

District of Alberta
Division No. Mississauga
Court/ Estate No. 32-2738181

**IN THE MATTER OF THE BANKRUPTCY OF
AVAD CANADA INC.
TRUSTEE'S PRELIMINARY REPORT**

The information contained in this report has been prepared from the available books and records of the Company (as subsequently defined) and discussions with 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 contained therein.

BACKGROUND

1. On March 17, 2021 (the "Filing Date"), the Ontario Superior Court of Justice (the "Court") granted an Order (the "Receivership Order") appointing MNP Ltd. as Receiver (the "Receiver"), without security, of all of the assets, undertakings and properties of AVAD Canada Ltd. ("AVAD Canada" or the "Company") acquired for or used in relation to the business carried on by AVAD Canada (the "Assets"). Publicly available documents related to the receivership are available on the Receiver's website at:
<https://mnpdebt.ca/en/corporate/corporate-engagements/avad-canada-ltd-rcvr>.
2. The Company was the Canadian operating affiliate of the North American business of AVAD, a wholesale distributor of a variety of electronic equipment and accessories. AVAD Canada had warehouses located in Mississauga, Ontario and Calgary, Alberta (the "Warehouses"). On or around March 17, 2021, substantially all of the business and assets of the United States affiliates were sold (the "US Sale Transaction"). The US Sale Transaction did not include AVAD Canada and resulted in the formation of a new US entity, Surf Opco LLC ("NewCo"). Upon completion of the US Sale Transaction, the Company's operations were determined to no longer be viable.
3. The Receivership Order was granted pursuant to an application by MidCap Funding IV Trust ("MidCap"), as agent for secured lenders who were owed approximately \$525,400

US pursuant to a Credit and Security Agreement dated October 2, 2018 (the "MidCap Loan"). The MidCap Loan was secured by a general security agreement also dated October 2, 2018 (the "MidCap Security").

4. As authorized in paragraph 3. (r) of the Receivership Order, the Receiver filed an assignment in bankruptcy for the Company on May 17, 2021 that became effective on May 18, 2021. MNP Ltd. was appointed a Trustee of the bankrupt estate. On May 19, 2021, the Notice of Bankruptcy, First Meeting of Creditors ("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 BIA, notice of AVAD Canada's bankruptcy was published in the May 22, 2021 edition of the Toronto Star newspaper.

BOOKS AND RECORDS

5. The bulk of AVAD Canada's books and records were stored on NewCo's network. In collaboration with NewCo's management, the Trustee has taken possession of the required books and records to complete the administration of the receivership and bankruptcy proceedings.

CONSERVATORY AND PROTECTIVE MEASURES

6. The Company's operations were discontinued as at the Filing Date. The Receiver took reasonable steps to conserve and protect the Assets, including changing the locks on the Warehouses, verifying AVAD Canada's inventory of electronic equipment and accessories (the "Inventory") and ensuring adequate insurance coverage.

ASSET REALIZATION AND PROJECTED DISTRIBUTION

7. The Assets listed on the Company's Statement of Affairs (the "SOA") included the following:
 - a. Cash held in the Receiver's bank account of approximately \$173,200;
 - b. Cash held in an account at JP Morgan Chase Bank (the "JMCB Account") in the amount of approximately \$655,800;

