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Estate No.: 35-3311888

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
REACTOR ENGINEERING GROUP LTD.**

FACTUM OF THE APPLICANT
(Motion Returnable January 30, 2026)

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PART I - OVERVIEW

1. This factum is filed in support of a motion (the “**Motion**”) by the Applicant, Reactor Engineering Group Ltd. (“**Reactor**”), for:

- (a) an order (the “**SISP Approval Order**”), among other things:
 - (i) approving a sale and investment solicitation process, including auction procedures (the “**SISP**”);
 - (ii) approving the Amended Stalking Horse Asset Purchase Agreement executed by Reactor and ATMIS Protective Equipment Inc. (“**ATMIS**” and, in such capacity, the “**Stalking Horse Bidder**”) dated January 29, 2026 (the “**Stalking Horse Agreement**”) solely for purposes of serving the role as stalking horse in the SISP;
 - (iii) authorizing and directing Reactor to pay the Stalking Horse Bidder the Break Fee (as defined in the Stalking Horse Agreement), in the amount to \$50,000, if a superior transaction is identified pursuant to the SISP; and
 - (iv) extending the benefit of the Administration Charge created by the Order of the Honourable Justice Rady dated January 16, 2026 (the “**January 16 Order**”) to the BDO Transaction Advisory Services Inc., in its capacity as advisor to the Proposal Trustee and Reactor in connection with the SISP (in such capacity, the “**SISP Advisor**”); and

- (b) an order (the “**Ancillary Order**”), among other things:
- (i) granting an extension of time for filing of a proposal by Reactor in its *Bankruptcy and Insolvency Act* (the “**BIA**”) proposal proceedings (the “**Proposal Proceedings**”) by forty-five (45) days up to and including March 16, 2026, pursuant to subsection 50.4(9) of the *BIA*;
 - (ii) approving the Second Report of BDO Canada Limited (“**BDO**”) in its capacity as proposal trustee in the Proposal Proceedings (in such capacity, the “**Proposal Trustee**”), dated January 27, 2026 (the “**Second Report**”), and the Proposal Trustee’s activities set out therein;
 - (iii) approving the professional fees and disbursements of the Proposal Trustee and its counsel, Aird & Berlis LLP, as set out in the fees affidavits to be filed with the Court; and
 - (iv) approving certain secured advances made by ATMIS, in its capacity as debtor-in-possession lender (in such capacity, the “**DIP Lender**”), during the Proposal Proceedings prior to the January 16 Order (the “**Initial Advances**”), in accordance with Reactor’s fourteen-week cash flow forecast (the “**Initial Cash Flow**”), filed with the Office of the Superintendent of Bankruptcy (the “**OSB**”).

2. Reactor’s Notice of Motion for the Motion also stated that Reactor would seek approval of an engagement letter for preparation of Scientific Research and Experimental Development Tax Credit Program claims, and related relief. In order to allow continued discussions, Reactor is no longer seeking such relief on the present Motion, deferring it instead to a later date.

PART II - FACTS

A. Background

3. The relevant facts in connection with this motion are more fully set out in the Affidavit of Andrew Glover, sworn January 23, 2026 (the “**Glover Affidavit**”).¹ Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Glover Affidavit.

4. Reactor is an Ontario corporation having operations in Windsor, Ontario and Chatham, Ontario. Historically, Reactor’s core business has been in the development of custom machine tools, high tolerance tools, machining, and assembled components for various industries. Reactor maintains a staff of thirty-four employees.²

5. Due to an ill-fated venture into personal protective equipment (“**PPE**”) gown manufacturing for the federal government during the COVID-19 pandemic, Reactor is now embroiled in an arbitration and two actions before the Ontario Superior Court of Justice (the “**Court**”) involving Woolly Mammoth Outerwear Inc. o/a Wuxly Movement (“**Wuxly**”) and International Customer Products Inc. (“**ICP**”). As a result of these proceedings, Reactor faces a claim by Wuxly in the approximate amount of \$24.5 million and a claim by ICP in the approximate amount of \$1.7 million (collectively, the “**Litigation Claims**”).³

6. Since the failure of its foray into PPE manufacturing and supply, Reactor has refocused on its core, historical business, which remains profitable. However, any material success by Wuxly and/or ICP in respect of the Litigation Claims would cripple Reactor. Even the cost of responding to the Litigation Claims has placed tremendous strain on Reactor’s resources.⁴

¹ The Applicants have also served the Supplemental Affidavit of Andrew Glover sworn January 29, 2026, which corrects certain errors in the Glover Affidavit and provides updates on certain facts and changes to the relief sought.

² Affidavit of Andrew Glover, sworn January 23, 2026 (“**Glover Affidavit**”), Motion Record of the Applicant dated January 2, 2026 (“**MR**”), Tab 2, paras. 3 & 5-6.

³ Glover Affidavit, MR, Tab 2, para. 8.

⁴ Glover Affidavit, MR, Tab 2, para. 9.

