MALLETTE

PREPARED BY:

GALSA CAPITAL

Operational Summary

In the matter of the bankruptcy **of 9288-5821 Québec Inc.**

(Y & K POWDERCOATING)

OPERATIONAL SUMMARY

PURPOSE

Galsa Capital has been mandated by **MALLETTE SYNDICS ET GESTIONNAIRES INC., in the matter of the bankruptcy 9288-5821 Québec Inc.'s** assets **(Y & K POWDER COATING),** to approach strategic acquirers who may be interested in Acquiring the assets**.**

Y&K was on the verge of completing a vertical powder coat painting system that is significantly more efficient than traditional (horizontal) methods. Expected production increases were significant and revenue potential with the new system is much higher.

Cost overruns hampered the project's completion at the 11th hour. Operations continued until June of 2025.

The former shareholders are prepared to go to work for the new owner, re-hire key people and restart operations. They had contacted several potential new clients who were prepared to send them test orders.

Malette is prepared to accept offers for asset lots. Another alternative would be to acquire the equipment and continue operations at the Pomba facility.

To do so, the acquirer we would coordinate contact with the landlord to explore the possibility of signing a new lease at the Pomba location.

We are approaching strategic groups who see the benefit of vertical powder coat painting and that would consider continuing operations as a going concern.

Galsa, Malette and

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1 COMPANY OVERVIEW

1.1 HISTORY AND BACKGROUND

The company was founded over 20 years ago by a father and son team who saw an opportunity to create a business that could provide high-quality powder coating services. With a strong background in the industry, the father had spent 10-15 years at a competitor before deciding to venture out on his own. The son (Yagnesh Patel), who was nearing high school graduation, was eager to join and support the business.

They took a significant risk, leveraging a $100,000 line of credit on their home to start the business. Early on, Yagnesh played a crucial role, acting as a middleman and helping with various aspects of the operation. They secured an oven in Toronto for $55,000 and began setting up their shop in the West Island's industrial area. Despite initial challenges, they persevered, relying on family support to cover expenses.

Their breakthrough came when they started attending automotive events to promote their services. Their persistence paid off when they secured a large order for aluminum van racking from a major client, making $100,000 by the end of their first year. This success led to further opportunities with other large clients, allowing them to expand their business.

The company was known for its dedication, expertise, and ability to deliver high-quality powder coating solutions, making them a trusted partner for a growing number of clients.

Last summer, Yagnesh Patel approached the undersigned to ask for help with the project at hand. Because of our experience in the powder coat painting industry, financing, and strategy we accepted the mandate (Galsa Website outlines our service offering: www.galsa.com)

1.2 OPPORTUNITY

- Acquire key assets through the **MALLETTE SYNDICS ET GESTIONNAIRES INC.** « Trousse d'information » dated July, 2025
- See **Service FL**'s "RAPPORT D'INVENTAIRE Dossier : I25-158" for asset descriptions.

1.3 ORIGINAL GALSA MANDATE

Y&K's revenues have declined significantly in the past two year as they have been focused on research and development and the new equipment installations. We took steps to help the company meet its obligations to allow the project to come to fruition. Galsa was working with the former

owners to find investors and partners. The challenges were that the equipment was only 90% complete and there were challenges with internal accounting that delayed the external accounts. They were unable to present year-end financial statements for the previous year.

1.3.1 R&D Tax credits related to past operations

Galsa had worked with Y&K's tax credit specialist and the external accountants to obtaining outstanding (Equipment) Tax Credits from 2023. They were in the final stages of getting funds from Revenue Quebec and CRA. They expected to receive approximately **$372,000.** Cash flow complications made it impossible to complete the last stage of the equipment installation (roughly $130,000). The company went into creditor protection and subsequently went into bankruptcy. In late 2024, there were additional (unexpected) leasehold improvements in excess of $100,000 that likely contributed to the downfall.

Receiving the full tax credit would likely have helped Y&K to get through their short-term cash flow issues.

Any outstanding tax credits for equipment delivered to date will be requested by Malette. The eventual winner should be eligible for tax credits on the remaining portion.

