

CANADA
Province of Ontario
Court No. 31-2714011
Estate No. 31-2714011

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF
0932293 B.C. LTD. a/o CELLICON
OF THE CITY OF ABBOTSFORD
IN THE PROVINCE OF BRITISH COLUMBIA

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.

SECTION A - BACKGROUND

0932293 B.C. Ltd. o/a Cellicon ("Cellicon" or the "Company") is a private corporation incorporated under the laws of British Columbia that provides retail sales of wireless accessories as well as phone repair and maintenance services, at mall-based kiosks and stores across Canada. Cellicon has one corporately owned store location, with the balance of the locations being licensed retail outlets operated by independent operators (the "Operators") under Management Services Agreements ("MSAs"). Cellicon receives management service fees from the Operators for these locations. Notwithstanding, that the Operators operate the locations, the brand name, leases and store/kiosk fixtures are held/owned by the Company. There are approximately 61 locations being carried on by the Operators and one corporate location.

Like others in the retail sector, Cellicon's business was adversely impacted in March 2020 by the various restrictions and closures arising from the COVID-19 pandemic. More recently, Cellicon's cash flows were negatively impacted by certain Operators' refusal or inability to pay the fees due under the MSAs. In response, on February 19, 2021 (the "**Date of Initial Bankruptcy Event**"), Cellicon filed a Notice of Intention to Make a Proposal, with a view to stabilizing its business. After paying its rental obligations for the period February 19-28, 2021, Cellicon recognized it was unable to fund payment of March 2021 rent. Accordingly, it chose not to file the cash flow projections prescribed under subsection 50.4(2) of the *Bankruptcy and Insolvency Act* (the "**BIA**") resulting in its being deemed to have filed an assignment in bankruptcy on March 2, 2021 (the "**Date of Bankruptcy**"). MNP was appointed the Trustee of the estate, subject to affirmation by creditors.

Cellicon's historical unaudited financial results are summarized at Appendix "A" to this report.

On March 5, 2021, the Notice to Creditors advising of the bankruptcy and the 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, the Notice of Bankruptcy was published in the March 5, 2021 edition of the National Post.

Other available information in respect of this bankruptcy estate is available on MNP’s website at <https://mnpdebt.ca/en/corporate/corporate-engagements/0932293-bc-ltd-bankruptcy>.

SECTION B - PRELIMINARY EVALUATION OF ASSETS AND SECURITY INTERESTS

According to Cellicon’s sworn Statement of Affairs (“SOA”) the following is a summary of its assets at the Date of Bankruptcy:

Asset Description	Estimated Realizable Value (\$)
Cash in Bank	178,343
Cash in Hand	1,921
Inventory	25,000
Vehicle – 2015 Honda CRV (the “Vehicle”)	20,000
Furniture	7,500
Fixtures	100,000
Canada Employee Wage Subsidy Receivable	7,648
Shareholder Loan Receivable	1,558
Trademark	20,000
Total	361,970

The inventory reflected on the SOA represents the inventory held by Cellicon at the corporate store only. The inventory at the other locations belongs to the Operators.

The SOA also identifies \$1.54 million in arrears of fees due by certain Operators under the MSAs, but assesses the likelihood of collection of the same as doubtful. As noted below, the Trustee has issued Demand Letters (as defined below) to the Operators in respect of these amounts. The Trustee is unable to comment on the potential recoverability of the fees. Many of the MSAs also provide for a personal guarantee to be given by the operator in favour of the Company.

While the officer of the Company has attributed a value of \$100,000 to the fixtures. The fixtures are located at the Cellicon locations throughout the country. The Trustee has not sought an appraisal of the fixtures but cautions that after factoring the cost of moving and selling these fixtures they likely will produce little, if any, recovery.

In addition to the foregoing, Cellicon may be entitled to claim corporate tax refunds. Based on the financial information in Appendix A, Cellicon has reported losses since 2019 and may

be able to carry these losses back and apply them to prior years to recover taxes paid. At this time, the extent and timing of this recovery is uncertain and is not reflected on the SOA.

Based on a search under the Ontario *Personal Property Security Act* registry, dated March 12, 2021 and a search under the British Columbia Personal Property Registry, dated February 18, 2021, there are no creditors with a security interest registered in those jurisdictions against Cellicon's assets. Based on the jurisdiction of incorporation and the location of the corporate assets (not the Operator's locations), the Trustee did not undertake security searches in other jurisdictions.