B. Proposal Proceedings and Status of Restructuring Efforts

7. On December 17, 2025, Reactor commenced the within proceedings (the “**Proposal Proceedings**”) by filing a Notice of Intention to Make a Proposal pursuant to subsection 50.4(1) of the BIA (the “**NOI**”).⁵
8. With the assistance of the Proposal Trustee, Reactor produced the Initial Cash Flow which the Proposal Trustee filed with the OSB on December 23, 2025.⁶
9. On January 16, 2026, Justice Rady granted the January 16 Order, among other things:
 - (a) extending the time for filing of a proposal by Reactor up to January 30, 2026;
 - (b) approving debtor-in-possession financing in the maximum principal amount of \$110,000, to be drawn in accordance with borrowing certificates (the “**DIP Financing**”); and
 - (c) creating certain charges:
 - (i) securing obligations in respect of the DIP Financing (the “**DIP Lenders’ Charge**”);
 - (ii) securing the professional fees and disbursements of the Proposal Trustee, its counsel, and counsel to Reactor (the “**Administration Charge**”); and
 - (iii) securing an indemnity in favour of Reactor’s directors and officers against obligations and liabilities incurred during the Proposal Proceedings (the “**Directors’ Charge**”, and together with the DIP Lenders’ Charge and the Administration Charge, the “**Charges**”).

PART III - ISSUES

10. On the within motion, the following issues are before the Court:

⁵ Glover Affidavit, MR, Tab 2, para. 10.

⁶ Glover Affidavit, MR, Tab 2, para. 11; Cash Flow Projection dated December 23, 2025 (“**Cash Flow Projection**”), MR, Tab 2B.

- (a) Should the Court grant the SISP Approval Order, among other things, approving the SISP and the Stalking Horse Agreement?
- (b) Should the Court grant the Ancillary Order, among other things, extending the time for Reactor to file a proposal?

11. Reactor submits that both of these questions must be answered in the affirmative on the bases that, among other things and as further detailed below:

- (a) Reactor has acted, and continues to act, in good faith and with due diligence in these proceedings;
- (b) Reactor is not aware of any creditor that will be materially prejudiced by the proposed extension of the deadline and the stay of proceedings; and
- (c) the Proposal Trustee is wholly supportive of the relief sought on this motion.

PART IV - LAW AND ARGUMENT

A. The SISP and the Stalking Horse Agreement Should Be Approved

i. The SISP

12. Reactor seeks Court approval of the SISP, which features a stalking horse bid. Developed in collaboration with the SISP Advisor and with the oversight of the Proposal Trustee, the SISP is an ten-week-long sale process that is designed to solicit the best possible transaction that is maximally beneficial to Reactor's stakeholders. As explained in the Second Report, upon feedback from a potential creditor, the Proposal Trustee and Reactor agreed to extend the SISP by changing the bid deadline from February 27, 2026 to March 12, 2026.

13. Section 65.13 give the Court in a BIA proposal proceeding the discretion to approve a sale outside of the ordinary course of business and sets out the factors that the Court should consider

in exercising such discretion.⁷ Section 65.13 does not, however, address what factors the Court should consider when approving a sale process rather than an actual sale.⁸

14. In *Brainhunter*, Justice Morawetz, as he then was, summarized the criteria (that he had previously applied in *Nortel*) to be considered by a Court in approving a stalking horse sale process (the “**Nortel Criteria**”):

- (a) whether a sale transaction is presently warranted;
- (b) whether the sale will benefit the whole “economic community”;
- (c) whether any creditor has a bona fide objection to a sale; and
- (d) whether there is a better viable alternative.

15. These Nortel Criteria have been applied by this Court when approving a stalking horse sale process in a BIA proposal proceeding.⁹

16. Assessing the SISP against the Nortel Criteria, the SISP, including the Stalking Horse Agreement, is demonstrably reasonable. Specifically:

- (a) a sale transaction is presently warranted because a going-concern sale of Reactor’s business stands the best chance of maximizing recoveries for Reactor’s creditors and preserving employment. If the SISP is not implemented immediately, Reactor will continue to incur substantial professional fees and other costs related to the Proposal Proceedings, thereby eroding potential recoveries;
- (b) a going concern sale will benefit the whole “economic community” because it will preserve up to thirty-four jobs, preserve leases, preserve customer and supplier contracts and preserve value the estate for creditors of at least \$2 million (based on

⁷ *Bankruptcy and Insolvency Act*, R.S.C., 1985, C. B-3, s. 65.13 [“**BIA**”].

⁸ *Mustang GP Ltd. (Re)*, 2015 ONSC 6562, para. 36 [“**Mustang**”]; *Danier Leather Inc. (Re)*, 2016 ONSC 1044, paras. 21, 22 [“**Danier Leather**”]; and, in the context of a *Companies’ Creditors Arrangement Act* proceeding, see: *Brainhunter Inc. (Re)*, 2009 CanLII 72333 (Ont. S.C.J.), paras. 15 to 17 [“**Brainhunter**”].

⁹ *Mustang*, paras. 37, 38; *Danier Leather*, paras. 23 to 25.

the value generated by the Stalking Horse Agreement and the value it would leave behind);

- (c) Reactor is not aware of any creditor having an objection, *bona fide* or otherwise, to a sale. One major creditor contacted Reactor and the Proposal Trustee to provide comments regarding specific aspects of the SISP, which comments have been addressed;¹⁰ and
- (d) there is no better viable alternative, being that the only other option is a liquidation wherein recoveries will be substantially less than in a going-concern sale.

17. In addition to satisfying the Nortel Criteria, the SISP is likely to result in a transaction that will satisfy the criteria for sale approval set out at s. 65.13 of the BIA, these being:

- (a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances;
- (b) whether the trustee approved the process leading to the proposed sale or disposition;
- (c) whether the trustee filed with the court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy;
- (d) the extent to which the creditors were consulted;
- (e) the effects of the proposed sale or disposition on the creditors and other interested parties; and
- (f) whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.¹¹

18. Reactor has worked closely with the Financial Advisor and the Proposal Trustee to develop the SISP. The Stalking Horse Agreement has been reviewed by the Financial Advisor and the

¹⁰ Second Report, para. 45.