1.4 OPERATIONS

1.4.1 Overview of Recent Operations

Recent monthly revenue levels were approximately $70,000. This is the maximum capacity with 1 shift. They were short approximately $20-25,000 per month of cash flow to support operations. The shareholders supported the short fall as long as they could but eventually were unable to continue.

Revenues were generated by a semi-automatic conveyor-based system that could paint many small parts quickly without unnecessary handling and high-volume heavy metal equipment. For example, grey Hydro Quebec cabinets for exterior use.

Y&K conveyor system is unique in that it can support very heavy weight. The material is hung, cleaned, prepared. Painted, baked and dried with limited handling.

1.4.2 Capacity Constraints

Y&K had a good team in place and could add more staff easily as they have a good network of available workers.

1.4.3 Production Capabilities

The new process would have allowed Y&K to increase their capacity tenfold in 1 shift with little additional labour. The potential with 3 shifts is $20M in annual revenues.

2 SITUATION ANALYSIS (FROM PREVIOUS STRATEGIC PLAN)

2.1.1 Strengths

- High Volume and Speed: Ability to paint large volumes at a fast speed compared to competitors.
- Advanced Machinery: New machinery is eight times more efficient and allows for larger batch sizes.
- Experienced Workforce: Well-trained staff with over 30 years of experience. Team members are trained by the owners, ensuring high standards.
- Effective Operations Management: Strong organizational skills, particularly in prioritizing operations and managing orders efficiently.
- Existing Equipment: Current machinery is in good condition and supports efficient operations.
- Conveyor System: More efficient and ergonomic than traditional batch systems, although limited to horizontal operations.
- Capacity for Growth: New machinery will enable handling of 12' extrusions vertically, increasing capacity and capabilities.
- Skilled Labor Pool: Ability to access and train new labor quickly, leveraging experienced staff to maintain high quality.
- Clear Processes: Established and transparent processes that support efficient and effective operations.

2.1.2 Weaknesses

- High fixed costs: There are 2 locations. High fixed costs make the company unprofitable. The owners' focus on the new machine has hurt them.
- Cash Flow Issues: In addition to working on the new project, the Owners have had to manage their cash flow. A recent decision to sell the family home will address this situation and allow the Owners to focus on their business.
- Capacity Limitations: Currently operating at 90% capacity; any delay or new customer demand could strain current resources. They regularly turn away work.
- Heavy reliance on a few key clients.

2.1.3 Opportunities

- New Machinery: The addition of the new vertical machine by November 1st will significantly increase production capacity and allow for larger projects.
- Market Expansion: Opportunity to attract new business and reduce client concentration.
- Value-Added Services: Ability to offer superior products and services, justifying higher margins for high-quality work.
- Marketing and Awareness: Increased visibility through targeted marketing campaigns, including video promotions showcasing new machinery and capabilities on social media platforms.
- Networking Events: Hosting events to demonstrate capabilities and machinery, allowing potential clients to see the quality and efficiency firsthand.

2.1.4 Threats

- Competition could eventually create a similar vertical system.
- Industry Underbidding: Competitors in the industry may underbid for projects despite lacking the capacity to deliver on time, creating a challenging pricing environment. We have seen this trend dimmish recently and have begun raising prices.
- Economic Uncertainty: Fluctuations in demand or changes in economic conditions could impact cash flow and operational stability. Recent interest rate reductions have helped Y&K and there seems to be a resurgence of work from customers lately.
- Tarif uncertainty may affect a few industries.

2.2 Market Analysis

2.2.1 Market Size and Growth

The Canadian powder coating market is expected to see significant growth over the next decade, driven by increased demand in various end-use sectors such as automotive, construction, furniture, and industrial applications. The market is projected to grow steadily, with the automotive and architectural sectors being the primary consumers of powder coatings in Canada.

2.2.2 Key Trends

Environmental Regulations: Stricter regulations regarding Volatile Organic Compounds (VOCs) are pushing the industry towards more sustainable coating solutions. Powder coatings, which are solvent-free, align well with these regulations, thereby boosting their adoption across various sectors.