- c. Inventory with a net book value of approximately \$1.5 million
 - d. Fixed assets with a net book value of approximately \$35,600;
 - e. Accounts receivable with a net book value of approximately \$292,000 (the “AVAD AR”); and
 - f. Intellectual property, including the name AVAD Canada, a customer list and website information, which is not anticipated to be sold through the receivership.
8. The Assets currently remain in the possession of the Receiver. As authorized in paragraph 4 of the Order (Approval of Reports and Fees, Distribution and Discharge) granted at a hearing on May 27, 2021 (the “May 27 Hearing”), the Receiver will distribute any available funds to the bankrupt estate upon completion of the receivership. Any AVAD AR that has not yet been collected upon completion of the receivership will also be transferred to the bankrupt estate.
9. As further set out in the First Report of the Receiver dated May 21, 2021, the Receiver conducted a sale process for selected of the Assets (the “Sale Process”). Upon completion of the Sale Process, the Receiver entered into an auction agreement (the “Auction Agreement”) with Infinity Asset Solutions Inc. (“Infinity”) for the sale of the inventory and fixed assets. The Auction Agreement was approved pursuant to an Order (Approval of Auction Agreement and Sealing) granted at the May 27 Hearing. The Inventory will be auctioned on June 15 and 16 in Mississauga and June 22 and 23 in Calgary (the “Auctions”).
10. The details of the Auction Agreement were disclosed to the Court in the Receiver’s First Confidential Report also dated May 21, 2021 (the “Confidential Report”), which was provided to the Court in advance of the May 27 Hearing and was sealed pending completion of the Auctions. The Confidential Report was sealed in order that the market for the Assets will be preserved such that Infinity has the ability to auction the Assets in a profitable manner or in the event that the Auction Agreement is not completed as contemplated.

SUMMARY OF CLAIMS

11. MidCap was the only secured creditor of AVAD Canada. The Receiver’s legal counsel, Goldman Sloan Nash & Haber LLP (“GSNH”) completed an independent review of the MidCap Security that determined that it was valid and enforceable and created the only registered security interest over the Assets in favour of MidCap. As set out in paragraph

26 of the Receivership Order, the Receiver has authorized a distribution to MidCap from the JCMB Account.

12. In addition to MidCap, at the date of bankruptcy, AVAD Canada listed the following creditors:
 - a. Canada Revenue Agency (“CRA”) currently reflects a claim of approximately \$417,500 for unpaid HST. AVAD Canada’s books and records suggest that the outstanding HST balance is \$202,900. The Receiver is working with CRA to locate a payment that may have been misallocated to resolve this discrepancy;
 - b. AVAD Canada had 10 employees, who were owed wages totaling approximately \$2,100 (the “Wage Claims”) and severance and termination obligations totaling approximately \$73,100. The Wage Claims may be granted a priority pursuant to Section 81.4(1) of the *Bankruptcy and insolvency Act* (the “BIA”);
 - c. Both of the landlords for the Warehouses may be entitled to preferred claims for accelerated rent estimated at \$35,000 pursuant to Section 136(1)(f) of the BIA; and
 - d. The Company’s books and records reflect additional unsecured claims of approximately \$1.1 million.
13. As of the date of this report, the Trustee has received 6 proofs of claims totaling \$655,900. Please note that the Trustee has not determined the admissibility of the above-noted claims for dividend purposes.
14. At the time that this report was finalized, the Trustee had not received any proxies.

LEGAL

15. Subject to the approval of any inspectors who may be appointed, the Trustee will be seeking to retain GSNH as its legal counsel to the extent that any legal assistance is required with respect to this estate.

REVIEW OF FRAUDULENT PREFERENCES AND TRANSFERS AT UNDERVALUE

16. The Trustee is required to undertake a review of any transactions that occurred prior to the date of bankruptcy that would constitute a transfer at undervalue or a fraudulent preference as defined by subsections 95 and 96 of the BIA (the “Review”). The Review is underway.

OTHER

17. Further information with respect to the bankruptcy proceedings will be made available on the Trustee's website at <https://mnpdebt.ca/en/corporate/corporate-engagements/avad-canada-ltd> as it becomes available.
18. The Company's former employees' eligibility and the administration of the Wage Earner Protection Program was addressed in the receivership proceedings.

Upon completion of the receivership proceedings, the surplus funds in the receivership will be transferred to the bankrupt estate, with the funds being used to (i) satisfy payment of the Trustee's fees and expenses; and (ii) make a distribution to AVAD Canada's unsecured creditors.

Dated at Calgary, Alberta this 4th day of June 2021.

MNP Ltd.,

In its capacity as Trustee of the Estate of
AVAD Canada Ltd. and not in its personal
or corporate capacity



Vanessa Allen, B. Comm, CIRP, LIT
Senior Vice President