

District of Ontario
Division No. 09 - Toronto
Court File No. 31-3166040
Estate No. 31-3166040

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY & INSOLVENCY)

IN THE MATTER OF THE BANKRUPTCY AND INSOLVENCY ACT, R.S.C., 1985, C.
B-3, AS AMENDED
AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
864884 ONTARIO INC.

FIRST REPORT OF BDO CANADA LIMITED
IN ITS CAPACITY AS PROPOSAL TRUSTEE

January 13, 2025

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I. INTRODUCTION

1. On December 16, 2024, (the "Filing Date"), 864884 Ontario Inc. o/a Hyperlink Logistics and/or Illuminex ("Hyperlink" or the "Company") filed a Notice of Intention to Make a Proposal ("NOI") pursuant to section 50.4 of the *Bankruptcy & Insolvency Act*, R.S.C. 1985, c. B-3 (the "BIA"). BDO Canada Limited ("BDO"), a Licensed Insolvency Trustee, was named proposal trustee ("Proposal Trustee") in the Company's proposal proceedings (the "Proposal Proceedings"). A copy of the certificate of filing of the NOI (the "Certificate of Filing") issued by the Office of the Superintendent of Bankruptcy (the "OSB") is attached hereto as Appendix "A".

II. PURPOSE OF THE REPORT

2. The purpose of this first report of the Proposal Trustee (the "First Report") is to advise the Court with respect to:
 - a) an overview of the Company;
 - b) background on the circumstances leading to the Company's decision to commence the Proposal Proceedings;
 - c) the Company's creditors;
 - d) the Company's operations and communications with stakeholders since the commencement of these Proposal Proceedings;
 - e) the Proposal Trustee's activities since its appointment;
 - f) an overview of the Company's 13-week cash flow forecast for the period December 15, 2024 to March 15, 2025 (the "Cash Flow Period"), and the Proposal Trustee's comments regarding the reasonableness thereof;
 - g) the Company's motion to seek an order (the "Proposed Order"):
 - (i) extending the time for the Companies to file proposals under section 50.4(9) of the BIA by 45 days to and including March 1, 2025; and
 - (ii) approving the First Report, and approving the activities of the Proposal Trustee described in the First Report; and

- h) the Proposal Trustee's recommendations on the relief being sought by the Company.
- 3. The Proposal Trustee understands that the Company will be relying on the affidavit of Mr. Daniele Ponzi ("Mr. Ponzi") sworn January 13, 2025 (the "DPonzi Affidavit") in support of the relief sought in the Proposed Order.
- 4. The DPonzi Affidavit, and all other materials filed with the Court in these Proposal Proceedings are accessible on the Proposal Trustee's websites at: <https://www.bdo.ca/services/financial-advisory-services/business-restructuring-turnaround-services/current-engagements/864884-ontario-inc> (the "Proposal Trustee's Website").

III. TERMS OF REFERENCE

- 5. In preparing this First Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon unaudited financial information, books and records and financial information prepared by the Company, discussions with the management and employees of the Company and other information from various sources (collectively the "Information"). Except as otherwise described in this First Report in respect of the Company's Cash Flow Forecast:
 - a) the Proposal Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposal Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of the Information; and
 - b) some of the Information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the Chartered Professional Accounts Canada Handbook, has not been performed.

6. Future-oriented financial information referred to in this First Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
7. Unless otherwise indicated, the Proposal Trustee's understanding of factual matters expressed in this First Report concerning the Company and its business is based on the Information, and not independent factual determinations made by the Proposal Trustee.
8. Unless otherwise noted, all monetary amounts contained in this First Report are expressed in Canadian dollars ("CAD").

IV. BACKGROUND

Company and Operations

9. The Company was incorporated on October 30, 1989 under the *Business Corporations Act (Ontario)*, and is controlled by Daniele Ponzi ("Mr. Ponzi"), Gianna Ponzi, Gianfranco Ponzi, and Isabella Ponzi (together, the "Ponzis"). The Company is 100% owned by the Ponzis.
10. The Company had two (2) operating divisions:
 - a) Hyperlink Logistics; and
 - b) Illuminex Technologies.
11. The Hyperlink division of the Company specializes in full service third-party logistics ("3PL") and fulfillment services by providing supply chain solutions for online business, brick and mortar companies, omni-channel businesses, sellers on the Amazon platform as well as other online platforms. More specifically, the Company provides customized supply chain solutions, 3PL e-commerce fulfillment expertise with over 35 years of experience in designing effective supply chains with state-of-the-art technology, transportation and distribution, warehousing, automated order fulfillment across Canada and the US, and small business logistics by optimizing shipping and logistics processes for small businesses.

