

District of: Ontario
Division No. 05-London
Court No. 35-2855752
Estate No. 35-2855752

TRUSTEE'S PRELIMINARY REPORT
IN THE MATTER OF THE BANKRUPTCY OF
THE CARPET PLACE INC.
(hereafter referred to as "TCPI" or the "Company")

Trustee: MNP Ltd.

SECTION A - Background

TCPI was incorporated on August 22, 1995. The Company, formerly doing business as 'London's Flooring Canada', sold floor coverings and associated products from three retail stores located in London Ontario at 3392 Wonderland Road South ("Wonderland"), 1950 Hyde Park Road ("Hyde Park") and 1040 Wharncliffe Road South ("Wharncliffe") (collectively the "Retail Stores"). 2760452 Ontario Inc. o/a London's Flooring Canada ("276"), a duly incorporated entity wholly owned and operated by a common shareholder, is not subject to the Company's bankruptcy proceedings.

TCPI operations were managed from its head office at 22 Emery Street East, London Ontario. Mr. Gerard Holden ("Holden") is TCPI and 276' sole registered director.

The Company has not been profitable for several years. In F18, F19 and F20 the Company reported significant losses of \$106 thousand, \$353 thousand, and \$155 thousand respectively. F20 results are internal only and losses are expected to be significantly greater. F21 results were not available at the time of this report.

While Holden recognizes 2018 and 2019 results were not strong, he states the global pandemic had a material adverse impact on the Company's financial situation through 2020. Holden states government-imposed lockdowns impacted customer demand and caused sales to decline from their peak of \$5.9 million in 2018 to \$3.5 million by the end of 2020.

With compounding losses, the Company suffered significant cash flow deficits and, as a result, TCPI's financial position rapidly deteriorated between 2018 and 2021. In an effort to manage overhead costs, the Company consolidated its retail operations into two stores and sought a tenant to sub-let the Wharncliffe premises. By the end of 2020, Holden states TCPI's monthly overhead costs were unmanageable so a decision was made to wind down TCPI's retail operations and enter an exclusive supply arrangement with 276 to sell the balance of the Company's stock and merchandise.

In March 2021, TCPI secured a tenant to sublet the Wharncliffe premises. According to the Wharncliffe landlord, Westwood Power Centre ("Westwood"), by August 2021, TCPI had breached provisions of the sub-lease agreement and as a result, Westwood terminated the head lease. Westwood later initiated an action against TCPI to recover, among other things, rent arrears and damages that accrued pursuant to the Wharncliffe lease ("Westwood Action"). Details of the Westwood Action are discussed later in this report.

By mid-2021 TCPI owed its primary secured creditor, the Bank of Nova Scotia ("BNS"), approximately \$700 thousand ("BNS Debt"). Personal Property Security Registry ("PPSR") search results indicate BNS held TCPI's personal property including, but not limited to, accounts receivable, inventory, machinery, equipment, rolling stock, interests in equipment leases and leaseholds, and intellectual property (the "BNS Collateral") as security for the BNS Debt.

Based on the Trustee's preliminary review of Company records, it appears TCPI used proceeds from the sale of inventory to pay wind down costs through the balance of 2021. Details of these expenses were not available at the time of this report; however, Holden has undertaken to provide a full accounting of inventory sale proceeds and expenses for F21.

In September 2021, BNS' assigned its security in the BNS Collateral to Holden in consideration of Holden personally assuming the BNS Debt. According to Holden, he assumed a security deficit as the value of BNS Collateral was significantly less than the BNS Debt at the time of the assignment.

Throughout 2021, TCPI had defaulted on various provisions pursuant to the BNS secured loan agreements and on December 3, 2021 Holden initiated enforcement proceedings. TCPI had no resources to remedy the defaults so on December 15, 2021 Holden delivered notice of intention to retain the BNS Collateral in full satisfaction of the debts owed.

The Company did not operate in 2022.

On August 12, 2022, TCPI made an assignment in bankruptcy and MNP Ltd. was appointed trustee (the "Trustee").

CLASS I - Stocks of merchandise

TCPI's inventory was seized and retained by Holden through enforcement proceedings initiated in his capacity as secured creditor. The Company did not own any inventory at the time of bankruptcy.

CLASS II - Plant, machinery, equipment, and office

For the reason above, the Company did not own any plant, machinery, equipment, or office furniture at the time of bankruptcy.

CLASS III - Buildings and real estate

The Company did not own any land or buildings. The Retail Stores were leased premises. We understand the Wonderland and Hyde Park premises were retained by Holden through his enforcement proceedings. The Wharnccliffe premises were vacated, and the lease was terminated prior to TCPI's bankruptcy.

CLASS IV - Books and records

The Trustee is in possession of certain of the Company's books and records. TCPI's historical hard copy books and records remain in Holden's possession who has undertaken to provide the Trustee with unfettered access to the Company's records upon written request.

