

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE PROPOSAL OF
DR ALEXANDER FU DENTISTRY PROFESSIONAL CORPORATION
OF THE CITY OF MARKHAM
IN THE PROVINCE OF ONTARIO

REPORT OF TRUSTEE ON PROPOSAL

(Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*)

This report provides a summary of the background and financial position of Dr Alexander Fu Dentistry Professional Corporation (the “**Company**”), including relevant information that should be of assistance to the creditors in considering the Proposal being made by the Company.

Enclosed are the following documents:

- Notice of Proposal to Creditors
- Proposal of the Company, filed under Part III, Division I of the *Bankruptcy and Insolvency Act* (the “**BIA**”) with MNP Ltd. and with the Office of the Superintendent of Bankruptcy on June 7, 2022.
- Condensed Statement of Affairs sworn June 7, 2022.
- Proof of Claim form and General Proxy
- Voting Letter

In preparing this report, MNP Ltd. (“**MNP**” or the “**Trustee**”) has relied upon unaudited financial information provided by the Company’s representatives and discussions with Company management. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information.

Unless otherwise stated, monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms used herein but otherwise defined shall have the meaning attributed to them in the Proposal.

Section A – Introduction and Background

The Company operates under the name Global Dental Centre as a general dentistry practice with clinics located at 107-250 Shepard Avenue East, North York, Ontario (the “**North York Practice**”) and 3621 Highway 7 East, Markham, Ontario (the “**Markham Practice**”).

Dr. Alexander Fu (“**Dr. Fu**”) is the Company’s sole owner, director and primary care dentist. Prior to the Covid-19 pandemic the Company employed approximately twenty employees, comprised of seven associate general practitioners, ten full-time employees and three part-time employees/specialist. The Company formerly operated a third practice in Unionville, Ontario (the “**Unionville Practice**”) which was acquired in 2017. The Company spent \$400,000 in acquisition and renovation costs for the Unionville Practice, which was funded using a combination of personal equity and private loans.

Through 2018 and 2019 the Company incurred losses of \$622,000 and \$200,000 respectively. Dr. Fu states much of the Company’s financial difficulties during this period were caused by the adverse impact of the Unionville Practice acquisition costs on the Company’s existing capital structure. In March 2020 the Ontario government imposed lockdowns on non-essential businesses in response to the developing global Covid-19 pandemic. Although dental clinics were deemed essential services and remained open, uncertainty surrounding the pandemic in the initial stages and government-imposed lockdowns discouraged and/or prevented many patients from attending regular appointments. The Unionville Practice was affected most by the lockdowns and its patient base was not generating sufficient revenue to offset associated overhead and capital costs. In the months that followed it became apparent the Unionville Practice was a financial burden so the Company decided to market and sell it. Unfortunately, the Unionville Practice was sold at a significant loss and the Company was unable to recover much of its original investment.

The Company continues to struggle to return to historic profit levels and cash flow deficits. In late 2021, several private lenders commenced actions against the Company seeking compensatory relief of, among other things, breach of contract and damages.

Insolvency Proceedings

To take advantage of the BIA stay of proceedings and allow it time to form a restructuring plan, the Company filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Subsection 50.4(1) of the BIA on March 24, 2022. MNP was named as Trustee in the NOI.

On June 7, 2022 the Company’s Proposal was filed with the Trustee and the Office of the Superintendent of Bankruptcy (Canada).

Section B – Summary of Proposal

This section contains a brief summary of the Proposal, the terms of which would be effective if, among other things:

- the creditors vote for the acceptance of the Proposal by a majority in number and two thirds in value of the class of creditors present (Secured Creditors and Unsecured Creditors), in person or by proxy, at the meeting and voting on the resolution to pass the Proposal; and

- the Proposal is approved by the Court (“**Court Approval**”), in accordance with the provisions of the BIA.

The Proposal provides for the compromise and restructuring of the Company’s liabilities through a distribution to the Proven Secured Claims and Unsecured Claims. A summary of the Proposal is set out below, the capitalized terms have the same meaning as defined in the Proposal.