12. The Illuminex Technologies division of the Company specializes in providing high-quality LED lighting products for indoor and outdoor use, manufactured in selected factories in Asia. The product range includes various indoor and outdoor lighting products such as slim panel downlight, flat panel and troffers, linear high bay, etc.
13. Hyperlink operates a 40,000 square feet warehouse facility located at 1 Keyes Court, Unit 1, Vaughan, Ontario (the "Premises").
14. The Company had a lease for a second warehouse located at 66 Lesmill Road, Toronto, Ontario, (the "Lesmill Warehouse"). The Company disclaimed the lease for the Lesmill Warehouse effective on the day of the NOI filing.
15. The Company's key management personnel include Mr. Ponzi serving as the vice president of business development and managing partner of the Company, and the directing mind of the business, who is supported by Isabella Ponzi (Administration manager) and Andrew Moonilal (director of operations).
16. As at the date of this First Report, the Company has approximately sixteen (16) employees, comprised of both full-time and part-time staff, and employs temporary agency services for operational staffing purposes. The Proposal Trustee understands that none of Hyperlink's employees are represented by a union and that the Company does not sponsor a pension plan or health benefit plan for any of its employees.

Financial Performance and Causes of Financial Difficulties

17. Hyperlink has undergone various events since 2023 which have negatively impacted its financial stability and resulted in diminishing liquidity, including:
 - a) loss of several key customers;
 - b) finance function deficiencies: the previous chief financial officer suddenly passed away in 2023 leaving no room for transition, and Gianfranco Ponzi, who had been familiar with the accounting system, is no longer involved in the day-to-day activities of the Company. This has led to accounting and financial reporting challenges;
 - c) system implementation challenges: the Company had changed its enterprise resource planning ("ERP") system from Navision to a new customized system in 2023, which implementation resulted in a failed data migration and lack

of intended functionality. This made financial reporting unreliable and inefficient, whereby many reports and processing has to be produced manually;

- d) unprofitable LED division: the Company had a significant amount of working capital tied up in LED inventory in the Illuminex division. Advancements in LED technology made Illuminex' s inventory less attractive in the market and sales began to decline. In an effort to minimize the Company's losses it attempted to sell the division. However, a sale to the sole interested buyer was aborted due to high demands from the division's operations manager required to run that business segment;
- e) pending labour litigation costs: the company faced a lawsuit from a key employee for constructive dismissal. There are also unresolved issues arising from the layoff of senior employees, and any associated costs; and
- f) liquidity constraints: the Company was dealing with limits on a previous revolving line of credit facility from the Royal Bank of Canada ("RBC"), and there were significant funds billed and paid to the provider of the failed ERP system for unresolved issues. Furthermore, the high rent for the non-core Lesmill Warehouse (approx. \$102,000 per month) and outstanding accounts payable totaling more than \$800,000 weighed on the Company's ability to service its debts as they became due.

18. In order to fund operations and sustain activities, the shareholders of the Company injected approximately \$270,000 throughout 2024 and began investigations into identifying potential partners in and/or purchases of the 3PL business segment.

Secured Creditors

19. According to the Personal Property Security Act ("PPSA") report of the Company dated November 21, 2024, the following entities have registered security interests against the Company's property:

- a) Royal Bank of Canada ("RBC") (in respect of former HSBC credit facilities) - general security agreement (the "RBC Loan");
- b) Vault Credit Corporation - specific equipment financing;
- c) Province of Ontario - 2023 Employer Health Tax;

- d) Business Development Bank of Canada - general security agreement;
- e) Meridian OneCap Credit Corp. - specific equipment financing; and
- f) Toyota Credit Canada Inc. - vehicle financing.

20. On December 13, 2024, Gianna Ponzi (the "Lender"), as guarantor to the RBC Loan, acquired the RBC Loan by paying off the balance of \$469,646.42 in accordance with the provisions of the *Mercantile Law Amendment Act, R.S.O. 1990, c. M.10* which allowed the Lender to effectively take an assignment of the security package held by RBC, the terms of which provide for maximum credit availability of \$750,000. Therefore, the Lender is the first position secured creditor in the amount of \$469,646.42 plus any further advances made to the Company under the terms of the RBC Loan which may be made during these Proposal Proceedings.

