

CANADA
Province of Ontario
COURT NO. 31-2459849
ESTATE NO. 31-2459849

TRUSTEE'S PRELIMINARY REPORT
IN THE MATTER OF THE BANKRUPTCY OF
PRODTOR INC.
(FORMERLY SATIN FINISH HARDWOOD FLOORING, LIMITED)
OF THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO

The information contained in this Preliminary Report has been prepared from the available books and records of the Company 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 taken from those records contained herein.

BACKGROUND

Established in 1922, Prodtor Inc. (formerly Satin Finish Hardwood Flooring, Limited) ("**Prodtor**" or the "**Company**") was a Toronto, Ontario based manufacturer and distributor of a complete line of solid, engineered, laminate and LVT (Luxury Vinyl Tile) flooring. Prodtor operated out of leased premises and on the NOI Filing Date (defined below) employed approximately 120 employees, of whom more than 90 are members of the Teamsters, Local Union 847. The Company's head office was leased from a non-arm's length party and was located at 15 Fenmar Drive, Toronto, Ontario.

Proposal Proceedings

On January, 2, 2019 ("**NOI Filing Date**"), Prodtor filed a Notice of Intention to Make a Proposal ("**NOI**") pursuant to section 50.4 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**"), wherein MNP Ltd. was named as proposal trustee (the "**Proposal Trustee**").

Prodtor received a series of extensions of time from the Ontario Superior Court of Justice (the "**Court**") within which to file a Proposal with the Official Receiver, with the final extension expiring on June 14, 2019 (the "**June 14th Deadline**").

On January 23, 2019, the Court approved a sale process. As a result of the sale process, Prodtor entered into an asset purchase agreement ("**APA**") with a related party for substantially all the assets of the Company, with a scheduled closing date of June 13, 2019 (the "**Transaction**"). On June 7, 2019, the Court authorized the Company entering into the APA and approved the Transaction contemplated by the APA. As at June 14, 2019, the Transaction had not yet closed.

Bankruptcy and Receivership

As a result of the failure to file a proposal by the June 14th Deadline, Prodtor was deemed to have made an assignment in bankruptcy on June 15, 2019. MNP Ltd. was appointed the Licensed Insolvency Trustee (the "**Trustee**") of the estate, subject to affirmation by creditors.

On June 17, 2019 the Court ordered (the "**Appointment Order**") the appointment of MNP Ltd. as the receiver (the "**Receiver**") of the assets and property of Prodtor for the purpose of closing the Transaction. The Receiver was also appointed to administer a claims process for certain funds that were paid to the Receiver for the sole and express purpose of paying any eligible wages, salaries, commissions or

compensation and pension obligations for services rendered by employees and former employees of Prodtor. The Appointment Order also authorized the Receiver changing the Satin Finish Hardwood Flooring, Limited name. On July 2, 2019, the Ministry of Government and Consumer Services accepted Articles of Amendment changing the name to Prodtor.

The Transaction closed on June 18, 2019 with the purchase price being the Purchaser's assumption of Prodtor's indebtedness to CIBC.

On June 21, 2019 the Notice to Creditors advising of the bankruptcy and First Meeting of Creditors, 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, the Notice of Bankruptcy was published in the June 21, 2019 edition of the *Toronto Sun* newspaper.

Prodtor's officer swore and delivered the statement of affairs ("**SOA**") to the Trustee on June 21, 2019.

The various public documents related to Prodtor's NOI and bankruptcy proceedings are posted at:

<https://mnpdebt.ca/en/corporate/Engagements/Satin-finish-flooring-limited>

CAUSES OF FINANCIAL DIFFICULTY

The Trustee has been advised by Prodtor that a key cause of its financial difficulties was increasing competition from competitors who had invested in more modern equipment. As a consequence, Prodtor experienced declining profit margins and incurred a large sum of aggregate losses in the millions of dollars in the last few years.

