

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
SIGNATURE MUSHROOMS LTD.**

TRUSTEE'S REPORT TO CREDITORS

FEBRUARY 28, 2022

BACKGROUND AND INSOLVENCY EVENTS

This report has been prepared by The Bowra Group Inc., in its capacity as Licensed Insolvency Trustee (the "**Trustee**") of the bankrupt estate of Signature Mushrooms Ltd. (the "**Company**" or "**Signature**") to provide preliminary information to the creditors as at February 28, 2022.

The Company was incorporated in Alberta on May 14, 2014, and the Company's sole director is Mr. Avatar (Terry) Uppal ("**Uppal**"). Alliance Mushrooms Ltd. ("**Alliance**") is a related company also incorporated in the province of Alberta. We understand Alliance and Signature's operations were interdependent. Alliance and Signature are herein collectively referred to as (the "**Companies**").

The Companies were in the business of producing and selling a variety of mushrooms, including white, crimini, and portabella. Farming operations were conducted on lands owned by Signature located in the municipal district of Strathcona County. Signature was the registered owner of one parcel of land as detailed below:

PLAN 0420308
BLOCK 1
LOT 2
EXCEPTING THEREOUT ALL MINES AND MINERALS
AREA: 40.4 HECTARES (99.83 ACRES) MORE OR LESS
(the "**Land**")

Situated on the Land is one mushroom barn, four residential houses, and various small garages. In addition, the Company's assets consist of minor equipment and vehicles (the "**Equipment**").

We understand the Companies ran into financial difficulties as a result of a large barn fire occurring on or about December 24, 2019 (the "**Barn Fire**"), causing part of the barn to collapse and growing operations to be reduced. We understand that the Companies ceased operations prior to the date of Bankruptcy. Both Signature and Alliance made assignments into Bankruptcy on February 9, 2022. The Bowra Group Inc. consented to act as the Trustee.

We understand that BMO Bank of Montreal ("**BMO**"), the Company's senior secured creditor, is considering an application for a Court appointed receiver manager. In the event the application is successful, the Company's assets would be realized on by the receiver. As of the date of this report, an application has not been scheduled.

FINANCIAL SITUATION

As a result of the insolvency, the Company does not have externally compiled financial statements for the fiscal year ending May 31, 2021.

Table 1 summarizes the externally prepared notice to reader income statement of the Company for the fiscal year ending May 31, 2019, fiscal year ending May 31, 2020, and the management prepared draft income statement for the fiscal year ending May 31, 2021.

Table 1

	Year Ended May 31, 2019 (000's)	Year Ended May 31, 2020 (000's)	Year Ended May 31, 2021 (000's)
Revenue	2,960	1,380	1
Cost of sales	(785)	(408)	(31)
	<u>2,175</u>	<u>972</u>	<u>(29)</u>
Operating and admin expenses	(2,373)	(1,926)	(928)
Loss from operations	(198)	(954)	(957)
Gain on disposal of property and equipment	-	1,626	-
Insurance revenue	-	-	2,322
Other expenses	29	(55)	76
Net Income (loss)	(169)	618	1,441
Beginning shareholder deficit	(1,096)	(1,265)	(647)
Net income	(169)	618	1,441
Ending shareholder deficit	(1,265)	(647)	794

The Company incurred net losses of \$169,000 in the 2019 fiscal year and generated net income of \$618,000 and \$1,441,000 in the fiscal years ended 2020 and 2021, respectively.

We understand that the bookkeeping is incomplete, and that revenue may be understated in the year-ending May 31, 2021. The net income generated in 2021 relates to insurance proceeds collected after operations ceased.

Table 2 summarizes the externally prepared notice to reader balance sheet of the Company as at May 31, 2019, May 31, 2020, and the management prepared draft balance sheet as at May 31, 2021.

Table 2

	As at May 31, 2019 (000's)	As at May 31, 2020 (000's)	As at May 31, 2021 (000's)
Cash	-	10	-
Accounts receivable	172	2,371	22
Goods and services tax receivable	-	10	8
Inventory	695	75	75
Other current assets	2	-	192
	869	2,465	297
Capital assets	3,874	1,759	3,863
Due from related parties	250	250	250
	4,993	4,475	4,410
Bank indebtedness	858	830	325
Accounts payable and accrued liabilities	827	814	391
Goods and services tax payable	6	-	-
Wages and employee remittances payable	204	109	-
Due to shareholders	382	346	-
	2,277	2,099	716
Long-term debt	2,159	1,495	1,604
Capital lease obligations	355	58	220
Due to related parties	1,467	1,470	1,658
	6,258	5,122	4,198
Shareholder's equity (deficit)	(1,265)	(647)	213
	4,993	4,475	4,410

The capital asset increase in 2021 is a result of incomplete books and records of the Company, as the prior year-end adjusting journal entries were not recorded. As such, capital assets are overstated in the management prepared draft balance sheet as at May 31, 2021.