Technological Advancements: The introduction of new technologies such as low temperature curing powders, flexible thermoplastic powders, and ultra-durable coatings is expanding the application range of powder coatings. These advancements are enhancing performance and durability, making powder coatings ideal for automotive, architectural, and industrial applications

Increased Demand in Key Sectors: The automotive sector is a significant consumer of powder coatings in Canada, driven by the need for durable, corrosion-resistant, and aesthetically appealing finishes. The construction and architectural sectors also contribute to the demand for powder coatings, particularly for applications like coating aluminum and steel panels, window frames, and other architectural components.

Customization and Specialized Applications: There is a growing trend towards customized powder coating solutions that meet specific industry needs. This includes specialized coatings for different substrates and innovative applications in sectors like aerospace, electronics, and consumer goods.

2.2.3 Growth Potential in Quebec

Quebec, with its strong manufacturing base and emphasis on sustainable industrial practices, presents a promising market for powder coating applications. The province's focus on infrastructure development and environmental regulations aligns well with the benefits offered by powder coatings. The automotive and construction industries, both significant sectors in Quebec, are likely to drive demand for powder coatings in the region.

2.2.4 Challenges

Despite the growth opportunities, the powder coating industry faces challenges such as the high initial investment in equipment and the need for a controlled application environment. These factors can limit the adoption of powder coating technology, especially among small and medium-sized enterprises. Additionally, achieving smooth or thin finishes with powder coatings can be challenging, which may restrict their use in applications requiring high-quality aesthetics.

2.2.5 Competitive Landscape

The Canadian powder coating market is highly competitive, with both domestic and international players. Major companies such as AkzoNobel, PPG Industries, Axalta Coating Systems, and Sherwin-Williams are prominent in the market. These companies are focusing on innovation and strategic acquisitions to expand their market presence and offer advanced powder coating solutions.

Overall, the powder coating industry in Canada, including Quebec, is poised for growth due to its environmental benefits, technological advancements, and increasing demand from key sectors. However, addressing the challenges related to cost and application will be crucial for capturing the full potential of this market.

3 STRATEGIC OBJECTIVES (FROM PREVIOUS STRATEGIC PLAN)

3.1 FINANCIAL OBJECTIVES

- Utilize $280,000 personal investment effectively. Funds available by October 15th, 2024.
- Receive $372,000 R&D tax credit

3.2 OPERATIONAL OBJECTIVES

- Purchase and integrate new machine to increase production 8x with minimal additional cost.
- Streamline production processes to reduce turnaround time.

3.3 MARKETING AND SALES OBJECTIVES

- Expand client base through improved capacity.
- Market cost/benefit analysis derived from Y&K's new automated vertical line.
- Increase market share in targeted segments.

3.4 HUMAN RESOURCES OBJECTIVES

- Train current staff for new machine operation.
- Hire and onboard additional skilled labor as needed.

4 FINANCIAL PROJECTIONS (FROM PREVIOUS STRATEGIC PLAN)

The table below is a high-level calculation based on the Owners' estimates of the new machinery's impact on revenues and profits. Galsa's initial objective after our first meeting and subsequent financial review was to determine how much shareholder investment was necessary to make the project viable (in addition to the R&D tax credit).