¹¹ BIA, s. 65.13; *Danier Leather*, para. 35.

Proposal Trustee and has been determined to be on reasonable commercial terms, notwithstanding the fact that the Stalking Horse Bidder is a related entity.

19. In its Second Report, the Proposal Trustee has expressed its view that the SISP is appropriate on the bases that, among other things, the business will be widely exposed to the market to canvass for a superior bid, and the timeline is sufficient to allow interested parties to perform due diligence and submit bids.¹²

20. All stakeholders, including creditors having current security registrations, have been served with the motion materials, which contain the full, unredacted Stalking Horse Agreement. As a result of comments from a major creditor, the duration of the SISP has been extended, and the amount of the Break Fee reduced.¹³

21. The SISP guarantees a going-concern sale of Reactor's business, a result superior to a liquidation in a bankruptcy, and thus a superior result for Reactor's creditors and other stakeholders.

22. Finally, the consideration to be received from, and the obligations to be assigned to, the Stalking Horse Bidder, create value for Reactor that is fair and reasonable and represents a fair and reasonable benchmark for other potential bids in the SISP.

23. Reactor believes that the best price can be obtained through the SISP. In addition to the fact that the SISP provides adequate time for fulsome marketing, the Stalking Horse Agreement sets a price floor, thus mitigating the risk that no viable bids are received.

24. Although the SISP contemplates a short timeline, the SISP provides for sufficient time to carry out all steps without compromising the outcome of the process. The Proposal Trustee also believes that a compressed process is reasonably necessary as to mitigate unnecessary costs and avoid further interim borrowings.

25. The length of the SISP—which shall span ten weeks—is consistent with past practice. For example, a six-week sale process featuring a stalking horse bid was approved by the Court in

¹² Second Report, para. 65.

¹³ Second Report, para. 45; Supplemental Affidavit of Andrew Glover sworn January 29, 2026, Supplemental Motion Record of the Applicant dated January 29, 2026 (“SMR”), Tab 1, paras. 4-5.

Pioneer Balloon.¹⁴ In addition to the Proposal Trustee's view that this is adequate time to effectively market the opportunity, extending the SISP would require Reactor to seek a further extension of time to make a proposal. In any event, the Proposal Trustee shall have discretion to extend the duration of the SISP should it see fit to do so.

ii. The Stalking Horse Agreement

26. Turning to the Stalking Horse Agreement and the approval thereof, Reactor submits that the Stalking Horse Agreement will be beneficial to the SISP. As is made clear in paragraph 7 of the proposed SISP Order, Reactor is only seeking approval of the Stalking Horse as the stalking horse bid for purposes of the SISP. Should the Stalking Horse Agreement be the successful bid, approval pursuant BIA Subsection 65.13 will be sought on a future motion.

27. The Stalking Horse Agreement contemplates an asset sale whereby the Stalking Horse Bidder will acquire, among other things, substantially all of Reactor's tangible property, inventory, contracts, and government-issued licenses, permits, and authorizations.¹⁵ Certain assets are excluded from the Stalking Horse Agreement, including cash, retainer funds, accounts receivable, and any tax rebates, refunds, or credits, including the SRED Claims.¹⁶

28. The Stalking Horse Agreement provides for a purchase price in the amount of \$261,845, \$261,845.00, to be paid by way of cash and credit bid of amounts owing in respect of the DIP Financing and the Initial Advance.¹⁷ Reactor estimates that the assets excluded from purchase under the Stalking Horse Agreement will have a realizable value of approximately \$1.9 million.¹⁸ In addition, the liabilities to be assumed by ATMIS will free Reactor's estate from substantial claims. For example, to the extent employees are assumed by ATMIS, Reactor's estate will not bear the cost of termination pay amounts due under the *Employment Standards Act* or at common law, which claims Reactor calculates could otherwise be as high as \$978,500.¹⁹ ATMIS' bid therefore provides significant value to Reactor's creditors beyond the purchase price. In any case,

¹⁴ Order of Justice Valente dated July 2, 2024, *In the Matter of the Notice of Intention to Make a Proposal of Pioneer Balloon Canada Limited*, Court File No. BK-24-03091796-32, Book of Authorities ("BOA"), Tab 1, Schedule "A", para. 13.

¹⁵ Amended Stalking Horse Purchase Agreement dated January 29, 2026 ("**Stalking Horse Agreement**"), SMR, Tab 1A, s. 2.1.

¹⁶ Stalking Horse Agreement, SMR, Tab 1A, s. 2.2.

¹⁷ Stalking Horse Agreement, SMR, Tab 1A, s. 5.1.

¹⁸ Glover Affidavit, MR, Tab 2, para. 22.