The increase in accounts receivable as at May 31, 2020, is a result of the outstanding insurance proceeds from the Barn Fire which were subsequently received in the 2021 fiscal year and recorded as other revenue.

CONSERVATORY AND PROTECTIVE MEASURES

On February 10, 2022, the Trustee attended, took possession, and secured the Land, Equipment, and facilities located in Strathcona County, Alberta. The Trustee transferred all utility accounts into the Trustee's name.

As of the date of Bankruptcy, the Company did not have insurance coverage. The Trustee obtained equipment, building, and liability insurance through HUB International Insurance Brokers.

The Trustee inventoried the Equipment but was unable to secure certain pieces of leased equipment (the "**Leased Equipment**") from Kubota Canada Ltd. ("**Kubota**"). The Leased Equipment is in Kubota's possession. The Trustee is in the process of reviewing the security documents from Kubota and obtaining a legal opinion regarding the validity, enforceability, and priority of the same.

The Trustee understands the Company ceased operations and all employees were terminated prior to the date of Bankruptcy. There are no outstanding salaries, wages, vacation pay, or severance amounts owed to the employees. 2021 T4s and final ROEs have been prepared by the Company and provided to all previous employees.

The Trustee sent correspondence to the BMO, Royal Bank of Canada ("**RBC**"), and TD Canada Trust ("**TD**") requesting the Company's bank accounts be frozen and any funds remaining be forwarded to the Trustee. BMO and TD have confirmed the accounts have been frozen and/or closed, and there are no funds remaining in the accounts. RBC has also confirmed the account has been closed and the funds will be remitted to the Trustee in due course.

BOOKS AND RECORDS

The Trustee has taken possession of certain books and records of the Company, including financial statements, bank statements, employee records, and general ledgers. The Trustee is in the process of reviewing the financial records available and obtaining additional financial information.

The Trustee is in the process of obtaining access to the tax records of the Company through the authorized representative process of the Canada Revenue Agency (“**CRA**”).

SECURED CREDITORS

Table 3 provides a listing of the secured claims, according to the books and records of the Company and the Personal Property Registry, that may have a priority over the claims of unsecured creditors.

Creditor	Assets Secured	Table 3 Estimated Claim (000's)
BMO Bank of Montreal	General Security Agreement - all present and after-acquired property	1,250
Kubota Canada Ltd	Specific Serial Numbered - Equipment/Vehicles	8
1191220 Alberta Ltd.	Building and Land	Unknown
Nissan Canada Inc	Specific Serial Numbered - Equipment/Vehicles	Unknown
Polaris Leasing Ltd	Specific Serial Numbered - Equipment/Vehicles	Unknown
Wells Fargo Equipment Finance Company	Specific Serial Numbered - Equipment/Vehicles	Unknown

BMO holds a registered general security agreement granting them a priority charge over all the assets and after-acquired property of the Company. As at the date of Bankruptcy, the Company is indebted to BMO in the approximate amount of \$1,250,000.

1191220 Alberta Ltd. is registered on title for the principal amount of \$100,000 related to a mortgage on the Land.

The other secured creditors hold registered general security agreements over specific serial numbered assets, which include various equipment and vehicles owned by Signature.

Notice of the bankruptcy has been sent to the CRA. It is unknown if there are any amounts owing to the CRA for payroll source deductions. Any amounts owing to the CRA would be considered a deemed trust property claim which could rank ahead of all other creditors.

UNSECURED CREDITORS

Based on the Company's books and records, the Trustee is aware of 19 unsecured creditors owed approximately \$2,139,563. Table 4 outlines the major unsecured creditors.

Creditor	Table 4 Estimated Claim (000's)
Alliance Mushrooms Ltd.	759
Harbhajan Uppal Shareholder	587 345
Champ's Mushrooms	285
0856590 BC Ltd.	100
MNP LLP	11
Aim Plumbing	8
MS Logistics	3

Due to the nature of Company's mushroom farming operations, Signature sales are historically GST exempt. The Trustee has reviewed the Company's books and records and believes Signature to be in a refund position. CRA has not filed a proof of claim as of the date of this report and as such the amount of their current claim, if any, is unknown. CRA's claim for unpaid GST would rank as an unsecured claim in the Bankruptcy.

