

Estate No. 11-2674764
Vancouver Registry

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
NATIONAL IMPORTERS INC.**

ORDINARY ADMINISTRATION

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

BACKGROUND

National Importers Inc. (“NII”, the “Company”) was incorporated in Ontario on July 6, 2000. NII subsequently incorporated as a B.C. company on May 3, 2012. The Company’s principal was David Dueck who passed away in the year prior to the Company’s bankruptcy, and Ryan Preddy was NII’s Director at the time that the Company made an assignment in bankruptcy. Mr. Preddy resigned immediately afterward.

An organization chart provided by management indicates NII is the sole shareholder of a number of entities that were also all controlled by Mr. Dueck. NII provided management and administrative services to its various subsidiaries. The Company’s offices were located in premises leased by National Importers Canada Ltd. (“NICL”) in Richmond, BC. NICL is a subsidiary of NII.

NII is owned by Grantham Holdings Ltd. (“Grantham”). Grantham also owns the shares of DCD Design & Manufacturing Ltd. (“DCD”).

NII had secured indebtedness owing to HSBC Bank Canada (“HSBC”) of approximately \$11.5MM, and in July 2019 HSBC demanded the loan be repaid. We are advised that Grantham and DCD obtained financing and paid the secured indebtedness owing by NII to HSBC. NII and Grantham executed a general security agreement (“GSA”) dated August 26, 2019, which granted security over NII’s assets to Grantham. NII and DCD also executed a GSA dated August 26, 2019 which granted security over NII’s assets to DCD. The Statement of Affairs reports that Grantham is owed approximately \$4,338,00 on a secured basis, and that DCD is owed approximately \$2,956,000 on a secured basis. Grantham and DCD are NII’s largest creditors.

We reviewed the Company's financial information which was reported as part of NII's corporate income tax return for the fiscal year ending December 31, 2019. The Company reported a net loss of approximately \$1,300,000. We also reviewed (management prepared) financial information for the current fiscal year to September 11, 2020, which reported a net loss of approximately \$278,000 and a retained deficit of approximately \$9,000,000.

NII had seven (7) employees who worked for the Company in British Columbia. All of the employees had been laid off prior to the date of bankruptcy.

Assignment in Bankruptcy

Ultimately NII was unable to meet all of its obligations and made a voluntary assignment in bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* ("BIA") effective September 24, 2020. MNP Ltd. was appointed Licensed Insolvency Trustee ("Trustee") of the Bankrupt Estate, subject to creditor affirmation at the First Meeting of Creditors.

Receivership Proceedings

On October 1, 2020, DCD appointed MNP Ltd. as receiver over the assets, property, and undertakings of NII (the "Receiver") pursuant to the GSA executed between NII and DCD and registered in the Personal Property Registry of British Columbia on October 21, 2019 under base registration number 841640L.

ASSETS

According to the Statement of Affairs filed in the bankruptcy, the assets of NII include:

Statement of Affairs

Cash	\$	345
Accounts Receivable (trade)		1
Due from Related Party		1
Computer and Office Equipment		500
Securities		5,505
GST Refund		10,880
Registered Trademarks		<u>1</u>
Total Assets	\$	<u>17,233</u>

Cash on Deposit and Funds Held in Trust

The Company maintained two bank accounts with the Toronto-Dominion Bank (“TD”). Banking records indicate that at the date of bankruptcy, one account had no funds on hand, and the other account had a balance of \$345. As all of NII’s assets are subject to the registered security interests of Grantham and DCD, the Trustee wrote to TD advising of the bankruptcy and requesting that the account be frozen to protect the funds on hand.

Prior to the bankruptcy, NII provided the Trustee with funds totaling \$25,000 in respect of anticipated costs and fees to administer the bankruptcy proceedings. The Trustee deposited these funds into the bankruptcy trust account.

Accounts Receivable

The Company’s Statement of Affairs reported total trade accounts receivable of \$25,600 which is not considered collectable.

The Company’s records also indicate a debt due by National Importers US Inc. which is not considered collectable.

Computer and Office Equipment

The Company owns minimal office and computer equipment which was valued on the Statement of Affairs at \$500.

Securities

As previously reported, NII is the parent company of a number of entities that formed the National corporate group.

The Statement of Affairs reports shareholdings in the following related entities:

1. Finder’s Fine Foods Ltd.
2. Elco Fine Foods Ltd.
3. National Importers Canada Ltd.
4. Stonewalker Inc.
5. Canada Caviar US Inc.

Elco Fine Foods Ltd. and National Importers Canada Ltd. also filed assignments in bankruptcy on September 24, 2020. The Statement of Affairs reports no realizable value in the reported shareholdings with the exception of Finder’s Fine Foods Ltd., which was valued at \$5,500, representing the balance of funds on deposit.

GST Refund

The Statement of Affairs reports an anticipated GST refund of \$10,880.

Registered Trademark

We understand that NII owns various registered trademarks relating to the operations of its various subsidiaries.