21. The Lender holds a General Security Agreement dated August 20, 2009, as security in respect of the RBC Loan (the "Security"):

Other Secured & Priority Creditors

22. The Proposal Trustee understands that the Company has the following liabilities that rank, or may rank, in priority to the secured claims of Gianna Ponzi (the "Priority Claims"):

- Potential employee secured claims in accordance with Section 81.3 of the BIA for two (2) terminated Illuminex employees - \$4,000 for outstanding wages and vacation pay respectively.

23. Given the nature of the business and state of operations, HST is generally in a payable position. As at December 31, 2024, the HST payable was approximately \$1,000 according to the Company.

24. The Proposal Trustee understands that the Company is current with its payroll remittances to Canada Revenue Agency (the "CRA").

Unsecured Trade Creditors

25. The Proposal Trustee understands that the Company had unsecured liabilities and trade payables owing of approximately \$817,000 as at December 16, 2024.

26. The Company has an unsecured shareholder liability of approximately \$270,000.

27. The Company terminated the employment of the two (2) employees of the Illuminex division on December 24, 2024. The termination and severance entitlements of these employees are unsecured claims against the Company.

V. ACTIVITIES OF THE COMPANY

28. Since the Filing Date, the Company has taken steps towards stabilizing business operations and Management has, with the assistance of the Proposal Trustee, engaged in various discussions with stakeholders, suppliers, and customers of the business. As a result of its efforts in this regard, and as of the date of this First Report, the Company has maintained its business operations without significant disruption or issues.

29. Notable steps taken by the Company include, without limitation:

- a) consulting with the Proposal Trustee in respect of operations, cash management, and vendor and supplier payments;
- b) engaging with RBC and Gianna Ponzi to acquire the RBC debt and associated security;
- c) the termination of two (2) employees of the closed Illuminex division;
- d) engaging with employees to address any questions and concerns about the Proposal Proceedings;
- e) engaging with suppliers to ensure the supply of goods and services to Hyperlink is not interrupted;
- f) the Company has entered into discussions with a potential purchaser regarding a transaction whereby the business of the Company would, subject to terms being reached, be effectively combined with the business or another corporate entity (the "Proposed Transaction"); and
- g) preparation of a 13-week cashflow projection for the period December 15 2025 to March 15, 2025 (the "Cash Flow Forecast").

VI. ACTIVITIES OF THE PROPOSAL TRUSTEE

30. The Proposal Trustee established a publicly accessible online documents database for these Proposal Proceedings. All court documents and certain other relevant documents have and will continue to be posted as they are made available.
31. In accordance with its obligations under the BIA, the Proposal Trustee prepared and sent a notice to all known creditors on December 18, 2024, which included information about the Proposal Proceedings, by prepaid ordinary mail and email, due to the Canada Post strike. Attached hereto as Appendix "B" is an Affidavit of Mailing with respect to the mailing of the NOI notice along with the creditor package.
32. In accordance with subsection 50.4(2)(c) of the BIA, the Proposal Trustee assisted the Company in the preparation of its Cash Flow Forecast. The Cashflow Forecast was submitted to the OSB on December 24, 2024. The Cash Flow Forecast, together with the aforementioned reports, is attached hereto as Appendix "C" .
33. In accordance with subsection 50.4(2)(b) of the BIA, the Proposal Trustee reviewed the Cash Flow Forecast and assessed its reasonableness. A copy of the Proposal Trustee's Report on Cashflow Statement is attached hereto as Appendix "D" .
34. Furthermore, since the Filing Date, the Proposal Trustee, among other things, has:
 - a) completed statutory forms and e-filed such reports with the OSB;
 - b) participated in various meetings with the Company to understand business operations, assets including machinery, equipment and IP, financial statements, payroll cycles, etc.;
 - c) assisted the Company with stakeholder communications;
 - d) responded to calls and e-mails received from creditors and other parties with respect to the Proposal Proceedings;
 - e) assisted in the advancement of a potential sale of the Company's Assets, term sheet and documents related to the Asset Purchase Agreement(s);
 - f) created a weekly monitoring protocol with the Company to allow the Proposal Trustee to review and report on the Company's weekly cash receipts and disbursements; and

g) reviewed the Company's actual receipts and disbursement Prepared this First Report, including reviewing the Company's assets and operations, various financial reports and other related analysis.