¹⁹ Glover Affidavit, MR, Tab 2, para. 20.

the Court has held that if a stalking horse purchase price is too low, it will simply encourage superior bids in a sale process.²⁰

29. The primary utility of a stalking horse bid is to “establish a baseline price and transactional structure for any superior bids from interested parties”.²¹ Stalking horse bids are generally considered to be beneficial to the stakeholders of a sale process, and the Court has regularly recognized stalking horse bids as a “reasonable and useful element of a sales process” in a wide array of insolvency proceedings, including proposal proceedings.²²

30. In determining whether to approve a stalking horse bid, the Court will consider whether the bid is fair, reasonable, and in the best interest of the stakeholders, and represents a reasonable benchmark for other bids received in the sale process.²³

31. An important consideration is the quantum of the break fee and/or expense and costs reimbursement (collectively, a “**break fee**”) payable to the stalking horse bidder in the event that its bid is not the successful bid. Per Penny J. in *Danier Leather*, a break fee is intended to “reflect the cost to the purchaser of putting together the stalking horse bid”, plus a premium paid for the “price of stability” that the stalking horse bid brings to the sale process.²⁴ Because of the stability a stalking horse bid provides, the Court has described break fees as insurance premiums.²⁵ Viewing break fees in this manner, the Court has often also approved a separate expense reimbursement.²⁶

32. The reasonableness of a break fee is to be determined on a case-by-case basis. Although break fees are often reviewed as a percentage of the purchase price, this metric fails to account for variations in the size of the transaction. The cost of preparing a stalking horse bid is not determined by the purchase price.²⁷

²⁰ *Stelco Inc. (Re)*, 2004 CanLII 45462 (Ont. S.C.J.), para. 5 [“*Stelco*”].

²¹ *CCM Master Qualified Fund v. blutip Power Technologies*, 2012 ONSC 1750, para. 7 [“*CCM*”]; *Danier Leather*, para. 20.

²² *CCM*, para. 7.

²³ *Danier Leather*, para. 40.

²⁴ *Danier Leather*, para. 41.

²⁵ *Stelco*, para. 7; *Bank of Montreal v. Baysong Developments Inc.*, 2011 ONSC 4450, paras. 44, 45 [“*Baysong*”].

²⁶ *Nortel Networks Corporation (Re)*, 2009 CanLII 39492 (Ont. S.C.J.), para. 56 [“*Nortel*”]; *Danier Leather*, paras. 41, 42; *In The Matter of A Plan of Compromise or Arrangement of Green Growth Brands Inc.*, 2020 ONSC 3565, para. 52; *Parlay Entertainment Inc. (Re)*, 2011 ONSC 3492, paras. 12, 15.

²⁷ Christopher Yung, *Hunting for Break Fees with My Stalking Horse*, 2024 22 *Annual Review of Insolvency Law*, 2024 CanLIIDocs 3048.

33. The Stalking Horse Agreement provides for a Break Fee in the amount of \$50,000 and does not contemplate any separate expense reimbursement.²⁸

34. The quantum of the proposed Break Fee represents a reasonable estimate of the Stalking Horse Bidder's costs. In *Trees Corporation et al. v. The Attorney General of Canada*, Osborne J. approved a \$60,000 break fee on the basis that the fee represented "a reasonable reimbursement of the fees and costs incurred in negotiating and preparing the stalking horse bid".²⁹ As stated above, a break fee typically also includes premium over and above the stalking horse bidder's expenses.³⁰

35. In reviewing a break fee, Courts must also consider whether it will have a "chilling effect" upon alternative bidders' interest, being that the break fee necessitates an increase to the minimum bid. However, Courts have accepted this impact as a cost of the stability afforded by a stalking horse bid, particularly where there is no evidence before the Court that potential bidders have been dissuaded from participating in the sale process.³¹

36. The Proposal Trustee has reviewed the Stalking Horse Agreement and has recommended the approval thereof on the basis that it is fair and reasonable. Courts have often deferred to the business judgment of the debtor's management and to the court officer regarding the appropriateness of a stalking horse bid as a stalking horse.³²

37. Overall, the SISP, including the Stalking Horse Agreement, is demonstrably reasonable and conducive to obtaining the best price for Reactor's business. The Proposal Trustee supports the SISP.

B. The Administration Charge Should Be Extended to the SISP Advisor

38. Reactor has retained the SISP Advisor to assist in the development and implementation of the SISP. Reactor seeks to extend the Administration Charge—which currently secures the fees and disbursements of Reactor's counsel, the Proposal Trustee, and the Proposal Trustee's counsel—to secure the SISP Advisor's fees.

²⁸ Stalking Horse Agreement, SMR, Tab 1A, s. 10.1(2).

²⁹ *Trees Corporation et al. v. The Attorney General of Canada*, 2024 ONSC 1993 at para. 35 [*"Trees Corporation"*].

³⁰ See Notes 24 and 25, *supra*.

³¹ *Trees Corporation* at para. 37.

³² *Brainhunter*, para. 20; *Danier Leather*, paras. 44, 45. In the case of a non-stalking-horse sale process approval see: *9286594 Canada Inc. v Advance Engineering Products Ltd.*, 2015 SKQB 196, paras. 34, 35.

39. Section 64.2 of the BIA empowers the Court to grant a super-priority charge securing the professional fees and disbursements of, among others, financial experts engaged for the purpose of the proposal proceeding. In granting the charge, the Court must be satisfied that the affected secured creditors have been given notice, that the amount of the charge is appropriate, and that the charge should extend to all of the proposed beneficiaries.³³

40. In *Danier Leather Inc. (Re)*, Justice Penny made an order under s. 64.2 of the BIA, granting a charge in favour of a financial advisor retained for the purpose of developing and implementing a sale process.³⁴

41. Courts have acknowledged that professional advisors are critical to the successful conduct of proposal proceedings and that, where the debtor company has limited means, a charge is appropriate to ensure the company has access to the resources and assistance it requires.³⁵

42. In *Timminco Ltd. (Re)*, Justice Morawetz (as he then was) emphasized the importance of charges in favour of restructuring professionals to ensure their participation with a view to a successful outcome:

In my view, in the absence of the court granting the requested super priority and protection, the objectives of the [*Companies' Creditors Arrangement Act* ("CCAA")] would be frustrated. It is not reasonable to expect that professionals will take the risk of not being paid for their services, and that directors and officers will remain if placed in a compromised position should the Timminco Entities continue CCAA proceedings without the requested protection. The outcome of the failure to provide these respective groups with the requested protection would, in my view, result in the overwhelming likelihood that the CCAA proceedings would come to an abrupt halt, followed, in all likelihood, by bankruptcy proceedings.³⁶ (Emphasis added)

43. Reactor submits that this reasoning is equally applicable in a BIA proposal proceeding.³⁷

³³ BIA, s. 64.2.