The Trustee has been approached by several parties, including certain of the Operators, seeking to acquire all or part of Cellicon's business and assets. The Trustee will review with the Inspectors, if any are appointed at the FMOC, what, if any, steps should be taken by the Trustee to market Cellicon's business and/or assets to potential buyers.

SECTION C - BOOKS AND RECORDS

The Trustee has taken possession and control of certain of the Company's books and records necessary to complete the administration of the estate.

SECTION D - CONSERVATORY AND PROTECTIVE MEASURES

The Trustee has taken the following conservatory or protective measures:

- Issued letters to Bank of Montreal ("BMO") and TD Canada Trust ("TD") to seize the cash on deposit while leaving the bank accounts open for deposits only;
- Issued demand letters (the "**Demand Letters**"), via email, to the Operators demanding payment of outstanding fees pursuant to the MSAs;
- directed correspondence to Cellicon's landlords of the Trustee's decision to permit the Operators to continue their business, subject to proposed terms and conditions governing payment of occupation rent;
- Arranged for a bailiff to seize the Vehicle located in British Columbia; and
- Attended to Cellicon's corporate store at Square One Shopping Centre with representatives of Cellicon and Benaco Sales Ltd. to review and assess the inventory and collect the cash on hand.

After receiving the Demand Letters, certain of the Operators engaged counsel, with two lawyers representing 46 of the locations (see Section F- Legal Proceedings below for further details).

The Trustee confirmed with each of TD and BMO on the Date of Bankruptcy that the bank accounts were frozen. The Trustee awaits receipt of the funds on deposit from these banks.

SECTION E - PROVABLE CLAIMS AND CREDITOR GROUPS

Provable Claims

The claims of creditors as per the Company's sworn Statement of Affairs, dated March 14, 2021 ("SOA") and the claims filed as at 5:00 pm on March 13, 2021 are summarized below:

Creditor Group	Statement of Affairs	Claims as Filed
Unsecured creditors	\$1,684,699	\$260,287
Preferred creditors	122,350	118,388
Secured creditors	8,841	0
Contingent creditors	\$1	0
Total	\$1,815,891	\$378,675

Please note that the Trustee has not determined the admissibility of the above-noted claims for dividend purposes.

Given the uncertainty concerning the value of the fixtures both in aggregate and per location, the SOA reflects the claims of the landlords for arrears of rent as being an ordinary unsecured claim. The landlords' claims would be preferred to the extent of any realizations on the property on the premises.

On March 13, 2021, the Trustee received six (6) claims from Operators having an aggregate value of \$2.5 million. These proofs of claim did include documentary evidence to support the claim and are not included in the summary above. The Trustee requested additional information from each of these claimants.

SECTION F - LEGAL PROCEEDINGS

To date, the Trustee has not commenced any legal proceedings. The Trustee has retained Loopstra Nixon LLP as its independent legal counsel.

Agreement with Operators

Pursuant to section 19 of the BIA, the Trustee sought advice from Loopstra Nixon LLP, regarding, among other things, its dealings with the Operators and their counsel, culminating in the parties entering agreements concerning payment of March 2021 occupation rent. The purpose of these agreements was to enable the Operators to continue operating while discussions can be had among (as applicable and necessary) the Trustee, the Operators and the Landlord(s) to determine if an agreement can be made that would see the Operators (or some of them) take an assignment of the Lease(s) for the respective store/kiosk location (the "Premises") or for new lease agreements between the Operators and Landlords. The salient terms of the agreements are as follows:

1. The agreements govern payment of March 2021 occupation rent (the “**March Rent**”) by the Operators for their respective Premises;
2. The Trustee is authorized and directed to pay the March Rent as follows:
 - a. to immediately pay to the Landlord(s) all amounts due for per diem occupation rent of the Premises up to and including the date on which the funds are received;
 - b. to pay to the Landlord(s) per diem occupation rent at such intervals as the Trustee may reasonably negotiate with the Landlord(s) (including but not limited to weekly, in advance); and
 - c. to return the balance of such funds at the end of the term, if any, not used to fund occupation rent,
3. The Trustee does not represent or warrant that the Premises are accessible or usable, or that any Lease(s) exist or are valid and enforceable as against the Landlord(s). Moreover, the Trustee does not represent or warrant that any such Lease(s) can or will be assigned in favour of the Operator, nor that the Landlord(s) will not terminate the same (where so legally entitled).

To date, the Trustee has received \$398,727 on account of the March Rent. The Trustee collected an additional \$32,863 on account of arrears of fees. The substantial portion of these funds were received on March 11 and 12, 2021.