PROVABLE CLAIMS

It is the duty of the Trustee to examine and satisfy itself as to the validity and priority of all claims filed in the Estate. Claims filed with the Trustee to date are as follows:

	Statement of Affairs	Filed
Secured creditors	\$ 7,293,424	\$ 4,370,054
Preferred creditors	\$ Nil	\$ Nil
Unsecured creditors	<u>\$ 181,819</u>	<u>\$ 164,969</u>
Total	<u>\$ 7,475,243</u>	<u>\$ 4,535,023</u>

As at the date of this report, there have been no significant differences between the claims listed on the Statement of Affairs and the claims filed to date with the Trustee.

SECURED CREDITORS

Canada Revenue Agency ("CRA")

CRA has a "deemed trust" claim or property claim equal to the amount of payroll deductions withheld from employees' compensation and not remitted to CRA. This claim comes in priority to the claims of all other creditors. We do not anticipate that there is a debt owing to CRA in relation to payroll withholdings; however, the Trustee has not yet confirmed this with CRA.

Claims of Wage Earners

Pursuant to Section 81.3(1) of the BIA, claims of employees who are owed wages in the six-month period preceding the date of bankruptcy are secured, to the extent of \$2,000, over the Bankrupt's current assets (cash and accounts receivable).

The Company's records indicate that the employees were paid wages and vacation pay at the time of their termination but were owed severance/termination pay at the date of bankruptcy. These claims are not eligible for security under Section 81.3(1). The Trustee has filed documentation pursuant to the *Wage Earners Protection Program Act* in relation to the seven employees who are owed severance pay.

DCD Design & Manufacturing Ltd. (“DCD”)

As reported, NII and DCD executed a GSA dated August 26, 2019 which granted security over NII's assets to DCD, notice of which was registered in the Personal Property Registry on October 21, 2019. The Statement of Affairs reports that DCD is owed \$2,955,519.

The Trustee has obtained an independent legal opinion that the security held by DCD is valid and enforceable as against NII and a Trustee.

Grantham Holdings Ltd. (“Grantham”)

NII and Grantham also executed a GSA dated August 26, 2019, which granted security over NII's assets to Grantham, notice of which was registered in the Personal Property Registry on October 21, 2019. The Statement of Affairs reports that Grantham is owed \$4,337,905.

The independent legal opinion obtained by the Trustee also reported that the security held by Grantham is valid and enforceable as against NII and a Trustee.

PREFERRED CREDITORS

Employees

Employees are afforded priority for wages and compensation that are not paid by virtue of Section 81 of the BIA. Claims of employees that relate to the period more than six months preceding the date of bankruptcy are general, unsecured claims and will share ratably with the claims of other creditors. We do not anticipate any preferred claims from employees.

Landlords

NII occupied office space leased by NII until September 1st, and then moved to DCD's premises in Richmond, BC. As such, we do not anticipate there to be any claims of landlords.

UNSECURED CREDITORS

The Statement of Affairs reports total claims of unsecured creditors of approximately \$7,458,010, including the estimated unsecured deficiency claims of secured creditors. Ultimately the amounts owing to unsecured creditors will be based on proofs of claim filed and admitted by the Trustee.

SALE OF ASSETS

The Receiver, on behalf of DCD, will take steps to realize upon the various assets that are subject to the registered security.

OTHER MATTERS

Books and Records

The Trustee has in its possession various records which are also available to the Receiver during the administration of the receivership.

Insurance

The Trustee confirmed that insurance coverage was in place as part of an overall policy insuring Grantham, DCD, NII and various subsidiaries. The insurance policy is due to expiry on May 31, 2021.

Legal Proceedings

The Trustee has not commenced any legal proceedings, but as reported above, the Trustee obtained an independent legal review of the registered security held in favour of DCD and Grantham.

Conservatory and Protective Measures

At the date of bankruptcy, NII's assets and records were in storage at DCD's premises. Accordingly, the Trustee did not change locks at the date of bankruptcy.

The Trustee notified TD of the bankruptcy to protect the funds on deposit.

Preferences, and Transactions at Under Value

The Trustee will review the Company's books and records preceding the date of bankruptcy in order to ascertain whether or not any preferential payments and/or reviewable transactions have occurred within the last three months or, where related parties are involved, within the last twelve months.

Directive 5R – 3rd Party Guarantee

As all of NII's assets are subject to registered security interests, Grantham has indemnified the Trustee for its professional fees and the various costs incurred in administering the bankruptcy proceedings.

ESTIMATED REALIZATION

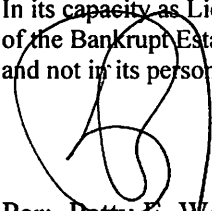
Given the estimated value of NII's assets and the secured debt owing to Grantham and DCD, we do not anticipate that there will be any funds available for the claims of unsecured creditors.

This concludes the Trustee's Preliminary Report to Creditors.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of October, 2020.

MNP Ltd.

In its capacity as Licensed Insolvency Trustee
of the Bankrupt Estate of National Importers Inc.
and not in its personal or corporate capacity



Per: Patty E. Wood CPA, CGA, CIRP
Senior Vice President