³⁴ *Danier Leather*, para. 57.

³⁵ *Colossus Minerals Inc. (Re)*, 2014 ONSC 514, paras. 12-14 [*"Colossus"*]; *Mustang*, para. 33.

³⁶ *Timminco Ltd. (Re)*, 2012 ONSC 506, para. 66.

³⁷ Courts have consistently emphasized that the BIA and the CCAA must be interpreted harmoniously: see e.g., *Kitchener Frame Limited (Re)*, 2012 ONSC 234, paras. 72-73.

44. The Proposal Trustee supports the extension of the Administration Charge to include the SISP Advisor.³⁸

C. An Extension is Appropriate to Allow Reactor Time to Pursue the SISP

45. Reactor seeks an order to extend the time to file a proposal through March 2, 2026. The proposed forty-five-day extension will afford the Proposal Trustee and the SISP Advisor time to implement the SISP up to the Bid Deadline. Reactor intends to bring a motion on March 16 for, among other things, a further extension of time to file proposal in order to allow completion of the SISP.

46. Pursuant to section 50.4(8) of the BIA, a person having filed a notice of intention must make a proposal within thirty days, failing which the applicant shall be deemed to have made an assignment in bankruptcy. However, section 50.4(9) provides that the Court may extend the time to file a proposal by up to forty-five days where it is satisfied that:

- (a) the company has acted, and is acting, in good faith and with due diligence;
- (b) the company is likely to be able to make a viable proposal if the extension is granted; and
- (c) no creditor would be materially prejudiced if the extension being applied for were granted.³⁹

47. Reactor submits that all three factors are satisfied in the present case.

48. First, Reactor has acted in good faith and with due diligence. Among other things, Reactor has worked diligently to obtain the DIP Financing, negotiate the Stalking Horse Agreement, and develop the SISP in collaboration with the Proposal Trustee.

49. Second, the extension will facilitate the implementation of the SISP with a view to maximizing value for Reactor's creditors through a sale of its business.

³⁸ Second Report of the Proposal Trustee dated January 27, 2026, para. 68 [**"Second Report"**].

³⁹ BIA, s. 50.4(9).

50. This Court regularly grants extensions of time to file a proposal where the extension is necessary in order for a SISP to be carried out.⁴⁰

51. In the present circumstances, it is preferable that the SISP be carried out in the Proposal Proceedings. As noted by Justice Penny in *Danier Leather Inc. (Re)*, where a going-concern sale is possible, a sale process in a proposal proceeding is likely to be more beneficial than a bankruptcy, given that a going-concern sale is not available in a bankruptcy.⁴¹

52. Third, Reactor is not aware of any creditor who will be materially prejudiced by the proposed extension. Rather, the extension will facilitate the SISP, which is aimed at attaining a value-maximizing transaction. Reactor expects to return before the Court on or around March 2, 2026 to seek approval of the Successful Bid following completion of the SISP.

53. Moreover, the Proposal Trustee is supportive of the proposed extension.⁴²

D. The Court Should Approve the Initial Advances

54. Reactor seeks declaratory relief in respect of certain interim financing advanced by the DIP Lender prior to the approval of the DIP Financing pursuant to the January 16 Order. This relief is sought to ensure clarity and integrity in the SISP.

55. As predicted in the Initial Cash Flow, Reactor required funding in advance of the January 16, 2026 hearing at which the DIP Financing was approved and the DIP Lenders' Charge was created.⁴³ Pursuant to subsection 50.6(1) of the BIA, the DIP Lenders' Charge could not secure an obligation that existed before the January 16 Order was made. Thus, in order to keep Reactor's business operating, Reactor and the DIP Lender entered into the Secured Grid Promissory Note dated January 7, 2026 (the "**Initial Advances Note**").⁴⁴

56. The DIP Lender made two advances to Reactor pursuant to the Initial Advances Note in the amounts of \$35,000 and \$20,000, on January 7, 2026 and January 12, 2026, respectively (the "**Initial Advances**").⁴⁵ The copy of the Initial Advances Note found at Exhibit "I" of the Second

⁴⁰ *Colossus*, paras. 37-40; *Mustang*, para. 41.

⁴¹ *Danier Leather*, para. 39.

⁴² Second Report, para. 72.

⁴³ Cash Flow Projection, MR, Tab 2B.

⁴⁴ Secured Grid Promissory Note dated January 7, 2026 ("**Initial Advances Note**"), MR, Tab 2I.

⁴⁵ Initial Advances Note, MR, Tab 2I, "GRID".

Glover Affidavit schedules a grid which misstates the date of the second Initial Advance as January 20, 2026, which error found its way into the body of the Second Glover Affidavit. Reactor intends to file a supplemental affidavit prior to January 30, 2026 to, among other things, correct this error on the record.

57. The Initial Advances Note grants the DIP Lender a security interest in substantially all of Reactor's present and future property and undertaking (the "**Initial Advances Security**").⁴⁶ The Initial Advances Security is subordinate to the charges created by the January 16 Order.