1. The Proposal is made to both Secured (excluding equipment lessors) and Unsecured Creditors, defined as Class 1 and Class 2 respectively.
2. As the Proposal does not amend or affect the existing payment or security arrangements between the Company and equipment lessors or financing companies these creditors will not have a claim for all or part of their indebtedness in the Proposal.
3. The Proposal calls for payment on Proven Creditor Claims as follows:
 - a. Crown Claims – full payment to CRA for unremitted source deductions due as of the date of filing of the NOI within six months of Court Approval, currently estimated as \$167,000.
 - b. Employee Preferred Claims – full payment to employees for the preferred portion unpaid wages owing pursuant to the BIA as at the date of filing of the NOI immediately on Court Approval, currently estimated as \$12,000.
 - c. Secured Claims – to be paid in full, with interest, in order of their legal priority and in priority to all Proven Unsecured Claims. After the sale of the final dental practice any residual unpaid Secured Claim shall be treated as an Unsecured Claim.
 - d. Preferred Claims (excluding Employee Preferred Claims) – to be paid in full, with no interest accruing after the date of the NOI, in priority to Unsecured Claims. There are no known Preferred Claims as of the date of this report.
 - e. Unsecured Claims – to be paid in full, with no interest accruing after the date of the NOI.
4. The Proposal shall be funded by:
 - a. An immediate deposit of \$15,000 to be paid immediately following Court Approval of the Proposal.
 - b. The Company will list the North York Practice for sale immediately following Court Approval of the Proposal. The full net proceeds of sale (after reasonable selling costs and commissions) to be paid into the Proposal Fund (as defined in the Proposal).
 - c. The Company will pay the amount sufficient to pay the Crown Claims in full. On the first of the month following full satisfaction of the Crown Claims, but not to exceed six months, the Company will make monthly payments equal to the greater of \$30,000 or 25% of the monthly gross income of the Markham Practice (the “**Monthly Payment**”)
 - d. Within one year of Court Approval of the Proposal the Company will initiate a sale and investment solicitation process for the Markham Practice. The full net proceeds of sale (after reasonable selling costs and commissions) to be paid into the Proposal Fund.

- e. Starting the month after the sale of the Markham Practice the Monthly Payment will be reduced to \$25,000.
5. The Proposal allows the Company to accelerate payments in the Proposal at its discretion.
6. Distributions will be made as follows:
 - a. Payment of Administrative (trustee and legal counsel) fees and expenses from time to time as invoices are rendered.
 - b. \$15,000 to be held in trust by the Trustee to fund a possible bankruptcy of the Company in the event the Proposal is annulled.
 - c. Employee Preferred Claims to be paid in full immediately on Court Approval of the Proposal.
 - d. Crown Claims to be paid in full within six months of Court Approval of the Proposal.
 - e. Secured Creditors to be paid next in line, in order of their legal priority. Note that Secured Creditors would be treated as such until closing of the sale of the final dental practice. After which time, with no additional security remaining, any unpaid Secured Claim would be treated as an Unsecured Claim.
 - f. The balance of the Proposal Fund will be distributed *pro rata* to the Unsecured Creditors based on the Proven Unsecured Claims.
7. The Proposal does not have a set timeline for distributions. All distributions will be made subject to inspector approval. The Trustee anticipates distributions to Secured Creditors immediately after receipt of the proceeds of sale from the Practices, and twice per year on the Monthly Payments.
8. The Company shall pay all for all post-filing goods and services, including remittance of all post-filing Crown Claims as they become due.
9. The Company will provide the following documents to the Trustee every month for the purposes of monitoring the Monthly Payments due:
 - a. Statement of Earnings;
 - b. Bank Statement; and,
 - c. Evidence of filing and remittance of source deductions and HST.
10. Secured and Unsecured Creditor distributions will be subject to a levy payable to the Superintendent of Bankruptcy pursuant to the BIA.
11. Each creditor will be entitled to vote to the extent of the amount that is equal to their claim.
12. Events of default include non-payment by the Company of any of its obligations, or failure to remedy any other default under the Proposal within thirty days of written notice from the Trustee, unless waived by the inspectors.
13. Sections 95 to 101 of the BIA do not apply under the Proposal.
14. Upon payment of funds sufficient to satisfy all Administrative Fees and Expenses, Crown Claims, Secured Claims and Unsecured Claims, the Company's Proposal shall have been fully performed and the Trustee shall issue to the Company and to the Official Receiver, the certificate referred to in section 65.3 of the BIA.
15. Upon distribution from the Proposal Fund, the Trustee shall have discharged its duties as Trustee and the Trustee shall be entitled to apply for its discharge as Trustee hereunder. For greater certainty, the Trustee will not be responsible or liable for any obligations of the Company before, on or after the date of the NOI and will be exempt from any personal

