware of any Preferred Creditors.

If this Proposal is accepted by the Creditors and approved by the Court, Related Party Creditors shall not participate in the distribution of the Proposal Fund.

The Proposal provides for a recovery to Unsecured Creditors as summarized below:

	<i>Notes</i>	
Payments by the Company to the Proposal Fund	(1)	\$120,000
Less: Estimated administrative fees and expense	(2)	45,000
Available for distribution		<u>75,000</u>
Estimated Claims of Unsecured Creditors per Statement of Affairs ("SOA")	(3)	<u>877,774</u>
Estimate Distribution to Ordinary Unsecured Creditors per dollar of proven claim		<u>8.5%</u>

Notes:

1. Payments do not include payments made to Preferred Creditors including amounts paid to the CRA for payroll source deductions.
2. The estimated professional fees are reflected inclusive of On Track's Administrative Fees and Expenses.
3. For the purposes of estimated yield to Unsecured Creditors, it is assumed that the proven claims equal the declared claims on the SOA, excluding potential claims for unsecured amounts owing to Secured Creditors.

If the Proposal is rejected by the Creditors, the Company will be deemed bankruptcy. The anticipated realizations from a bankruptcy are summarized below:

	<i>Note</i>	Estimated Realization
Inventory	(1)	10,000
Accounts Receivable	(2)	100,000
Machinery, Equipment and Plant	(3)	197,000
Estimated Gross Realizable Value of On Track's assets:		307,000
Less:		
Claims of CRA and Secured Creditors	(4)	<u>(478,441)</u>
Available for distribution		<u>Nil</u>

Notes:

1. Inventory comprises stock doors and hardware. The Trustee has not obtained a formal appraisal in respect of the liquidation value of these assets and the value is based on the Management's estimates only, as set out in the SOA.
2. Accounts receivable of \$100,000 represents the amounts of receivables that Management has considered as collectable. On the basis of the Trustee's review of these accounts receivable, based on the aging, it appears as if On Track were bankrupt, recoveries from this source could be lower than the value ascribed on the SOA.
3. Equipment comprises vehicles, installation trucks, and a forklift leased by the Company as well as other miscellaneous items. The Trustee has not obtained a formal appraisal in respect of the liquidation value of these assets and the value is based on the Management's estimates as set out in the SOA. The Trustee notes that the vehicles and trucks are all newer models that have been fully encumbered, and no realizations would be expected from the equipment in a bankruptcy scenario.
4. In the event of a bankruptcy, claims of CRA for unremitted source deductions and Secured Creditors would rank ahead of unsecured creditors. The Trustee has not obtained an independent legal opinion on the validity or enforceability of the securities granted by On Track and has no reason to assume that they are not valid and enforceable.

The Proposal as filed includes all the statutory terms required by s. 60 of the Act, with respect to the amounts and timing of payment of Preferred Creditor claims, the fees and expenses of the Trustee, Crown claims under s. 224 (1.2) of the *Income Tax Act (Canada)*, and employee amounts under s. 136(1)(d) of the Act.

The claims of Secured Creditors, if any, and as defined in the Proposal are not affected by the Proposal and will be paid in accordance with the present arrangements existing between On Track and the holders of secured claims, or as may be arranged.

The Proposal calls for inspectors, to be elected at the Creditor's Meeting, who will have the power to advise the Trustee with respect to any dispute which may arise as to the validity of claims of unsecured creditors and other matters the Trustee may refer to them.

The description of the Proposal is a summary only, and readers are cautioned that in the event that there is an inconsistency between this report and the Proposal, the terms of the Proposal shall govern.

3. Legal Opinions

A Personal Property Security Search, dated July 22, 2019, revealed registrations by the following creditors:

- 1) Royal Bank of Canada
- 2) Toyota Industries Commercial Finance Canada, Inc.
- 3) Halton Autolease Inc.
- 4) Lisa McPherson

The Trustee has not obtained an independent legal opinion on the validity or enforceability of the security granted by On Track and has no reason to believe that the securities grant are not valid and enforceable.