58. The BIA contemplates certain circumstances in which transactions occurring between the date of the initial bankruptcy event (e.g., the date on which a notice of intention is filed) and the date of bankruptcy may be void as against the trustee in bankruptcy. This includes:

- (a) per section 95(1), a payment made or a charge on property granted to a creditor that is intended to give that creditor a preference over another;⁴⁷ and
- (b) per section 96(1), a transfer of property to a creditor in respect of which, in the opinion of the trustee, the bankrupt did not receive fair market value.⁴⁸

59. Further, section 97 of the BIA provides that no transactions made by a bankrupt between the date of the initial bankruptcy event and the date of bankruptcy is valid, including any payment or giving of security by the bankrupt, unless the transaction is made in good faith (each a "**protected transaction**"). Protected transactions are still subject to scrutiny under sections 95 and 96 of the BIA.⁴⁹

60. Courts have granted orders in proposal proceedings declaring the validity of certain transactions, including payments, where the Court is satisfied that the transactions in issue are taken in good faith and for the benefit of the stakeholders.⁵⁰

61. Reactor submits that approval of the Initial Advances and the Initial Advances Security is necessary to ensure the integrity of the SISF. The SISF is built around the Stalking Horse

⁴⁶ Initial Advances Note, MR, Tab 2I, art. 3.

⁴⁷ BIA, s. 95(1).

⁴⁸ BIA, s. 96(1).

⁴⁹ BIA, s. 97.

⁵⁰ See e.g., Order of Justice Osborne dated September 6, 2022, *In the Matter of the Notice of Intention to Make a Proposal of iSpan Systems LP*, Court File No. CV-22-00686113-00CL, BOA, Tab 2, para. 7.

Agreement acting as the stalking horse bid. The Stalking Horse Agreement contemplates a purchase price paid, in part, by credit bid of the Initial Advances. Unless there is certainty that the Initial Advances and the Initial Advances Security cannot be challenged as preferences or as transfers at undervalue, there is no certainty that the Initial Advances can be credit bid and thus no certainty that the Stalking Horse Agreement can serve its function as the stalking horse bid in the SISP.⁵¹

62. Reactor therefore seeks an order declaring that the Initial Advances and the Initial Advances Security are protected transactions, and that they shall not be void against any trustee in bankruptcy pursuant to sections 95 or 96 of the BIA. Reactor submits that this relief is appropriate on the basis that:

- (a) if not for the Initial Advances, Reactor would not have had sufficient funds to keep all of its post-NOI obligations current prior to January 16, 2016, which would have harmed Reactor's creditors;⁵²
- (b) the Initial Advances were forecasted in the Initial Cash Flow, which was prepared with the assistance of the Proposal Trustee;⁵³
- (c) the Initial Advances accrue interest at the Bank of Montreal's prime commercial rate, which is identical to the interest rate applicable to advances under the already-approved DIP Financing;⁵⁴ and
- (d) before entering into the Initial Advances Note and drawing the Initial Advances, Reactor obtained the consent of the Proposal Trustee.⁵⁵

⁵¹ Glover Affidavit, MR, Tab 2, para. 42.

⁵² First Report of the Proposal Trustee dated January 7, 2026, Second Report, Appendix B, para. 40.

⁵³ Cash Flow Projection, MR, Tab 2B.

⁵⁴ Initial Advances Note, MR, Tab 2I, s. 1.3; January 16 Order, MR, Tab 2C, Schedule "A" - DIP Certificate.

⁵⁵ Glover Affidavit, MR, Tab 2, para. 41.

PART V - ORDER REQUESTED

63. For the reasons set out above, Reactor requests that this Honourable Court grant Orders substantially in the forms attached at Tab 3 and Tab 4 to the Motion Record, as subsequently revised and filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

January 29, 2026



Sam Babe / Nick Hollard

SCHEDULE “A” – AUTHORITIES CITED

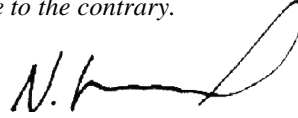
1. *Mustang GP Ltd. (Re)*, 2015 ONSC 6562
2. *Danier Leather Inc. (Re)*, 2016 ONSC 1044
3. *Brainhunter Inc. (Re)*, 2009 CanLII 72333 (Ont. S.C.J.)
4. Order of Justice Valente dated July 2, 2024, *In the Matter of the Notice of Intention to Make a Proposal of Pioneer Balloon Canada Limited*, Court File No. BK-24-03091796-32
5. *Stelco Inc. (Re)*, 2004 CanLII 45462 (Ont. S.C.J.)
6. *CCM Master Qualified Fund v. blutip Power Technologies*, 2012 ONSC 1750
7. *Bank of Montreal v. Baysong Developments Inc.*, 2011 ONSC 4450
8. *Nortel Networks Corporation (Re)*, 2009 CanLII 39492 (Ont. S.C.J.)
9. *In The Matter of A Plan of Compromise or Arrangement of Green Growth Brands Inc.*, 2020 ONSC 3565
10. *Parlay Entertainment Inc. (Re)*, 2011 ONSC 3492
11. Christopher Yung, *Hunting for Break Fees with My Stalking Horse*, 2024 22 *Annual Review of Insolvency Law*, 2024 CanLIIDocs 3048
12. *Trees Corporation et al. v. The Attorney General of Canada*, 2024 ONSC 1993
13. *9286594 Canada Inc. v Advance Engineering Products Ltd.*, 2015 SKQB 196
14. *Colossus Minerals Inc. (Re)*, 2014 ONSC 514
15. *Timminco Ltd. (Re)*, 2012 ONSC 506
16. *Kitchener Frame Limited (Re)*, 2012 ONSC 234
17. Order of Justice Osborne dated September 6, 2022, *In the Matter of the Notice of Intention to Make a Proposal of iSpan Systems LP*, Court File No. CV-22-00686113-00CL

CERTIFICATE OF AUTHENTICITY

I certify that I am satisfied as to the authenticity of every authority cited.