CLASS V - Other assets

None.

Property of Bankruptcy not divisible amongst creditors by virtue of Section 67(b), of the Bankruptcy and Insolvency Act

None.

Property placed under the guardianship of the Company

None.

SECTION B

1. Conservatory and protective measures

None.

2. Carrying on business

The Company ceased operating prior to its assignment on August 12, 2022.

SECTION C – Legal proceedings

As discussed above, Westwood initiated a collection action to recover, among other things, rent arrears and damages in respect of TCPI's occupation of Wharmcliffe. Holden states the quantum of Westwood's claim is unsubstantiated but says TCPI doesn't have the resources to defend itself in the proceeding.

The Westwood Action has been stayed by TCPI's bankruptcy proceeding and Westwood has filed an unsecured claim against the estate for \$305,206.

SECTION D – Provable claims

	As per Statement of Affairs	Claims Received to Date
Unsecured	\$1,706,045	\$305,206
Preferred	nil	nil
Secured	nil	nil
Deemed trust	nil	nil
Total	\$1,706,045	\$305,206

SECTION E – Secured creditors

The following creditors hold a registered security interest against TCPI:

Creditor	Collateral Classification
Benjamin Moore & Co. Limited	Inventory, accounts & other
The Bank of Nova Scotia	General security and motor vehicle specific
CLE Capital Inc.	Equipment specific
On Deck Capital Canada Inc.	General security
De Lage Landen Financial Service Canada Inc.	Equipment specific
Royal Bank of Canada	Motor vehicle specific

According to Holden, when TCPI's operations were wound down, secured debt was either i) discharged, ii) assumed by 276 or iii) rendered unsecured when all of the Company's personal property was realized by Holden pursuant to the enforcement proceedings discussed above. Accordingly, the Trustee is not aware of any secured creditor claims*.

*Holden states a personal loan made to TCPI was secured by a General Security Agreement, however, PPSR results do not show a secured registration in favor of Holden. Holden has advised he will provide the Trustee with the requisite documents in support of his personal claim.

SECTION F – Anticipated realizations and projected distribution

We do not anticipate a dividend to unsecured creditors.

SECTION G – Reviewable transactions and preferential payment

The Trustee reviewed the Company's bank records for the period July 2021 to July 2022. Banking activity for the review period is limited because the Company did not trade in 2022 and operations were wound down during the second half of 2021. TCPI's banking appears consistent with reduced operations, however, the Trustee identified and has sought clarity regarding a deposit of \$708 thousand and transfer of a similar amount on October 1, 2022. According to Holden, after he satisfied the BNS Debt (in accordance with the terms of the assignment and assumption agreement), it appears BNS credited the payment against TCPI's operating account (thereby reducing the account balance to nil). This explanation is conceivable under the circumstances; however, we're awaiting documentation to support same.

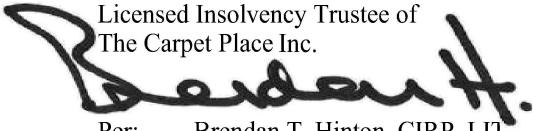
As discussed earlier in this report, TCPI and 276 are owned by Holden. After Holden decided to wind down TCPI's operations, we understand the Company sold its inventory exclusively to 276. These transactions, according to Holden, occurred in the first half of 2021. Accounting for non-arms transactions was not available at the time of this report, however, we understand Holden, TCPI and 276 have documented each transaction and Holden has confirmed all transactions were at fair market value. Assuming property sales or transfers between non-arms party was not undervalue, the proceeds realized from same only stood to benefit secured creditors. We understand there was a security deficit at the time inventory was sold to 276 so BNS (and ultimately Holden who assumed BNS' security) was the only creditor who stood to benefit from the sale of TCPI's personal property. Subject to Holden providing i) support for the transactions between TCPI and 276, ii) that those transactions were at fair market value and iii) Holden's security being in a deficit position, it is the Trustee's opinion that unsecured creditors would not be prejudiced by any transactions between TCPI and 276. Holden has undertaken to provide the Trustee with the information above in due course.

SECTION H – Other matters

The Trustee has received a limited third-party fee guarantee and \$8,000 retainer from 2760542 Ontario Inc. oa London's Flooring Canada.

Dated at London, Ontario this 31st day of August 2022.

MNP Ltd.
Licensed Insolvency Trustee of
The Carpet Place Inc.

A handwritten signature in black ink, appearing to read "Brendan H.", written over the printed name and title.

Per: Brendan T. Hinton, CIRP, LIT
Vice-President

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IN THE MATTER OF THE BANKRUPTCY OF
THE CARPET PLACE INC.

Carrying on business in the City of London,
in the Province of Ontario

TRUSTEE'S PRELIMINARY REPORT

MNP Ltd.
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London, ON N6A 5P3