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C A N A D A  
DISTRICT OF ONTARIO  
DIVISION No.: 09- Toronto  
COURT No.: 32-2274852  
ESTATE No.: 32-2274852

**IN THE MATTER OF THE BANKRUPTCY OF: 2Source Manufacturing Inc.** (“2Source” or the “Bankrupt”),  
formed under the laws of Ontario, formerly having its head  
office at 5261 Bradco Blvd. Mississauga, ON, L4W 2A6

Bankrupt

## TRUSTEE’S REPORT TO CREDITORS ON PRELIMINARY ADMINISTRATION

The *Bankruptcy and Insolvency Act* (the “BIA”) provides for a first meeting of creditors. The purpose of this Report is to provide information to the creditors of the Bankrupt for consideration at the first meeting of creditors.

### SECTION A – BACKGROUND

Deloitte Restructuring Inc. was appointed as Receiver (the “Receiver”) of 2Source by Order of the Superior Court of Justice (the “Court”) on January 23, 2017. For a copy of the appointment order, subsequent Court orders, Report of the Receiver and further information on the activities of the Receiver, please refer to the Receivership website at:

<http://www.insolvencies.deloitte.ca/en-ca/Pages/2SourceManufacturingInc.aspx?searchpage=Search-Insolvencies.aspx>

2Source was incorporated on October 17, 2002 under the name Wolverhampton Inc., which was subsequently changed to Trilete Corp. on January 12, 2004 and then changed to 2Source on March 11, 2004.

The Trustee understands that 2Source operated profitably for a number of years. However, since the fall of 2015, 2Source lost two of its largest customers which, taken together, represented approximately 80% of its revenue base. 2Source was unable to replace the lost revenue leading to cash flow problems and defaults on its loans provided by the senior secured lender which resulted in the eventual appointment of the Receiver.

In the period immediately prior to the receivership, 2Source employed 71 non-union, full-time and part-time employees. The operations of 2Source in the ordinary course ceased prior to the appointment of the Receiver on January 23, 2017.

On July 20, 2017, by virtue of the authority provided to it by the Court in the Administrative Order on March 31, 2017, the Receiver filed an assignment in bankruptcy on behalf of 2Source. The Office of the Superintendent of Bankruptcy Canada issued the Certificate of Appointment on July 21, 2017 (the “Date of Bankruptcy”).

### SECTION B – PRELIMINARY EVALUATION OF ASSETS AND DETAILS OF SECURITY INTERESTS

A preliminary evaluation of the assets and liabilities of 2Source as at the Date of Bankruptcy is as follows:

<b>2Source Manufacturing Inc.</b> <b>Summary Financial Position</b> <b>as at July 20, 2017</b> <b>(in 000's)</b>		
<b>Assets</b>		
Cash in Receiver's Account		\$2,538
Accounts Receivable		\$1
Total Receivership Assets		\$2,539
<b>Liabilities</b>		
Secured claims:		
HSBC Bank Canada		\$2,538
Other (See List "B" in Form 78 )		\$1
Total Secured claims		\$2,539
Unsecured claims		\$9,424
Total Liabilities		\$11,963
Deficit		(\$9,424)

The business and operating assets of 2Source were sold in March 2017 to a company incorporated as AlliedOne Industrial Inc. (the "Purchaser"). The only remaining assets in the receivership estate are funds held by the Receiver, certain choses in action (as described below) and accounts receivable totaling approximately \$2.5 million. Since the secured claims against the estate exceed the immediate realizable value of the remaining assets, there will be a significant shortfall on the repayment of the secured claims against the estate with the result that there will be no funds available for distribution to the unsecured creditors of the estate.

#### **SECTION C – BOOKS AND RECORDS**

The Trustee, via the Receiver, has access to available books and records of 2Source.

#### **SECTION D – CONSERVATORY AND PROTECTIVE MEASURES**

Upon appointment, the Receiver took possession of all of the assets and undertaking of 2Source and remains in possession of the residual assets noted above. Accordingly, there are no assets in the possession and control of the Trustee.

#### **SECTION E – PROVABLE CLAIMS AND DESCRIPTION OF CREDITORS**

Based on the books and records of the Company, there are approximately 108 unsecured creditors owed approximately \$9.4 million. In addition to the security granted by the Company in favour of HSBC Bank Canada, other parties have registered security interests against 2Source as evidenced by the *Personal Property Security Act* search results provided by the Receiver's independent legal counsel. Leased assets have either been purchased by the Purchaser or returned to lessors.

