

CANADA
Province of Ontario
Division No.: 09- Toronto
Court No: 31-3027593
Estate No: 31-3027593

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF 1681676 ONTARIO INC., CARRYING ON BUSINESS AS ARTEX FASHIONS, IN THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO

Licensed Insolvency Trustee ("**Trustee**"): MNP Ltd.

The information contained in this Preliminary Report has been prepared from the available books and records of the Company (as such term is later defined) and discussions with the Management. These books and records have not been reviewed or otherwise audited by the Trustee and, consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information taken from those records contained herein.

SECTION A – BACKGROUND AND CAUSES OF FINANCIAL DIFFICULTIES

1681676 Ontario Inc. carried on business as Artex Fashions ("**Artex**" or the "**Company**") and commenced operations in February 2006. The Company was in the business of designing and manufacturing women's merchandise from rented premises (the "**Premises**") in Toronto.

Artex faced financial difficulties from lower margins because of higher costs of raw materials and more competition. The Company also had declining revenues because of the lower consumer spending caused by higher inflation and interest rates. In addition, the Company had cash flow problems because of delayed payments from its customers and because it was overleveraged.

The Company's directors chose to make an assignment in bankruptcy on January 2, 2024, after being unable to combine or merge the Company with another business in the same industry, because of the challenges they faced. The Company made an assignment in bankruptcy on January 5, 2024 ("**Date of Bankruptcy**"), and the Office of the Superintendent of Bankruptcy Canada accepted the filing on that date. MNP Ltd. ("**MNP**") was appointed as the Trustee, subject to affirmation by creditors at the first meeting of creditors (the "**FMOC**").

The Company's Board of Directors gave Jeffrey Gortler, the President of the Company, the authority to sign the bankruptcy documents.

On January 10, 2024, the Notice to Creditors advising of the bankruptcy and the FMOC, a list of creditors and a proof of claim form, along with a proxy, were sent to all known creditors of the Company. Pursuant to subsection 102(4) of the *Bankruptcy and Insolvency Act* (the "**BIA**"), the Notice of Bankruptcy was published in the *Toronto Sun* newspaper on January 10, 2024.

The various public documents related to the Company and its bankruptcy proceedings are posted at the Trustee’s case website at: <https://mnpdebt.ca/en/corporate/corporate-engagements/1681676-ontario-inc>.

Agency Appointment

On January 3, 2024, MNP was appointed an Agent under a security agreement dated January 17, 2018 granted by Artex in favour of HSBC Bank Canada (“**HSBC**”), with authority to realize upon and to collect the Company’s accounts receivable. Before accepting the appointments as Agent and Trustee, MNP obtained an independent legal opinion from Loopstra Nixon LLP, its independent counsel, wherein it opined that subject to normal assumptions and qualifications, the security granted by the Company to HSBC is valid and enforceable as of December 29, 2023, the date of its opinion.

SECTION B –PRELIMINARY EVALUATION OF ASSETS

Preliminary Evaluation of Assets

The Company’s assets and their estimated realizable values, according to its sworn Statement of Affairs (“**SOA**”) are summarized as follows:

Asset Description	Estimated Realizable Value (\$)
Accounts Receivable	\$ 200,000
Machinery, Plant and Equipment	\$1
Inventory	\$1
Total	\$ 200,002

Accounts Receivable

The Accounts Receivables (the “**Receivables**”) represent funds to be collected from Canadian and US customers on account of the sale of merchandise by the Company before the Date of Bankruptcy. The figure on the SOA reflects an amount of \$252,252 out of which the Company estimates \$200,000 to be collectible. The Agent has been endeavouring to collect the Receivables and is communicating with the customers via collection letters, emails and telephone calls.