Cashflow Projections

35. The Proposal Trustee has reviewed the variances between actual cashflow results and the Cash Flow Forecast for the three-week period ending January 4, 2025. The below chart provides the cumulative forecast, actual and variance for receipts and operating disbursements items for the aforementioned period:

	Week Ending 2025-01-04		
	Cumulative Forecast	Cumulative Actual	Cumulative Variance
Receipts			
AR Collection - Hyperlink 3PL	337,936	195,407	(142,529)
AR Collection - Illuminex	22,149	14,126	(8,023)
AR Collection - Corporate	30,993	-	(30,993)
Total Receipts	391,078	209,532	(181,545)
Operating Disbursements			
Payroll and Temp Agency	(133,742)	(63,817)	69,925
Rent, Utilities, Capex and Insurance	(10,633)	(1,921)	8,712
Equipment Loans and Leases	(2,080)	(16,485)	(14,405)
Software and ERP Systems	(12,000)	(11,006)	994
Couriers	(18,000)	(16,977)	1,023
Sales Tax Payable	(7,895)	(7,895)	-
Contingency	(6,000)	(1,026)	4,974
Interest Payment and Bank Charges	(4,000)	(3,141)	859
Total Operating Disbursements	(194,349)	(122,268)	72,081
Operating Cash Flow	196,728	87,264	(109,464)

36. The Company's actual cashflow for the three-week period ending January 4, 2025, is \$109,464 below forecast. The lower receipts are due to accounts receivable collections being lower than anticipated in weeks 1-3. However, collections are expected to be caught up within the coming weeks. The disbursements being lower than anticipated are the result of certain suppliers not being paid as their invoices are not yet due. The overall variance is considered to be the result of timing differences.

37. The Proposal Trustee understands that the Company has access to additional funds from the Lender which can be advanced within the terms of the Security, to address any receivable collection delays and/or cash flow deficits. As such the Proposal Trustee believes that the Company has sufficient funding to meet its operational needs, satisfy its post-filing obligations, and continue its efforts to stabilize and restructure its business operations.

VII. EXTENSION OF STAY PERIOD

Proposed Stay Extension

38. Under the BIA, the initial stay of proceedings will expire on January 15, 2025 (the "Initial Stay Period").

39. The Company seeks an extension of time to file a proposal of an additional 45 days to and including March 1, 2025 (the "Proposed Stay Extension"). The Proposed Stay Extension should provide the Company the additional time it needs to negotiate the Proposed Transaction, through which the Company hopes to obtain funding, the completion of which is intended to position the Company so as to be able to make a viable proposal to its creditors. The Proposed Transaction cannot be fully negotiated prior to the expiry of the deadline for making a Proposal of January 15, 2025, and without the Proposed Stay Extension, the Company will not be in a position to make a viable proposal to its creditors.

40. The Proposal Trustee is of the view that a bankruptcy at this time would be detrimental to the interest of the Company's stakeholders and creditors and that if sufficient time is afforded to the Company to continue in its efforts at negotiating the terms of the Proposed Transaction that the Company is likely to be able to make a viable Proposal.

41. It is the Proposal Trustee's view, based on the Cash Flow Forecast, that the Company will have sufficient liquidity through the period required to finalize a transaction with the interested party and to satisfy post filing obligations as they come due during the Proposed Stay Extension.

42. In the Proposal Trustee's view, Hyperlink has acted and continues to act in good faith and with due diligence.

43. Based on the information presently available, the Proposal Trustee believes that no material prejudice will result to the Company's creditors or stakeholders if the Proposed Stay Extension is granted.

44. The Proposal Trustee is not aware of any creditor who opposes the requested extension of the Stay Period.

VIII. CONCLUSION

45. The Proposal Trustee respectfully submits this First Report to the Court in support of the Company's motion for an Order:

- a) approving the Proposal Trustee's First Report;
- b) granting a forty-five (45) day extension of time to file a proposal extending the stay of proceedings to and including March 1, 2025; and
- c) such further relief deemed appropriate by this Honourable Court.

All of which is respectfully submitted this 13th day of January, 2025.

BDO Canada Limited, in its capacity as
Proposal Trustee of 864884 Ontario Inc.
and not in its corporate or personal capacity.

Per:



Clark Lonergan, CPA, CA, CIRP, LIT
Senior Vice-President



Peter Crawley, MBA, CPA, CA, CIRP, LIT
Vice-President