

In the Matter of the Bankruptcy of
Pioneer Balloon Canada Limited
of the City of Hamilton in the Province of Ontario

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

I BACKGROUND

Pioneer Balloon Canada Limited (“**Pioneer Balloon**” or the “**Company**”) manufactured and distributed balloons to customers in North America through its production facilities located in Hamilton, Ontario. Pioneer Balloon’s focus was to provide customers with latex balloons of all sizes and colors for all types of events and occasions. Pioneer Balloon was formed under the laws of the Province of Ontario and the Company’s registered head office is located at leased premises at 333 Kenora Avenue in Hamilton, Ontario.

Prior to the NOI Proceedings (as discussed below), Pioneer Balloon had production capacity of 1 million balloons per day and employed approximately 125 employees. The Company’s employees were comprised of salaried employees, primarily working in manufacturing or in head office functions, and hourly employees, primarily working in manufacturing and distribution functions.

Pioneer Balloon was a wholly-owned subsidiary of Pioneer National Latex (the “**Parent**”), a US-based global balloon manufacturer. On September 22, 2023, the Parent commenced voluntary reorganization proceedings in the United States by filing for relief under chapter 11 of title 11 of the United States Code (the “**Chapter 11 Proceedings**”).

On August 22, 2024, a notice of the first meeting of creditors, a list of creditors, proof of claim form and proxy were sent to all known creditors of the Company. On August 28, 2024, a notice of the bankruptcy and the first meeting of creditors was published in the National Post.

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.

II RESTRUCTURING PROCEEDINGS

On June 12, 2024 (the “**Filing Date**”), Pioneer Balloon filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B.-3, as amended (the “**BIA**”). KPMG Inc. (“**KPMG**”) was appointed to act as proposal trustee (in such capacity, the “**Proposal Trustee**”) in the NOI proceedings of the Company. The Company’s NOI proceedings are referred to herein as the “**NOI Proceedings**”.

On July 2, 2024, the Ontario Superior Court of Justice (In Bankruptcy and Insolvency) (the “**Court**”) granted an Order approving, among other things:

- (a) an Asset Purchase Agreement dated June 20, 2024 (the “**Stalking Horse APA**”) between Pioneer Balloon and Goodlevel Enterprises Canada Ltd. (formerly 1488108 B.C. Ltd.) (the “**Stalking Horse Bidder**”) to act as the stalking horse agreement in the Sale Process (as defined herein),

subject to higher or otherwise better offers;

- (b) the proposed sale process and procedures (the “**Sale Process**”) the Company intended to have the Proposal Trustee carry out, including the bidding procedures to be used in connection therewith; and
- (c) an extension of the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA by 35 days to and including August 16, 2024.

On July 25, 2024, the Court granted Orders approving, among other things,

- (a) the transaction between Pioneer Balloon and the Stalking Horse Bidder (the “**Transaction**”) for the sale of all of the Company’s right, title, and interest in and to the tangible and intangible assets outlined in the Stalking Horse APA; and
- (b) the distribution of proceeds received on closing of the Transaction to the Company’s secured creditor Royal Bank of Canada (“**RBC**”).

On August 2, 2024, the Transaction closed, realizing gross proceeds of \$2,300,000. Subsequently, a distribution of \$2,192,913.29 was made to RBC on August 6, 2024.

During the NOI Proceedings, the Proposal Trustee filed two (2) reports with the Court, which among other things provided the Court with background information on the Company, the NOI Proceedings, the Company’s cash-flow, the Sale Process and the results thereof, the Transactions and the Proposal Trustee’s fees, activities and conduct. Copies of these reports and the orders granted by the Court during the NOI Proceedings can be obtained from the Proposal Trustee’s website at <https://kpmg.com/ca/pioneerballoon>.

III CAUSES OF INSOLVENCY

As detailed in the materials filed in the NOI Proceedings, the Chapter 11 Proceedings substantially impacted the ongoing viability of Pioneer Balloon’s business model given the Company’s longstanding reliance upon the Parent and its affiliates, both through operational support (ie. IT, finance, branding, executive management, etc.) and purchasing of the Company’s finished goods.

Related party sales to the Parent or other related affiliates made up a significant portion of Pioneer Balloon’s total sales (58% in the year ended December 31, 2022, and 60% in the year ended December 31, 2023). The volume of transactions between Pioneer Balloon and the Parent and its affiliates had decreased significantly while the Parent reorganized its business and restructured its liabilities in the Chapter 11 Proceedings. Further, manufacturing and distribution costs had increased while Pioneer Balloon was unable to transfer these costs on to its customers. Due to these reasons, the Company has experienced lower margins and a deterioration of profitability over the last couple years.