liability in fulfilling any duties or exercising any powers conferred upon it by the Proposal, except for those acts resulting from gross negligence or willful misconduct.

The description of the Proposal in this Report is a summary only and is provided to assist the creditors. In the event there is any inconsistency between this report and the Proposal, the terms of the Proposal shall govern. Creditors are advised to read the Proposal.

Section C – Financial Position and Causes of Difficulties

Causes of Insolvency and Financial Position

As stated above, the Company has been challenged by:

- i. Acquisition costs of the Unionville Practice, which was subsequently sold at a loss;
- ii. Business interruption caused by the Covid-19 lockdowns and uncertainty; and,
- iii. Numerous creditor legal actions for collection of amounts due.

The Company lost \$622,000 and \$200,000 in each of 2018 and 2019 respectively. The Company had profits for 2020 and 2021 of \$142,000 and \$50,000 respectively.

Operations

Operations have been continued at both the North York and Markham Practices through the NOI and Proposal proceedings.

Section D – Interim Receiver

Not applicable since an interim receiver was not appointed.

Section E - Identification and Evaluation of Assets

Appraisals have been completed for the two dental practices. The appraisals are based on the assumptions that operations are continuous and the vendor (Dr. Fu) cooperates during the sale and works with the purchaser to transition patients after the sale.

The Company believes there is significant potential to improve the value, particularly for the Markham Practice, if it is given time to improve profitability which has suffered over recent years.

Section L includes a chart with the assets and estimated realizations in a bankruptcy scenario.

A review of the Ontario Personal Property Security Registry shows four creditors who have registered general security against the Company's assets, as follows:

- On Deck Capital Canada, Inc. (“**On-Deck**”)
- GDG Management Corporation (“**GDG**”)
- CWB National Leasing Inc. (equipment financier)
- RCAP Leasing Inc. (equipment financier)

Section F – Conduct of the Debtor

To date the Company has provided the Trustee with its full co-operation and unrestricted access to its premises, books and records.

The Trustee has not, as at the date of this report, conducted a review of the Company's bank statements to determine whether there were any payments to related and unrelated parties in the twelve months and three months, respectively, prior to the date of the NOI which may be considered to be preferences and subject to review.

Section G – Creditors' Claims

According to Company records creditors consist of the following:

Crown Claims	\$ 167,000
Secured Claims (excluding equipment financiers)	
On-Deck	100,000
GDG	2,140,000
	<hr/> \$ 2,240,000
Preferred Creditors	\$ 12,000
Unsecured Creditors	\$ 4,728,574
Total	<hr/> \$ 7,147,574

GDG advises its indebtedness is significantly higher than what is owing according to the Company records. This discrepancy will be investigated and resolved once GDG files a proof of claim in these proceedings.

Section H – Previous Business Dealings with the Debtor

Not applicable.

Section I – Informal Meetings with Major Creditors

Not applicable.

Section J – Remuneration of Trustee

The Trustee has received a retainer from the Company in the amount of \$15,000.

The terms of the Proposal provide for payment of Administrative Fees and Expenses from the Proposal Fund as they become due.

Section K – Other

Not applicable.

Section L – Statement of Estimated Realizations

Proposal Accepted

If the Proposal is accepted and terms honoured by the Company all Proven Claims would be paid in full as described above.