Note: Under Rule 4.06.1(2.2) of the Rules of Civil Procedure, an authority that is published on a government website or otherwise by a government printer, on the Canadian Legal Information Institute website (CanLII), on a court's website or by a commercial publisher of court decisions is presumed to be authentic for the purposes of subrule (2.1), absent evidence to the contrary.

January 29, 2026



Nick Hollard

SCHEDULE “B” – LEGISLATION CITED

Bankruptcy and Insolvency Act, R.S.C., 1985, C. B-3, as amended

Section 50.4(9)

The insolvent person may, before the expiry of the 30-day period referred to in subsection (8) or of any extension granted under this subsection, apply to the court for an extension, or further extension, as the case may be, of that period, and the court, on notice to any interested persons that the court may direct, may grant the extensions, not exceeding 45 days for any individual extension and not exceeding in the aggregate five months after the expiry of the 30-day period referred to in subsection (8), if satisfied on each application that:

- (a) the insolvent person has acted, and is acting, in good faith and with due diligence;
- (b) the insolvent person would likely be able to make a viable proposal if the extension being applied for were granted; and
- (c) no creditor would be materially prejudiced if the extension being applied for were granted.

Section 64.2

Court may order security or charge to cover certain costs

(1) On notice to the secured creditors who are likely to be affected by the security or charge, the court may make an order declaring that all or part of the property of a person in respect of whom a notice of intention is filed under section 50.4 or a proposal is filed under subsection 62(1) is subject to a security or charge, in an amount that the court considers appropriate, in respect of the fees and expenses of

- (a) the trustee, including the fees and expenses of any financial, legal or other experts engaged by the trustee in the performance of the trustee’s duties;
- (b) any financial, legal or other experts engaged by the person for the purpose of proceedings under this Division; and
- (c) any financial, legal or other experts engaged by any other interested person if the court is satisfied that the security or charge is necessary for the effective participation of that person in proceedings under this Division.

Priority

(2) The court may order that the security or charge rank in priority over the claim of any secured creditor of the person.

Individual

(3) In the case of an individual,

(a) the court may not make the order unless the individual is carrying on a business; and

(b) only property acquired for or used in relation to the business may be subject to a security or charge.

Section 65.13

Restriction on disposition of assets

(1) An insolvent person in respect of whom a notice of intention is filed under section 50.4 or a proposal is filed under subsection 62(1) may not sell or otherwise dispose of assets outside the ordinary course of business unless authorized to do so by a court. Despite any requirement for shareholder approval, including one under federal or provincial law, the court may authorize the sale or disposition even if shareholder approval was not obtained.

Individuals

(2) In the case of an individual who is carrying on a business, the court may authorize the sale or disposition only if the assets were acquired for or used in relation to the business.

Notice to secured creditors

(3) An insolvent person who applies to the court for an authorization shall give notice of the application to the secured creditors who are likely to be affected by the proposed sale or disposition.

Factors to be considered

(4) In deciding whether to grant the authorization, the court is to consider, among other things,

(a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances;

(b) whether the trustee approved the process leading to the proposed sale or disposition;

(c) whether the trustee filed with the court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy;

(d) the extent to which the creditors were consulted;

(e) the effects of the proposed sale or disposition on the creditors and other interested parties; and

(f) whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.

Additional factors — related persons

(5) If the proposed sale or disposition is to a person who is related to the insolvent person, the court may, after considering the factors referred to in subsection (4), grant the authorization only if it is satisfied that

(a) good faith efforts were made to sell or otherwise dispose of the assets to persons who are not related to the insolvent person; and

(b) the consideration to be received is superior to the consideration that would be received under any other offer made in accordance with the process leading to the proposed sale or disposition.

Related persons

(6) For the purpose of subsection (5), a person who is related to the insolvent person includes

(a) a director or officer of the insolvent person;

(b) a person who has or has had, directly or indirectly, control in fact of the insolvent person; and

(c) a person who is related to a person described in paragraph (a) or (b).

Assets may be disposed of free and clear

(7) The court may authorize a sale or disposition free and clear of any security, charge or other restriction and, if it does, it shall also order that other assets of the insolvent person or the proceeds of the sale or disposition be subject to a security, charge or other restriction in favour of the creditor whose security, charge or other restriction is to be affected by the order.

Restriction — employers

(8) The court may grant the authorization only if the court is satisfied that the insolvent person can and will make the payments that would have been required under paragraphs 60(1.3)(a) and (1.5)(a) if the court had approved the proposal.

Restriction — intellectual property

(9) If, on the day on which a notice of intention is filed under section 50.4 or a copy of the proposal is filed under subsection 62(1), the insolvent person is a party to an agreement that grants to another party a right to use intellectual property that is included in a sale or disposition authorized under subsection (7), that sale or disposition does not affect the other party's right to

use the intellectual property — including the other party's right to enforce an exclusive use — during the term of the agreement, including any period for which the other party extends the agreement as of right, as long as the other party continues to perform its obligations under the agreement in relation to the use of the intellectual property.