The Company’s unaudited and internal operating results for fiscal years 2022 and 2023, and fiscal 2024 through to May 26, 2024 (“**YTD**”), are summarized in the table below:

Pioneer Balloon Canada Limited			
Historical Operating Results Summary - Unaudited			
<i>(in CAD \$000s)</i>			
	January 1, 2022 - December 31, 2022	January 1, 2023 - December 31, 2023	January 1, 2024 - May 26 2024
Sales	25,605	21,325	3,231
Cost of sales	22,758	22,016	4,500
Gross profit	2,848	(691)	(1,269)
Total SG&A expenses (excl. interest and depreciation)	2,059	1,954	479
EBITDA	789	(2,645)	(1,748)

For the year ended December 31, 2022, the Company generated earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) of approximately \$789,000. In the year ended December 31, 2023, the Company incurred EBITDA losses of approximately \$2,645,000. Further, the Company has incurred EBITDA losses of \$1,748,000 YTD.

As the net proceeds realized from the Transaction were insufficient to fully satisfy the Company’s secured indebtedness owed to RBC or support a distribution to the Company’s unsecured creditors, the Company was not in a position to file a proposal to its creditors. Accordingly, on August 19, 2024, (the “**Date of Bankruptcy**”) the Company was deemed to have made an assignment in bankruptcy pursuant to section 50.4(8) of the BIA as the Company failed to file a viable proposal within the prescribed time period. KPMG was appointed as the trustee (the “**Trustee**”) of the Estate of the Company by the Official Receiver, subject to affirmation by the creditors of the Trustee’s appointment or substitution of another trustee by the creditors at the first meeting of creditors.

IV FINANCIAL POSITION/ASSETS

As noted above, substantially all of the Company’s assets were sold as part of the Transaction and the proceeds were insufficient to repay the claims of RBC, the secured creditor. As such, the Company’s Statement of Affairs does not indicate any realizable assets. As a result, it is anticipated that there will be no funds available for distribution to the unsecured creditors of Pioneer Balloon.

V SECURED CREDITORS

Pursuant to an agreement dated December 16, 2021, as amended from time to time, between the Company, as borrower, and RBC, as lender (the “**RBC Credit Agreement**”), RBC extended an operating line of credit, leasing facilities and a credit card facility. The obligations of the Company to RBC under the RBC Credit Agreement were secured by, among other things, a general security agreement granted by Pioneer Balloon in favour of RBC with respect to substantially all of the Company’s assets.

During the NOI Proceedings, the Proposal Trustee received a written opinion from its counsel, Borden Ladner Gervais LLP, confirming that, subject to certain assumptions and qualifications, the General Security Agreement dated June 11, 2024, and security documents granted by the Company to RBC in connection therewith are, as applicable, valid and enforceable. As detailed on the Statement of Affairs, RBC was owed an estimated \$93,376 as at the Date of Bankruptcy.

VI SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA. Pioneer Balloon's employees were terminated prior to the Date of Bankruptcy and all amounts owing in respect of wages and/or vacation pay was paid to Pioneer Balloon's employees prior to the Date of Bankruptcy.

The Trustee will, however, comply with the requirements under the *Wage Earner Protection Program Act*, where applicable.

VII PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there were no known preferred creditors as at the Date of Bankruptcy.

VIII UNSECURED CREDITORS

As reflected on the Statement of Affairs, Pioneer Balloon had 115 unsecured creditors (excluding potential claims of former employees in respect of severance and/or termination pay) with claims totaling approximately \$2.4 million at the Date of Bankruptcy, the largest of which relates to a potential intercompany claim from the Parent.

IX CLAIMS FILED

As at 9:00 a.m. on the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Claims Filed (#)	Amount (\$)	Proxies in Favour of Trustee (#)	Amount (\$)
Secured	1	96,941.30	0	0
Preferred	Nil	Nil	Nil	Nil
Unsecured	16	350,132.40	6	59,226.33
TOTAL	17	447,073.70	6	59,226.33

X BOOKS AND RECORDS OF THE BANKRUPT

As at the date of this report, the Purchaser is in possession of the books and records of the Company pursuant to the terms of the Stalking Horse APA and has taken steps to preserve same in accordance with statutory requirements. However, the books and records of the Company were impacted by a ransomware attack that occurred during the NOI Proceedings prior to the Closing Date, which impacted the Company's ability to access historical financial data on its servers and produce accurate and timely information.

As a result, the Trustee has not taken possession of the Company's books and records.

XI PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Trustee has not performed a review of the Company's books and records with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the Inspectors, should Inspectors be appointed at the first meeting of creditors.

XII TRUSTEE'S FEES

In consideration for consenting to act in these proceedings, RBC has guaranteed payment of the Trustee's fees and disbursements for statutory work in accordance with the provisions of the BIA to the maximum amount of \$30,000 (the "**Guarantee**"), should insufficient funds be available from the Company's estate. In support of the Guarantee, RBC has provided a deposit to the Trustee in the amount of \$30,000, which amount is being held by the Trustee in an account segregated from the funds of the estate.

XIII OTHER MATTERS

Further information related to the NOI Proceedings and these Bankruptcy Proceedings may be obtained from KPMG's website at: <https://kpmg.com/ca/pioneerballoon>

Dated at Toronto, Ontario, this 5th day of September, 2024.

KPMG Inc.

in its capacity as Trustee of the Estate of
Pioneer Balloon Canada Limited
and not in its personal capacity

Per:



Pritesh Patel, CIRP, LIT
Senior Vice President