

Québec Superior Court offers guidance on pre-packaged transactions in insolvency proceedings

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Key Takeaways

- The Superior Court of Québec approved a pre-packaged transaction under the *Bankruptcy and Insolvency Act*, under a “reverse vesting” structure.
- The decision presents a solid framework for utilizing prepacks in Canadian insolvency proceedings, showcasing their advantages in reducing costs and maintaining value.
- The decision also affirms the legitimacy of “reverse vesting” structures as a practical restructuring tool, provided they are supported by evidence and meet the applicable criteria.

On February 25, 2026, the Superior Court of Québec issued a noteworthy decision in the insolvency proceedings of SRTX Inc. and its affiliates (collectively, the SRTX Group), the company behind Sheertex, a well-known brand of rip-resistant tights. The Honorable Justice Luc Morin approved a pre-packaged transaction (also known as a “prepack”) under a “reverse vesting” structure, thereby facilitating the transfer of the SRTX Group’s business to Québec-based A.Y.K. International Inc. (AYK).

In approving the transaction, the Court not only reaffirms the appropriateness of reverse vesting orders (RVOs) under the *Bankruptcy and Insolvency Act* (the BIA) but also establishes key criteria for determining when a prepack constitutes the appropriate course of action in a given case. Unlike a traditional restructuring process, which generally involves the conduct of a court-supervised sale and investment solicitation process during the insolvency proceedings, a prepack necessarily implies the completion of a sale process and the negotiation of a transaction prior to the commencement of insolvency proceedings, with closing to follow shortly after court approval.

Prepacks aim to preserve value, minimize disruption and maximize recovery for stakeholders by ensuring the business can continue operating with minimal interruption. Prepacks can be particularly beneficial in industries where maintaining customer confidence, supplier relationships or operational continuity is critical to preserving value.

Background

The SRTX Group experienced certain liquidity issues driven by a combination of unfavourable factors, including high production costs and the cyclical nature of the hosiery sector, as well as fluctuations in exchange rates and shifting trade policies. This compelled the SRTX Group to launch, in October 2025, a strategic review to explore a range of strategic options with the assistance of a financial advisor.

As part of the strategic review, a sale and solicitation process was launched to explore a potential transaction or investment in the SRTX Group (the SISP). The SISP was conducted with the assistance of the SRTX Group's financial advisor and structured to ensure a comprehensive canvassing of the market for potential buyers and investors. While the SISP was conducted outside formal insolvency proceedings, it was nonetheless conducted according to procedures that are akin to those used in court-supervised processes.

The strategic review culminated in the acceptance of a bid from AYK (the transaction) for the purchase of the SRTX Group's intellectual property and finished goods inventory. The "reverse vesting" structure of the transaction was an essential condition of the deal, as it was critical for maintaining not only valuable tax attributes, but also certain governmental authorizations required for export purposes.

On February 17, 2026, the SRTX Group filed Notices of Intention under the BIA and sought court approval of the transaction. On February 25, 2026, the Court approved the transaction, finding that it was undertaken in good faith, had broad stakeholder support and represented the best possible outcome for all stakeholders. The transaction closed on February 26, 2026.

Practical considerations

The Court's decision set out the criteria to be considered by the Court when implementing prepacks. While not exhaustive, these criteria offer a practical framework to ensure transparency, fairness and the integrity of the process. Such key considerations include the following:

- A prepack must be pursued in good faith, with a valid commercial purpose and without improper motives or actions that unfairly disadvantage the debtor's stakeholders.
- A heightened standard of full and transparent disclosure is required from the debtor, the trustee (or other insolvency professional, as applicable) and the purchaser. This heightened level of transparency exceeds that of a traditional restructuring process as it is deemed essential to balance the expedited nature of prepacks, protect the interests of all stakeholders and ensure the integrity of the process.
- The trustee or other insolvency professional, as applicable, must provide a detailed and transparent report addressing key aspects of the prepack, including the identity of the purchaser, the assets or business being purchased, the rationale for expedited approval and the proposed timeline for closing. As an officer of the court, the trustee (or other insolvency professional) must also explain how stakeholders' interests have been considered and provide a clear, well-supported recommendation for approving the prepack.
- Broad-based stakeholder support should be demonstrated through meaningful consultation and consideration of viable alternatives, to ensure the process is fair, transparent and legitimate.
- The expedited approval of a prepack must be justified by genuine urgency or

demonstrable necessity, rather than mere convenience or procedural efficiency. Put differently, expedited approval is warranted where there are no valid reasons to delay the process.

In this decision, the Court also addressed the use of reverse vesting orders (RVOs), a structure used in distressed transactions to transfer unwanted assets and liabilities to a newly created residual entity while allowing the core business to exit statutory protection and continue under new ownership with a clean balance sheet and without unwanted assets or liabilities. While the Court reaffirmed that RVOs are an extraordinary remedy requiring careful judicial scrutiny, it clarified that “extraordinary” must not be confused with “exceptional” and acknowledged that RVOs are no longer uncommon. This recognition affirms the legitimacy of RVOs as a practical restructuring tool, provided they are supported by evidence and meet the applicable criteria.

Conclusion

This decision offers a comprehensive framework for the approval of prepacks under Canadian insolvency statutes. Prepacks can offer significant advantages, such as the preservation of going-concern value, while minimizing operational disruptions and reducing costs. The Court’s recognition of these benefits highlights the usefulness of prepacks as a legitimate and valuable tool in modern insolvency practice.

Additionally, this decision highlights the importance of thorough preparation, transparent communication with stakeholders and a well-documented process that demonstrates the necessity and fairness of the prepack. By adhering to the principles outlined by the Court, prepacks can serve as a powerful tool to achieve efficient and value-maximizing outcomes in insolvency proceedings.

Osler, Hoskin & Harcourt LLP acted as legal counsel to the SRTX Group.