The proofs of claim filed against this Estate are as follows:

	As per Statement of Affairs	Filed to August 10, 2017 at 9:00 a.m.
Secured	\$ 2,538,263.85	\$ 3,456,455.00
Preferred	\$ -	\$ -
Unsecured	\$ 9,424,469.11	\$ 2,825,953.45
	<b>\$ 11,962,732.96</b>	<b>\$ 6,282,408.45</b>

These claims are summarized in the table above. The Trustee will update the creditors in respect of the proofs of claim received at the first meeting.

#### **SECTION F – LEGAL PROCEEDINGS, REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS**

On October 7, 2015, 2Source issued a Statement of Claim under Court File No. CV-15-537943 against Messier-Dowty Inc., et al (“Messier”), claiming damages for breach of contract and misrepresentation in the sum of USD 4,030,000 and punitive damages in the sum of \$500,000 (the “Messier Claim”). On November 20, 2015, Messier filed a Statement of Defence and Counterclaim denying it had breached any contractual obligations and counterclaimed for liquidated damages in the amount of \$96,000 for 2Source’s failure to deliver products in accordance with their agreement and damages in the amount of \$1,500,000 for breach of contract. After consultation with the secured creditors of 2Source, the Receiver has decided not to continue the Messier Claim on behalf of 2Source.

By letter dated August 1, 2017, counsel for Robert Glegg and his holding company, 2006905 Ontario Inc. (“2006905”), wrote to the trustee requesting that it continue the Messier Claim and that, in the event that the Trustee does not intend to continue the Messier Claim, 2006905 intends to seek an order authorizing it to continue the proceeding Messier Claim in its own name and its own expense and risk pursuant to section 38 of the BIA.

On January 10, 2017, 2Source issued a Statement of Claim under Court File No. CV-17-567429 against United Technologies Corporation, et al (“UTAS”), claiming damages of at least \$25,000,000 for breach of the Competition Act, RSC 1985 c C-34, fraudulent misrepresentation, deceit, conspiracy and unlawful interference with economic interests and punitive damages in the amount of \$5,000,000 (the “UTAS Claim”). Based on an agreement between the Receiver and Robert Glegg, the UTAS Claim has continued in the ordinary course. As a result of the motion brought by UTAS on July 19, 2017, Justice Monahan ordered a stay of proceedings of the UTAS Claim in Ontario. Any further pursuit of the UTAS Claim would require that this decision be successfully appealed or that the action be brought in the State of New York. After consultation with the secured creditors of 2Source, the Receiver has decided not to continue to pursue the UTAS Claim on behalf of 2Source.

By letter dated July 28, 2017, counsel for Robert Glegg and 2006905, advised the Trustee that in the event that the Trustee does not intend to continue with the UTAS Claim on behalf of 2Source, 2006905 intends to seek an order authorizing it to continue the UTAS Claim in its own name and its own expense and risk pursuant to section 38 of the BIA.

On April 5, 2016, 2Source issued a Statement of Claim under Court File No. CV-16-550279 against Service Star Freightways Inc., Y7E Transport Inc., Royal & Sun Alliance Insurance Company of Canada and Hub International HKMB Limited claiming damages in the amount of \$300,000 resulting from costs incurred to remediate a paint/chemical spill at 2Source’s premises caused by Service Star and/or Y7E (the “Service Star Claim”). After Consultation with secured creditors of 2Source, the Receiver has continued to pursue the Service Star Claim for the benefit of the creditors of 2Source.

The Trustee will perform an assessment of preferences and transactions at undervalue and will report any findings at the first meeting of creditors.

#### **SECTION G – DETAILS OF THIRD PARTY DEPOSITS OR GUARANTEES**

As there are no assets in the bankruptcy estate to fund any claims, fees and costs of administration, the Trustee has requested that HSBC Bank Canada indemnify the Trustee and fund the fees and disbursements, including legal fees, by way of advances to the bankrupt estate from Court-approved distributions from 2Source’s receivership estate.

**SECTION H – TRUSTEE’S INTENTION TO ACT FOR SECURED CREDITORS**

As noted above, Deloitte Restructuring Inc. acts as the Court-appointed Receiver of 2Source and will continue to do so for the purpose of realizing on the remaining assets of 2Source, making Court-approved distributions to creditors. As Court-appointed Receiver, Deloitte Restructuring Inc. acts as an officer of the Court and does not act as agent for any secured creditor.

**SECTION I – PROJECTED DISTRIBUTION AND TRUSTEE COMMENTS ON ANTICIPATED ASSET REALIZATIONS**

As noted above, the Trustee advises that after the claims of the secured creditors there will be no assets available for distribution to unsecured creditors.

Dated at Toronto, Ontario this 10<sup>th</sup> day of August, 2017.

**DELOITTE RESTRUCTURING INC.**

In its capacity as  
Trustee in bankruptcy of 2Source Manufacturing Inc.

Per:

Hartley Bricks, MBA, CPA, CA, CIRP, LIT  
*Senior Vice-President*