IDENTIFICATION AND VALUATION OF ASSETS

The Company's assets consist of Land, Equipment, and facilities. Table 5 on the following page provides a summary of the Company's assets at the date of Bankruptcy per the Statement of Affairs and the Trustee's estimated realization.

	Estimated Realization	
	Low (\$000s)	High (\$000s)
Equipment and machinery	50	100
Land and buildings	1,800	2,000
GST refund	-	11
Retainer	10	10
	1,860	2,121
Professional fees	(60)	(35)
Operating costs (utilities, insurance)	(210)	(150)
Payment to secured creditor - BMO	(1,250)	(1,250)
Payment to additional secured creditors	Unknown	Unknown
	(1,520)	(1,435)
Total unsecured creditors	1,023	1,023
Estimated recovery per \$1 of unsecured claim	0.33	0.67

The estimated realizable values above are before realization costs.

The Trustee is in the process of preparing a request for offers to purchase the Land and Equipment of the Company. The Trustee will seek instructions from the Inspector(s) regarding the realization strategy to provide the highest and best recovery of the Land and Equipment to the creditors. As noted earlier in this report, we understand BMO is also considering appointing a Receiver in which case the receiver would take over the sale of assets.

The Company's books and records indicate there is a GST receivable in the amount of \$10,993. Collectability of this amount depends on amounts owing to CRA for GST and payroll. The Trustee will follow up with CRA regarding receipt and timing of this refund, if any.

Operating costs include insurance and utility costs required to preserve and protect the assets. The high recovery assumes the sale of the Land takes approximately 6 months and the low recovery assumes it will take 9 months.

Once all secured parties have proven their claim and the CRA trust audit has been completed to determine their deemed trust property claim the Trustee will be in a better position to access the potential recovery to the unsecured creditors. Preliminary estimates, assuming there are no additional secured claims besides that of BMO, suggest the recovery to unsecured creditors could be between \$0.33 and \$0.67 cents per dollar of unsecured claim.

LEGAL ACTIONS

The Trustee is aware of the following legal actions;

A previous employee of Signature, Trung Huynh (“**Huynh**”), has filed a Settlement of Claim and Statement of Defence against the Companies for damages and amounts owing as a result of allegedly being wrongfully dismissed. As a result of the Bankruptcy, Mr. Huynh’s claim against Companies is stayed. The Trustee does not intend to continue this action.

Signature has an ongoing insurance claim for damages as a result of the Barn Fire. The Company has filed a claim and has received insurance proceeds of approximately \$2.3M to date. There is currently a dispute over the calculation of the co-insurer penalty and professional fees reimbursable under the policy. The Company believes they are entitled to additional proceeds of \$260,000. The insurers have denied payment and settlement attempts to date have been unsuccessful. The Trustee has had discussions with the Company’s prior legal counsel who has advised that the next step would be to file a Statement of Claim against the Insurers. We note the claim must be filed prior to the statute bar date of March 9, 2022. The Trustee has conducted a cost benefit analysis and has concluded it is both reasonable and appropriate to decline continuation of the litigation on the basis that further pursuing the claim would not be beneficial to the bankrupt estate. Further, the bankrupt estate does not have sufficient funding to continue litigation efforts. Any creditor who wishes to pursue the claim in their own name and at their own expense and risk may do so pursuant to Section 38 of the *Bankruptcy and Insolvency Act* (“**BIA**”).

REVIEW OF RECORDS & CONDUCT OF THE DEBTOR

The Trustee is in the process of reviewing the books and records of the Company that were made available, including bank statements for the period of January 1, 2021, to February 9, 2022. If the Trustee identifies any transactions that could be regarded as preference payments or transfers

undervalue in accordance with the BIA, the Trustee will seek instructions from the Inspectors and/or the creditors of the bankrupt estate.

CONCLUSION

Preliminary estimates, assuming there are no additional secured claims besides that of BMO, suggest the recovery to unsecured creditors could be between \$0.33 and \$0.67 cents per dollar of unsecured claim.

The Bowra Group Inc.

Licensed Insolvency Trustee of Signature Mushrooms Ltd.

Per: 

Kristin Gray, CPA, CA, CIRP, LIT