Litigation Against Estate

Active Litigation

Cellicon has been involved in litigation with Shahinda Lokhandwala (the “**Applicant**”), the spouse of Imran Khan, Cellicon’s sole director. Mr. Khan and his parents are also defendants in these actions. The litigation arises out of a matrimonial dispute and is under the jurisdiction of the Brampton Court (i.e., family law proceedings Court File No. FS-19-94161 and civil law proceedings Court file #CV-20-3977). The Applicants are desirous of seeking a lifting of the stay of proceedings and seeking to continue to prosecute the claims against Cellicon for the limited purposes of:

- a. including Cellicon as a necessary party thereto so as to facilitate the adjudication of all matters between the other parties thereto, provided that no determination of any liability of the Cellicon shall be made in the Claims as such any such claim of liability against the Company is to be filed with the Trustee in the within proceedings and determined in the ordinary course, in accordance with the provisions of the BIA; and
- b. allowing the applicants in the Civil Claim to discover a representative of the Company (provided that such representative shall not be the Trustee or any representative of the Trustee).

The Applicants, the Trustee and their respective counsel are negotiating the terms of a consent order in respect of a lifting of the stay.

Threatened Litigation

Counsel to certain of the Operators has indicated that the MSAs are not compliant with various franchise laws across the country and has indicated that the Operators will have claims against Cellicon that would set off any amounts owed under the MSAs and result in claims for damages against the Cellicon. In fact, such allegations likely form the basis of the claims filed by the various Operators.

SECTION G – REVIEWABLE TRANSACTIONS

The Trustee is still in the process of completing its review of the Company's books and records in order of identifying any potential transfers at undervalue or preference payments. In addition, counsel to Ms. Lokhandwala has written to express concerns over various transactions or types of transaction, which will need to be reviewed. The scope of the review will be limited to a review of disbursements made in the 12 months preceding the Date of Initial Bankruptcy Event and inquiries with management. The Trustee will discuss this matter and any findings with the Inspector(s), if elected at the FMOC.

SECTION H - ANTICIPATED REALIZATIONS AND DISTRIBUTIONS

Given the foregoing, the Trustee is unable to comment on the extent of realizations and distribution to creditors. Nonetheless, the Trustee expects there will be a distribution to creditors.

SECTION I - OTHER MATTERS

Prior to filing the NOI, the Company provided the Trustee with a retainer in the amount of \$22,600 to apply towards the fees and disbursements related to the administration of the NOI and/or bankruptcy.

The Trustee is investigating the extent to which Cellicon's former employees may be eligible to submit a claim through the Wage Earner Protection Program.

Dated at Toronto, Ontario this 14th day of March 2021.

MNP LTD.

**Trustee of the Estate of
0932293 B.C. Ltd., a bankrupt**

Per:



Sheldon Title
Licensed Insolvency Trustee

Appendix "A"

Cellicon
Summary of Unaudited Financial Results

	Period ending October 31, 2020 (\$)	Year ending December 31, 2019 (\$)	Year ending December 31, 2018 (\$)
Revenue			
Retail revenue from corporate locations	170,706	1,304,555	1,273,064
Management fees from licensed retailers	1,424,522	1,426,195	1,495,940
Amortization of deferred licensing fees	157,387	205,722	222,800
Rental income (loss), net of tenant recoveries	-533,311	-105,337	-29,369
	1,219,304	2,831,135	2,962,435
Cost of Sales			
Purchases of products for retail sales	127,650	250,742	204,926
Occupancy costs for corporate retail locations	223,541	847,476	674,353
	351,191	1,098,218	879,279
Gross Profit	868,113	1,732,917	2,083,156
Operating Expenses			
Salaries and wages	235,089	646,213	384,082
Professional fees	210,898	147,693	69,418
Amortization	195,745	270,265	169,589
Repairs and maintenance	169,469	80,869	83,099
Commissions	119,174	114,569	478,471
Transportation and travel	24,975	23,459	56,526
Office and general	21,604	4,127	28,551
Interest and bank charges	17,302	33,312	24,949
Insurance	9,661	14,220	14,307
Telecommunications	6,872	18,329	11,113
Utilities	4,214	16,898	15,522
Advertising	3,769	25,000	
	1,018,772	1,394,954	1,335,627
Other Items			
Bad debt expense	451,779	-	202,873
Loss from disposal of assets	-	24,000	-
	451,779	24,000	202,873
Income/(Loss) before income tax	-602,438	313,963	544,656
Current income tax expense	-	80,944	124,919
Net Income	-602,438	233,019	419,737