Section 95

Preferences

(1) A transfer of property made, a provision of services made, a charge on property made, a payment made, an obligation incurred or a judicial proceeding taken or suffered by an insolvent person

(a) in favour of a creditor who is dealing at arm's length with the insolvent person, or a person in trust for that creditor, with a view to giving that creditor a preference over another creditor is void as against — or, in Quebec, may not be set up against — the trustee if it is made, incurred, taken or suffered, as the case may be, during the period beginning on the day that is three months before the date of the initial bankruptcy event and ending on the date of the bankruptcy; and

(b) in favour of a creditor who is not dealing at arm's length with the insolvent person, or a person in trust for that creditor, that has the effect of giving that creditor a preference over another creditor is void as against — or, in Quebec, may not be set up against — the trustee if it is made, incurred, taken or suffered, as the case may be, during the period beginning on the day that is 12 months before the date of the initial bankruptcy event and ending on the date of the bankruptcy.

Preference presumed

(2) If the transfer, charge, payment, obligation or judicial proceeding referred to in paragraph (1)(a) has the effect of giving the creditor a preference, it is, in the absence of evidence to the contrary, presumed to have been made, incurred, taken or suffered with a view to giving the creditor the preference — even if it was made, incurred, taken or suffered, as the case may be, under pressure — and evidence of pressure is not admissible to support the transaction.

Exception

(2.1) Subsection (2) does not apply, and the parties are deemed to be dealing with each other at arm's length, in respect of the following:

(a) a margin deposit made by a clearing member with a clearing house; or

(b) a transfer, charge or payment made in connection with financial collateral and in accordance with the provisions of an eligible financial contract.

Definitions

(3) In this section,

clearing house means a body that acts as an intermediary for its clearing members in effecting securities transactions; (*chambre de compensation*)

clearing member means a person engaged in the business of effecting securities transactions who uses a clearing house as intermediary; (*membre*)

creditor includes a surety or guarantor for the debt due to the creditor; (*créancier*)

margin deposit means a payment, deposit or transfer to a clearing house under the rules of the clearing house to assure the performance of the obligations of a clearing member in connection with security transactions, including, without limiting the generality of the foregoing, transactions respecting futures, options or other derivatives or to fulfil any of those obligations. (*dépôt de couverture*)

Section 96

Transfer at undervalue

(1) On application by the trustee, a court may declare that a transfer at undervalue is void as against, or, in Quebec, may not be set up against, the trustee — or order that a party to the transfer or any other person who is privy to the transfer, or all of those persons, pay to the estate the difference between the value of the consideration received by the debtor and the value of the consideration given by the debtor — if

(a) the party was dealing at arm's length with the debtor and

(i) the transfer occurred during the period that begins on the day that is one year before the date of the initial bankruptcy event and that ends on the date of the bankruptcy,

(ii) the debtor was insolvent at the time of the transfer or was rendered insolvent by it, and

(iii) the debtor intended to defraud, defeat or delay a creditor; or

(b) the party was not dealing at arm's length with the debtor and

(i) the transfer occurred during the period that begins on the day that is one year before the date of the initial bankruptcy event and ends on the date of the bankruptcy, or

(ii) the transfer occurred during the period that begins on the day that is five years before the date of the initial bankruptcy event and ends on the day before the day on which the period referred to in subparagraph (i) begins and

(A) the debtor was insolvent at the time of the transfer or was rendered insolvent by it, or

(B) the debtor intended to defraud, defeat or delay a creditor.

Establishing values

(2) In making the application referred to in this section, the trustee shall state what, in the trustee's opinion, was the fair market value of the property or services and what, in the trustee's opinion, was the value of the actual consideration given or received by the debtor, and the values on which the court makes any finding under this section are, in the absence of evidence to the contrary, the values stated by the trustee.

Meaning of *person who is privy*

(3) In this section, a *person who is privy* means a person who is not dealing at arm's length with a party to a transfer and, by reason of the transfer, directly or indirectly, receives a benefit or causes a benefit to be received by another person.

Section 97

Protected transactions

(1) No payment, contract, dealing or transaction to, by or with a bankrupt made between the date of the initial bankruptcy event and the date of the bankruptcy is valid, except the following, which are valid if made in good faith, subject to the provisions of this Act with respect to the effect of bankruptcy on an execution, attachment or other process against property, and subject to the provisions of this Act respecting preferences and transfers at undervalue:

(a) a payment by the bankrupt to any of the bankrupt's creditors;

(b) a payment or delivery to the bankrupt;

(c) a transfer by the bankrupt for adequate valuable consideration; and

(d) a contract, dealing or transaction, including any giving of security, by or with the bankrupt for adequate valuable consideration.

Definition of *adequate valuable consideration*

(2) The expression *adequate valuable consideration* in paragraph (1)(c) means a consideration of fair and reasonable money value with relation to that of the property assigned or transferred, and in paragraph (1)(d) means a consideration of fair and reasonable money value with relation to the known or reasonably to be anticipated benefits of the contract, dealing or transaction.

Law of set-off or compensation

(3) The law of set-off or compensation applies to all claims made against the estate of the bankrupt and also to all actions instituted by the trustee for the recovery of debts due to the bankrupt in the same manner and to the same extent as if the bankrupt were plaintiff or defendant, as the case may be, except in so far as any claim for set-off or compensation is affected by the provisions of this Act respecting frauds or fraudulent preferences.

Court File No.: CV-26-00035949-000T
Estate No.: 35-3311888

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF REACTOR ENGINEERING GROUP LTD.

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

PROCEEDING COMMENCED AT LONDON

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