PRELIMINARY EVALUATION OF ASSETS

The Company's assets and its estimated realizable value, immediately prior to the closing of the Transaction, according to the SOA are as follow:

Accounts receivables	\$ 3,300,000
Machinery and plant equipment	2,000,005
Inventory (raw and processed materials)	5,000,000
Computer equipment and office furniture	8,000
Vehicles	1
Other Property *	<u>462,087</u>
Total	<u>\$10,770,993</u>

** The Court ordered the creation of an express trust in the amount of \$337,087.43 ("**Employee Trust Fund**"), representing funds paid by Prodtor to the Receiver; notwithstanding the disclosure of these funds on the statement of affairs, the funds are not the property of Prodtor. The Court further ordered a claims bar process whereby eligible employee beneficiaries may assert a claim against the Employee Trust Fund. The balance of \$125,000 is for the interest in a legal proceeding commenced by Prodtor.*

Under the Appointment Order, the claim process is being administered by the Receiver and, claimants against the Employee Trust Fund must file claims with the Receiver no later than 5 pm (Toronto time) on August 2, 2019 and that proofs of claim filed with the Trustee are not valid claims against the Employee Trust Fund. The proof of claim form and other documents relating to this separate claim process are found at:

<https://mnpdebt.ca/en/corporate/Engagements/satin-finish-receivership>.

BOOKS AND RECORDS

The Trustee has taken possession and control of certain of the Company's available books and records necessary for the administration of these proceedings.

CONSERVATORY MEASURES

No conservatory and protective measures have been taken by the Trustee as any and all of the Company's assets were sold by the Receiver as part of the Transaction.

PROVABLE CLAIMS

As of 5 PM (Toronto Time) on July 5, 2019, the Trustee has received the following proofs of claim in respect of Prodtor's bankruptcy:

	<u>SOA</u>	<u>Claims as Filed</u>
Secured/Deemed Trust	\$ 13,784,661	\$39,984
Preferred	0	0
Unsecured	23,859,197	1,368,814
Contingent	149,120	249,120
	<u>\$ 37,792,978</u>	<u>\$ 1,657,918</u>

The above-noted claims have not yet been reviewed for the purposes of admitting the claims for distribution.

SECURED CREDITORS

On the basis of the results of searches of the *Ontario Personal Property Security Act* registry and the SOA, the following parties have registered a security interest against the Company's assets as set out below:

<u>Secured Creditor:</u>	<u>Approximate Amount Owed:</u>
CIBC	\$ 13,500,000
Taurus Craco Machinery Inc.	1,800 US
Meridian Onecap Credit Corp.	Unknown
National Leasing Group Inc.	Unknown
Ford Credit Canada Leasing, A Division of Canadian Road Leasing Company	Unknown
RCAP Leasing Inc.	Unknown

The Proposal Trustee received a positive independent legal opinion from its counsel, Goldman Sloan Nash & Haber LLP, confirming the validity, enforceability and registration of the security agreements of CIBC, subject to usual assumptions and qualifications.

Legal Proceedings

To date, the Trustee has not commenced any legal proceedings.

Transfers at Under-Value and Preference Payments

The Trustee is still in the process of completing its review of the Company's books and records generally in order to identify any potential transfers at undervalue or preference payments. The scope of the review will be limited to a review of certain disbursements made in the 12 months preceding the NOI and inquiries with management. The Trustee will discuss this matter and any findings with the Inspector(s), if elected at the First Meeting of Creditors.

ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION

Given the amount owed by Prodtor to its secured creditors, it is not expected that any funds will be available for distribution through these bankruptcy proceedings.

OTHER MATTERS

Wage Earner Protection Program Act

Under the *Wage Earner Protection Program Act*, Prodtor's former employees may be entitled to claim for any eligible unpaid wages, vacation pay, pension dues and termination pay that are not satisfied by payment from the claim process being administered by the Receiver.

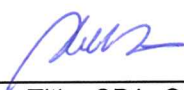
Indemnity Agreement

Prior to the filing of the NOI, MNP received a retainer of \$20,000 from Prodtor, which has been held in trust and which will be used to cover professional fees and costs associated with the bankruptcy.

Dated: July 5, 2019

MNP LTD.
Trustee of the Estate of
Prodtor Inc. (Formerly Satin Finish Hardwood Flooring, Limited),
a bankrupt

Per:



Sheldon Title, CPA, CA, CIRP, LIT