4. Claims Against Directors of the Company

The Proposal provides that, Creditors agree that, immediately upon performance of the Proposal by the Company, all claims against the directors of the Company that arose before the Date of Filing and that relate to the obligations of the Company where the directors are by law liable in their capacity as directors for payment of such obligations, shall be compromised and extinguished. Based on preliminary discussions with Management, the Trustee is not aware of any preference transactions, transactions at undervalue or other transactions where the Director's might be liable.

5. Estimated Realizations to Creditors

If the Proposal is rejected, the Company will automatically be deemed a bankrupt. As noted earlier in this Report, it is anticipated that in the event of a bankruptcy, the realizable value of the Company's assets would be approximately \$307,000. After payment of amounts owing to the CRA for unremitted payroll source deductions and claims by Secured Creditors, it is unlikely that there would be any distribution to Unsecured Creditors.

6. Procedure for Dealing with the Proposal

This Proposal will become effective only if it is accepted by a resolution of the Unsecured Creditors and approved by the Court. To obtain Creditor approval, a simple majority in the number of Unsecured Creditors voting and also representing at least 2/3 of the dollar value of the Unsecured Creditors voting, must vote in favour of the Proposal. If the Unsecured Creditors do not accept the Proposal then the Company will be deemed to have made an assignment in bankruptcy and a first meeting of creditors in the matter of the bankruptcy will immediately take place. If the Proposal is rejected, the Company's date of the initial bankruptcy event shall be June 24, 2019.

If the Unsecured Creditors vote to accept the Proposal, Court approval of the Proposal must be sought. If the Court does not approve the Proposal, the Company would be deemed to have made an assignment in bankruptcy and the Trustee will then call a meeting of creditors in the matter of the bankruptcy.

When completing the Proof of Claim form submitted herewith, Creditors should include all outstanding amounts as at June 24, 2019, the date of the filing of the NOI. It is expressly noted and should be clearly understood that the Trustee, in its capacity as Trustee, assumes no personal liability for any claims that Creditors may have against On Track either before or after the filing of the NOI or the Proposal.

Creditors may attend, in person or by proxy, the meeting to consider the Proposal, which will be held at the Trustee's office at 700-3100 Steeles Ave E, Markham, Ontario on August 6, 2019 at 10:00 am (Toronto Time).

Creditors who do not wish to attend or be represented at the meeting but who wish to vote, may forward their Proofs of Claim and voting letters by either e-mail to michael.litwack@mnp.ca or fax to (416) 596-7894, to the Trustee so as to be received prior to 10:30 am (Toronto Time) on August 6, 2019.

7. Trustee's Recommendation to Creditors

The Trustee is of the opinion that acceptance of the Proposal is to the advantage of all Creditors since the Proposal provides for a dividend to Unsecured Creditors of approximately 8.5 cents per dollar of Proven Claims, whereas in a bankruptcy scenario there would be no expectation of a dividend to the Unsecured Creditors. Additionally, the Proposal would provide for continued operations of the Company and the continued employment of the Company's employees.

We trust the foregoing adequately explains the current and ongoing circumstances of On Track and the Proposal. If you have any questions, please contact Michael Litwack of MNP at (647) 475-4589 or via e-mail at michael.litwack@mnp.ca.

Dated at Toronto, Ontario this 24th day of July, 2019.

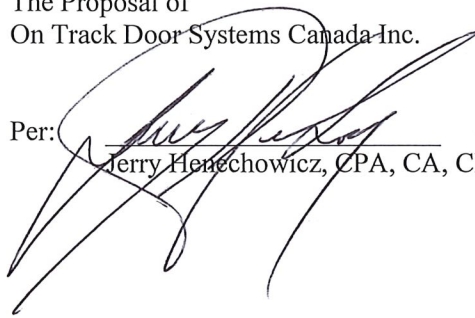
MNP Ltd.

Trustee Acting in *re*:

The Proposal of

On Track Door Systems Canada Inc.

Per:



Jerry Henechowicz, CPA, CA, CIRP, LIT