

District of Ontario
Division No.: 09 - Toronto
Estate No. 31-1929528
Court No. 31-1929528

**IN THE MATTER OF THE BANKRUPTCY OF
PATISSERIE MONACO INC.
OF THE CITY OF RICHMOND HILL
IN THE REGIONAL MUNICIPALITY OF YORK
IN THE PROVINCE OF ONTARIO**

Trustee's Preliminary Report to the Creditors

SECTION A: BACKGROUND

Patisserie Monaco Inc. ("Monaco" or the "Company") is an Ontario corporation that carried on business as a wholesale pastry supplier. The Company was founded in 2001 and operated from leased premises located at 25A East Pearce Street in Richmond Hill, Ontario.

Causes of Insolvency

The Trustee is advised by Monaco's management that at the outset of the Company's operations, Monaco focused on developing a customer base of small to medium sized businesses, which yielded satisfactory margins and reasonable profitability for the Company. In or about 2010, Monaco changed its focus to develop a customer base consisting of large, national companies in order to increase the Company's sales; however, the Trustee is advised that the Company's profit margins decreased significantly as these large customers demanded lower pricing on an ongoing basis, which resulted in the Company incurring losses. Due to poorer financial results and the resultant negative impact on the Company's cash flow, Monaco filed a Notice of Intention to Make a Proposal (the "NOI") on November 6, 2014.

The Company has advised the Trustee that although it filed the NOI with a view to making a proposal to its creditors, based on the Company's discussions with various creditors regarding the potential terms of a proposal, it became apparent to Monaco that it could not file a viable proposal that would be acceptable to its creditors. Since no proposal was filed within the 30 day period from the date of filing the NOI, the Company was deemed have filed an assignment in bankruptcy on December 7, 2014.

SECTION B: PRELIMINARY EVALUATION OF ASSETS AND DETAILS OF SECURITY INTERESTS

Preliminary Evaluation of Assets

As set out on the Statement of Affairs, the estimated realizable value of the assets of Monaco, as at the date of bankruptcy, is as follows:

	<u>Realizable Value</u>	<u>Note</u>
Cash on hand	\$ 50	
Accounts receivable	100,000	1
Inventory	10,000	
Machinery and equipment	218,200	2
CRA SRED refund	<u>93,000</u>	3
Total	<u>\$421,250</u>	4

1. Monaco provided the Trustee with its statement of estimated realizations in respect of accounts receivable and advised that although the book value of its accounts receivable as at the date of bankruptcy was approximately \$209,000, only \$100,000 would be readily collectible. The Company further advised that, in its opinion, significant professional costs would have to be incurred to collect the remaining balance.
2. Machinery and Equipment - The value of the machinery and equipment is based on an independent appraisal prepared on a liquidation basis that was obtained by the Company prior to the bankruptcy.
3. CRA SRED Refund - The Scientific Research and Experimental Development ("SRED") refund from Canada Revenue Agency ("CRA") is the result of a SRED claim filed by the Company. Based on the Statement of Affairs, CRA is owed approximately \$306,000. It is likely that CRA will set off the SRED refund against the amount owed to it.
4. See below section on Details of Security Interests and Sections D and H of this report regarding prior ranking charges in respect of the Company's assets.

Details of Security Interests

The Company granted general security agreements (the "GSAs") over all of the Company's assets in favour of Bank of Montreal ("BMO") and Business Development Bank of Canada ("BDC"). These security interests were assigned by BMO and BDC to Amarjit Singh (the "Secured Creditor") prior to the Company's bankruptcy. The amounts owing to the Secured Creditor, according to the books and records of the Company, total \$163,000.

The Trustee has obtained a legal opinion from Simmons da Silva LLP, independent counsel retained by the Trustee, that the GSAs are valid and enforceable against a Trustee in Bankruptcy. The Trustee advises that upon the bankruptcy of the Company, the Secured Creditor took possession of the Company's assets.

CRA is owed approximately \$226,000 on account of source deductions. The Trustee is uncertain as to the breakdown between the employer and employee portion of the source deductions. The employee portion of source deductions ranks as a super priority ahead of all creditors.

Based on the estimated realizable value of the Company's assets set out on the Statement of Affairs, and the amounts owing to the Secured Creditor and CRA, it is unlikely that there will be any assets available to the Trustee for distribution to the Company's unsecured creditors..

SECTION C: BOOKS AND RECORDS

The Trustee has contacted both the former principal of the Company as well as its accountant and is in the process of obtaining those books and records required to administer the bankruptcy proceedings.

SECTION D: CONSERVATORY AND PROTECTIVE MEASURES

The Trustee has not taken possession and control of the Company's assets as the Secured Creditor has taken possession of same.

Since there are no assets in the estate, the Trustee has not taken possession and control of the Company's premises as doing so would have resulted in the Trustee being responsible for occupation rent to Monaco's landlord without any benefit. The Trustee, with the approval of the Inspectors, if any are

appointed, intends to disclaim the lease between Monaco and the landlord immediately following the First Meeting of Creditors.

SECTION E: PROVABLE CLAIMS

As at 1:45 pm (Toronto time) on December 23, 2014, 10 proofs of claim have been filed with the Trustee. Details of claims filed to date are set out below.

<u>Type of Claim</u>	<u>Per Statement of Affairs</u>	<u>Filed</u>
Secured	\$ 596,361	\$109,142
Preferred	0	0
Unsecured	<u>1,879,223</u>	<u>144,406</u>
Total	<u>\$2,475,584</u>	<u>\$253,548</u>

There is one creditor with a contingent claim for \$200,000 who has yet to provide the Trustee with appropriate support for \$200,000 of its claim.

SECTION F: LEGAL PROCEEDINGS, TRANSFERS UNDER VALUE AND PREFERENCE PAYMENTS

The Trustee was made aware of a legal proceeding commenced against Monaco by Avendra Canada Inc. The Trustee does not have details concerning the claim; however, the proceeding is stayed as a result of the bankruptcy.

The Trustee has requested from Monaco, but has not yet been provided with, copies of the Company's bank statements for the period December 8, 2013 to December 7, 2014 for the purpose of identifying any transfers under value and preference payments. The Trustee will discuss this matter with the Inspector(s) elected at the First Meeting of Creditors.

SECTION G: DETAILS OF THIRD PARTY DEPOSITS OR GUARANTEES

The Secured Creditor provided the Trustee with a deposit of \$15,000 and a fee guarantee for \$10,000 for payment of the Trustee's fees relating to its statutory duties under the NOI and bankruptcy, respectively.

The Trustee has now received the \$10,000 from the Secured Creditor in respect of the guarantee provided in respect of the fees for the bankruptcy administration.

SECTION H: PROJECTED DISTRIBUTION AND TRUSTEE'S COMMENTS ON ANTICIPATED ASSET REALIZATIONS

As discussed previously in this report, based on the estimated realizable value of the Company's assets set out on the Statement of Affairs, and the amounts owing to the Secured Creditor and CRA, it is unlikely that there will be any assets available to the Trustee for distribution to the Company's unsecured creditors.

SECTION I: OTHER MATTERS

The Trustee is in the process of obtaining from Monaco information required to complete the Trustee's obligations pursuant to the *Wage Earner Protection Program Act*.

COLLINS BARROW TORONTO LIMITED in its capacity as Trustee of the Estate of Patisserie Monaco Inc., a bankrupt and not in its personal capacity

Per:



Arif Dhanani, CPA, CA, CIRP