Proposal Not Accepted

If the Proposal is not accepted the Company would become bankrupt and the Company's assets would vest with the Trustee in Bankruptcy. All assets of the Company would remain subject to claims of the Secured Creditors, and it is estimated there would be a shortfall on these claims. **Therefore, all Unsecured Creditors will receive \$nil on their proven claims in a bankruptcy.**

The estimated realizable value of the Company's assets in a bankruptcy liquidation scenario is summarized as follows:

Dr Alexander Fu Dentistry Professional Corporation - Bankruptcy Liquidation Analysis

Assets	Estimated Value (current)	Estimated Realizations		Notes
		Low	High	
Dental Practices	\$ 1,970,000	\$ 1,576,000	\$ 1,891,200	1
Distributions				
Crown Claims	167,000	167,000	167,000	
On-Deck	100,000	100,000	100,000	
GDG	2,140,000	1,309,000	1,624,200	
Shortfall to Secured Creditors		(\$ 831,000)	(\$ 515,800)	
Amount available for distribution in bankruptcy		\$NIL	\$NIL	

Notes:

1 - The high end scenario assumes appraised value would be realized for each dental practice less 5% for selling costs. The low end scenario assumes 80% of appraised value. Both scenarios assume Dr. Fu cooperates and facilitates the sale. With this cooperation the value of the practices would be severely impaired.

As demonstrated above, we do not anticipate there would be any funds available for the unsecured creditors in a bankruptcy scenario.

Section M – Recommendation

Based on financial information provided by the Company as set out herein, the Trustee believes that the amount available for distribution to the Company's Unsecured Creditors would be significantly higher if the Proposal is accepted by the Company's creditors, and approved by the Court, than in a bankruptcy scenario where there would be no anticipated funds available to the Unsecured Creditors.

The Trustee is concerned over the length of time it would take the Company to fully fund the Proposal to satisfy all Proven Claims. Assuming both practices sell for close to the appraised values, and no accelerated payments are made by the Company, and based on the estimated claims setout in Section G, we estimate it would take approximately 16 years to complete the Proposal. Although this is a long time, the Trustee believes creditors would not be prejudiced by accepting the Proposal for the following reasons:

- Realizations from both Practices are maximized with Dr. Fu's cooperation. Dr. Fu advises he is committed to the Proposal process and maximizing the sale prices.
- The Company will be able to focus on rebuilding the Markham Practice over the next year. It is expected the realizable value of the Markham Practice would improve over this period and unlikely it would be impaired.
- If the Company defaults under the Proposal at some time in the future, the creditor group as a whole retains the value of all Monthly Payments received to that time, plus the enhanced value of the two dental practices for the above reasons assuming default occurs after they are sold. If either practice is not yet sold in the event of a default, the secured creditors retain the option to enforce their security.

Accordingly, the Trustee recommends that the Proposal be accepted by the Company's creditors in order to allow them to attempt to maximize their return from the Company's indebtedness to them.

Section N – Procedures for Dealing with Proposal and Completing a Proof of Claim

In completing the proof of claim form submitted herewith, creditors should only include all amounts outstanding as at March 24, 2022.

It is expressly noted and should be clearly understood that MNP Ltd., in its capacity as Trustee, assumes no personal liability for any claims against the Company before, on or after the filing of the NOI.

Creditors may attend, in person or by proxy, the meeting to consider the Proposal which will be held via webinar, on the 28th day of June, 2022 at 10:00 AM. (EDT). Access coordinates to the meeting will be sent upon request following receipt of your Proof of Claim in order for the Trustee to maintain the attendance list for the meeting.

Please note that in order for your vote to count in connection with the Proposal, it is necessary that you complete and submit the enclosed documents at this time, including the Voting Letter and/or Proxy.

Creditors who do not wish to attend or to be represented at the meeting but who wish to vote, may forward their proofs of claim and voting letters to the Trustee so as to be received prior to the meeting.

Dated at London, Ontario this 7th day of July 2022.

MNP Ltd.

Solely in its capacity as Trustee

In the Proposal of Dr Alexander Fu Dentistry Professional Corporation

And not in its personal capacity

Per:

A handwritten signature in black ink, appearing to read 'Rob Smith', written in a cursive style.

Rob Smith CPA, CA, CIRP, LIT

Senior Vice-President