P&L Projection

		note	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
Revenues		1	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000
New Revenue		2		$ 30,000	$ 100,000	$ 100,000	$ 50,000	$ 50,000	$ 50,000	$ 100,000	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 100,000	$ 125,000	$ 125,000
Total Revenues			**$ 70,000**	**$ 100,000**	**$ 170,000**	**$ 170,000**	**$ 120,000**	**$ 120,000**	**$ 120,000**	**$ 170,000**	**$ 195,000**	**$ 195,000**	**$ 195,000**	**$ 195,000**	**$ 170,000**	**$ 195,000**	**$ 195,000**
Expenses	Rent	3	$ 50,000	$ 50,000	$ 50,000	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*	*$ 25,000*
	Payroll	4	$ 60,000	$ 60,000	$ 65,000	$ 65,000	$ 65,000	$ 65,000	$ 65,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000
	Utilities	5	$ 15,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
	Interest on LOC		$ 2,304	$ 1,704		$ 484	$ 419	$ 645	$ 872	$ 1,074	$ 1,004	$ 787	$ 569	$ 349			
	Interest on Bridge Loan	6	$ 4,500	$ 4,500	$ 4,500	$ 4,500	$ 4,500	$ 4,500									
	Auto Expense		$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
	Telephone		$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600
	Insurance		$ 655	$ 655	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
	Professional Fees		$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000
	Machine PMT			$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210	$ 28,210
Total Expenses			**$ 142,059**	**$ 179,669**	**$ 183,310**	**$ 158,794**	**$ 158,729**	**$ 158,955**	**$ 154,682**	**$ 157,884**	**$ 157,814**	**$ 157,597**	**$ 157,379**	**$ 157,159**	**$ 156,810**	**$ 156,810**	**$ 156,810**
Profit / (Loss)			**-$ 72,059**	**-$ 79,669**	**-$ 13,310**	**$ 11,206**	**-$ 38,729**	**-$ 38,955**	**-$ 34,682**	**$ 12,116**	**$ 37,186**	**$ 37,403**	**$ 37,621**	**$ 37,841**	**$ 13,190**	**$ 38,190**	**$ 38,190**

Cash Flow

		Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
	Shareholder Investment	$ 280,000														
	R&D Tax Credit		$ 372,000													
	LOC as of Oct. 7th, 2024	-$ 395,000														
	Opening Balance	**-$ 115,000**	**-$ 292,059**	**$ 272**	**-$ 83,038**	**-$ 71,832**	**-$ 110,561**	**-$ 149,516**	**-$ 184,198**	**-$ 172,083**	**-$ 134,897**	**-$ 97,494**	**-$ 59,872**	**-$ 22,032**	**-$ 8,842**	**$ 29,348**
	AP (past Due)	-$ 35,000														
	Machine racking, etc.			-$ 70,000												
	September Loss	-$ 70,000														
	Monthly Profit / (Loss)	-$ 72,059	-$ 79,669	-$ 13,310	$ 11,206	-$ 38,729	-$ 38,955	-$ 34,682	$ 12,116	$ 37,186	$ 37,403	$ 37,621	$ 37,841	$ 13,190	$ 38,190	$ 38,190
	SH Investment															
	Closing Balance	**-$ 292,059**	**$ 272**	**-$ 83,038**	**-$ 71,832**	**-$ 110,561**	**-$ 149,516**	**-$ 184,198**	**-$ 172,083**	**-$ 134,897**	**-$ 97,494**	**-$ 59,872**	**-$ 22,032**	**-$ 8,842**	**$ 29,348**	**$ 67,538**

The Owners are committed to this project and is willing to take the necessary steps to ensure that the project is completed and that the company becomes successful.

Notes from the table above:

(1) The $70,000 per month is based on 1 shift at the Pomba location.

(2) New revenue generated by the new equipment is estimated based on the Owners' understanding of new potential clients who could benefit from the new automated vertical process. The margins are significantly higher, and new line can produce $20M per annum in revenue with modest additional labour.

(3) Rent at the Pumba Location is now approximately $27K plus applicable taxes. There was a time when the company was carrying the Garand location only. A potential acquirer could operate from the Pomba location only.

(4) As expressed in note 2, the new line is automated and requires very little additional labour.

(5) Utility costs will rise but the new process consumes less energy than the old process.

(6) (7) The Owners are putting their house in DDO on the market on October 15th. They will downsize and expect to net $1M in the transaction. The Owners have borrowed $280,000 from a member of their community in the form of a bridge loan, it will be repaid when the sale is finalized.

(8) R&D tax Credits are expected in October, early November at the latest.

5 CONCLUSION

The former Owners are convinced that this new process will revolutionize local industrial powder coat painting in the Montreal Market. To their knowledge, this (automated) integrated vertical method does not exist in Canada.

Please feel free to contact me by email with specific questions. Feel free to include availabilities for a call.