Machine, Plant and Equipment and Inventory

This represents the office and limited factory equipment at the Premises (the “**Equipment**”) and the stock of raw materials and finished products (the “**Inventory**”). Before the Date of Bankruptcy, the Trustee had a third-party appraiser attend to the Premises to inspect the Inventory and Equipment. The Trustee learned that most of the Equipment was old, and the finished apparel inventory was outdated. The Trustee also was advised by the liquidator that the estimated realizations from the Equipment and Inventory were lower than the costs of selling them. As noted below, the Equipment and Inventory are also subject to competing secured claims.

SECTION C – BOOKS AND RECORDS

The Trustee is in possession and control of available books and records of the Company which are necessary for the administration of the estate.

SECTION D – CONSERVATORY AND PROTECTIVE MEASURES

Given the foregoing, the Trustee has not taken possession of the Premises, Equipment and/or Inventory. Since the Date of Bankruptcy, HSBC has frozen the Company's bank accounts and registered the Company's bank accounts to accept deposits only in accordance with the Trustee's instructions.

SECTION E – PROVABLE CLAIMS

The claims of creditors as per the SOA and the proof of claims filed as of 5:00 p.m. on January 23, 2024, are summarized below:

Particulars	SOA	Claims as Filed
Secured	\$1,465,931.37	755,907.40
Unsecured	\$3,180,428.72	184,302.59
Total	\$ 4,646,360.09	940,209.99

The Trustee has not yet admitted the claims for distribution.

Secured Creditors – An Ontario *Personal Property Security Act* registry search conducted on November 21, 2023 identified registrations in favour of HSBC, Business Development Bank of Canada, Vault Credit Corporation, Merchant Opportunities Fund Limited Partnership over all the assets of the Company and CWB National Leasing Inc. with a respect to certain of the Equipment. As mentioned above, the Trustee has obtained a legal opinion from independent counsel to confirm the validity and enforceability of HSBC's security interests as against the Trustee.

The Company also advised the Trustee that certain of its former employees had unpaid wages and vacation pay. The SOA shows amounts owed to former employees, which are a secured claim up to \$2,000 per employee under section 81.3 of the BIA.

Unsecured Creditors - These are creditors who have no security for their debts, such as i) a loan from the shareholder of \$2.4 million, ii) various suppliers of raw materials, iii) some amounts owed to secondary lenders, iv) a Canada Emergency Business Account loan of \$60,000, and v) some wages due to previous workers of the Company over \$2,000 among other creditors.

SECTION F- LEGAL PROCEEDINGS, TRANSFERS AT UNDER-VALUE AND PREFERENCE PAYMENTS

Legal Proceedings

To date, the Trustee has not commenced any legal proceedings. As stated before, a written legal opinion confirming the validity and enforceability of HSBC's security against the Trustee was obtained before the Date of Bankruptcy.

Transfers at Under-Value and Preference Payments

The Trustee has completed its review of potential transfers at undervalue or preference payments. The scope of the review was limited to a review of certain disbursements made in the 12 months preceding the Date of Bankruptcy through the bank account and inquiries with management. Based on this review, the Trustee has not identified any transactions worthy of further investigation.

SECTION G - ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION

The Company's assets do not have enough value to satisfy the claims of Artex's secured creditors, and therefore, the Trustee expects that the Company's unsecured creditors will not receive any distribution.

SECTION H – OTHER MATTERS

Administrative Costs

Prior to the Date of Bankruptcy, the Trustee and HSBC entered into an agreement whereby HSBC agreed to subordinate any and all interest in Artex's assets to the extent of the administrative costs related to the bankruptcy.

Wage Earner Protection Program

The Trustee is collecting the necessary information to administer the Wage Earner Protection Program ("WEPP") for seven (7) employees. The Company's former employees should expect a notice of the WEPP and how to file a claim in approximately two weeks. Based on the Company's records, the claims under the WEPP claims include wages, vacation pay, and statutory termination pay claim.

Dated in Toronto, Ontario, this 24th day of January 2024.

MNP LTD.

**Trustee of the Estate of 1681676 Ontario Inc., a Bankrupt
and not in its personal or corporate capacity**

Per:



Sheldon Title, CPA, CA, CIRP, LIT
Senior Vice President