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***ONTARIO***  
**SUPERIOR COURT OF JUSTICE**  
***COMMERCIAL LIST***

**BETWEEN:**

ROYAL BANK OF CANADA

Applicant

-and-

CNS IRON FABRICATION LTD. and CLAEYS FAMILY HOLDINGS INC.

Respondents

**FIRST REPORT TO THE COURT SUBMITTED BY MNP LTD., IN ITS CAPACITY AS  
PROPOSED COURT APPOINTED RECEIVER OF  
CNS IRON FABRICATION LTD., et al**

May 10, 2022

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# 1.0 Introduction

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## 1.1 Introduction

1.1.1 MNP Ltd. (“**MNP**”) was engaged by the Royal Bank of Canada (the “**Bank**”) on April 8, 2022 to act as advisor respecting the indebtedness owing to them by CNS Iron Fabrication Ltd. (“**CNS**”).

1.1.2 The Bank is seeking, *inter alia*, an Order of this Court appointing MNP as court-appointed receiver (the “**Proposed CNS Receiver**”) of the assets and certain undertakings of CNS and Claeys Family Holdings Inc. (“**Holdco**”).

1.1.3 CNS operates from leased premises in Bolton, Ontario. The Company’s product and service lines include:

- Manufacture of custom fabricated and pre-cast metal forms used in formwork and shoring applications such as highway and bridge construction, and industrial, commercial and residential construction projects.
- Manufacture of automotive components.
- Wholesale of pre-fabricated and pre-assembled parts and components used in the forming and shoring industries.
- Repair and reconditioning of products used in formwork panels, shoring and material handling equipment.

1.1.4 CNS was established in 1990 and was purchased in 2021 by Mr. Bob Claeys (“**Claeys**”) through Holdco.

1.1.5 Mr. Scott Thornhill of the Bank has filed an affidavit with the Court (the “**Thornhill Affidavit**”) in connection with the aforementioned motion. The Thornhill Affidavit provides a summary of events leading to this motion, as well as details of the assets and stakeholders involved. The Thornhill Affidavit has been filed in support of the Bank’s application for the appointment of the Proposed CNS Receiver.

1.1.6 This Report (the “**Proposed CNS Receiver Report**”) is prepared by MNP in its capacity as the Proposed CNS Receiver.

## 1.2 Purpose of this Report

1.2.1 The purpose of this Proposed CNS Receiver Report is to Provide the Court with information pertaining to the Company’s assets and financial affairs in support of the Bank’s application for the appointment of MNP to act as Court Appointed Receiver.

## 1.3 Disclaimer

1.3.1 This Proposed CNS Receiver Report has been prepared for the use of the Court and CNS stakeholders. Accordingly, the reader is cautioned that this Proposed CNS Receiver Report may not be appropriate for any other purpose. The Proposed CNS Receiver will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this Proposed CNS Receiver Report for any other purpose.

**1.3.2** In preparing this Proposed CNS Receiver Report, the Proposed CNS Receiver has relied upon certain unaudited financial information provided by CNS and other parties who had knowledge of CNS's assets and financial affairs. The Proposed CNS Receiver has not performed an audit or verification of such information for accuracy, completeness or compliance with Accounting Standards for Private Enterprises or International Financial Reporting Standards. Accordingly, the Proposed CNS Receiver expresses no opinion or other form of assurance with respect to such information.

## ***2.0 Asset and Financial Information***

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- 2.1.1** CNS's external financial statements show it was profitable from 2018 through 2020 with annual net income ranging from \$3,000 to \$561,000.
- 2.1.2** According to internal financial statements provided to MNP, CNS expects to have a net operating loss of \$1.3 million for its fiscal year ended March 31, 2022 (“**Fiscal 2022**”).
- 2.1.3** Claeys attributes the poor results for Fiscal 2022 to cost increases driven by:
- Increased material costs, particularly steel, of approximately 450%;
  - Increased freight costs of approximately 400%;
  - Increased outsourcing costs, generally related to laser cutting and finish welding services, of approximately 200%
- 2.1.4** The majority of sale prices were locked in prior to the above cost increases. CNS had limited success renegotiating the sales terms to pass cost increases along to its customers.
- 2.1.5** In addition, CNS had a \$1.4 million inventory write down recognized in February 2022. Claeys states CNS had an archaic costing system and many costs incurred through 2021 were not accurately captured on a project's bill of material when the project was invoiced.
- 2.1.6** CNS and Holdco took on global bank and private debt of approximately \$6.23 million during Fiscal 2022 which is fully serviced by CNS. The majority of this debt related to Claeys' acquisition of CNS.
- 2.1.7** During the review period it was clear that CNS was operating under a serious cash strain and did not have sufficient resources to secure required raw materials needed to maintain normal operations.
- 2.1.8** Most customers have contractual rights to issue “chargebacks” to CNS. These are monetary penalties when product is shipped late by CNS, which would cause construction delays for the customer. The customer would setoff the chargebacks against amounts due to CNS eroding the accounts receivable which form the main component of the Bank's security.
- 2.1.9** CNS is on COD terms with its critical steel suppliers and material procurement in the last couple weeks has been especially difficult. Furthermore, critical subcontractors have started using finished goods in their possession as leverage for payment of CNS's past due account. This has strained CNS's dealings with certain vendors and also placed customer orders at risk of being late, exposing CNS to chargebacks or worse, cancelled orders if customers can't get their products.
- 2.1.10** Although we understand no chargebacks have yet been issued by customers, based on emails received from Claeys during the weeks of April 11, 2022 and April 28, 2022 requesting bulge financing from the Bank, the possibilities of chargebacks seemed imminent until large receivable collections were made earlier than expected.
- 2.1.11** On Friday April 22, 2022, Claeys sent an email to the Bank and MNP with the subject “Urgent” advising CNS required \$110,000 in additional funds that same day to buy materials and pay source deductions or else \$350,000 of the Bank's secured assets would be “wiped out”.

- 2.1.12** CNS prepared a forecast for the fiscal year ended March 31, 2023 forecasting net income of approximately \$628,000. This forecast profit is based on successful implementation of price increases, sales of a new product line in the electric vehicle market, significant increase in gross margin above historic levels and reduction to overhead costs. The assumptions used to generate the forecast appear optimistic, particularly given CNS's current cash constraints.
- 2.1.13** MNP initially reviewed CNS's asset and financial information as at March 31, 2022. On May 6 and 10, 2022 Claeys sent MNP financial reports showing significant declines in accounts receivable and inventory since our initial review. Accounts receivable declined approximately \$410,000 and inventory declined approximately \$300,000. There was no corresponding decrease to the Bank's operating line. When questioned for an explanation of these decreases Claeys advised the Company has been making advances to suppliers to get product released. This explanation is not satisfactory. If product were being released to CNS by its suppliers, it would generate increases in either receivables or inventory, when in fact both fell materially. Based on the reports and responses provided by Claeys to MNP it seems the RBC security has been eroded by approximately \$710,000 since March 31, 2022.

### ***3.0 Order Sought***

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- 3.1.1** The Proposed CNS Receiver submits this Proposed CNS Receiver Report to this Court in support of the Bank's Application requesting this Court appoint MNP as a receiver over the assets and undertakings of CNS and Holdco.

All of which is respectfully submitted this 10<sup>th</sup> day of May, 2022.

**MNP Ltd.,  
in its capacity as Proposed Court Appointed Receiver of  
CNS Iron Fabrication Ltd. and Claeys Family Holdings Inc.  
and without personal or corporate liability**



Per: \_\_\_\_\_  
Robert W. Smith CPA, CA, CIRP, LIT  
Senior Vice President