
Court File No. CV-23-00083544-0000

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

FARM CREDIT CANADA

Applicant

-and-

12175622 CANADA LTD. and GPM FOOD INC.

Respondents

**FIRST REPORT TO THE COURT SUBMITTED BY MNP LTD., IN ITS CAPACITY AS
COURT APPOINTED RECEIVER OF
12175622 CANADA LTD. and GPM FOOD INC.**

April 25, 2024

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1.0 Introduction

1.1 Introduction

1.1.1 12175622 Canada Ltd. (“**12175622**”) was incorporated July 6, 2020 and is the registered owner of the Property. Santokh Mahal (“**Mahal**”) is the sole director.

1.1.2 GPM Food Inc. was incorporated April 8, 2022. Mahal is the sole director.

1.1.3 GPM Food Inc. and 12175622 (collectively, “**GPM**”) were in the process of building a fully automated flour mill (the “**Flour Mill**”) on real property at 155 Adams Blvd, Brantford, ON (the “**Property**”). The Flour Mill was under construction since 2016 and the Receiver understands it was substantially completed; however, never fully operational.

1.1.4 On January 18, 2024, at an application brought by GPM’s secured lender, Farm Credit Canada (“**FCC**”), the Ontario Superior Court of Justice issued an order (the “**Appointment Order**”) appointing MNP Ltd. (“**MNP**”) as receiver and manager (the “**Receiver**”) of GPM. The Appointment Order is attached as **Appendix “A”**. The Appointment Order was not effective until and if GPM failed to meet certain obligations, including monthly payments to FCC. On March 5, 2024, the Appointment Order became effective when FCC learned the required payment of \$190,000 on February 15, 2024 had been returned by GPM’s bank.

1.1.5 On January 18, 2024, the Ontario Superior Court of Justice also issued an Order approving a Sales and Investment Solicitation Process (the “**SISP Order**”) to be undertaken by the Receiver. A copy of the SISP Order is attached as **Appendix “B”**.

1.1.6 The Appointment Order authorizes, but does not obligate, the Receiver to, among other things:

- take possession of and exercise control over GPM’s assets;
- manage, operate, and carry on the business of GPM;
- market any or all GPM’s assets and negotiate such terms and conditions of sale as the Receiver may deem appropriate up to \$100,000 per transaction, to a maximum aggregate consideration of \$500,000, without the approval of the Court, and with the approval of the Court beyond these limits; and,
- Borrow up to \$250,000 to fund receivership expenses.

1.2 Purpose of Receiver’s First Report

1.2.1 This constitutes the Receiver’s **First Report** to the Court in this matter and it is filed to:

- i. report on the Receiver’s activities since its appointment and seek the Court’s approval of same;
- ii. update the Court in respect of the Sales and Investment Solicitation Process (“**SISP**”); and,
- iii. obtain an Order:
 - a) approving the First Report, along with the activities of the Receiver detailed therein;

- b) approving the sale of raw material wheat by the Receiver; and,
- c) increasing the Receiver's borrowing charge to \$1,500,000.

1.3 Disclaimer

1.3.1 This Report has been prepared for the use of the Court and GPM stakeholders. Accordingly, the reader is cautioned that this Report may not be appropriate for any other purpose. The 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 Report for any other purpose.

1.3.2 In preparing this Report, the Receiver has relied upon certain information provided by GPM and other parties who had knowledge of GPM's assets and financial affairs. The 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 Receiver expresses no opinion or other form of assurance with respect to such information.

2.0 Receiver's Activities

2.1 Possession

- 2.1.1** On March 6, 2024, the Receiver sent a notice to Mahal to advise that the Appointment Order was in effect and request a meeting at the Property. Mahal advised he was out of the country and would not be available to meet for one week. Mahal arranged to provide a key to the Flour Mill to the Receiver.
- 2.1.2** The Receiver attended the Property on March 6, 2024, to secure possession of the Flour Mill. The Receiver changed the locks and photographed the Property and all equipment.
- 2.1.3** The Receiver imaged all hard drives and servers and restricted all remote access to same.
- 2.1.4** There are security cameras at the Property and what appeared to be a monitored alarm system. The Receiver determined none of the equipment was working. The Receiver made arrangements with a third-party alarm company to install equipment to reactivate the monitored alarm. This is scheduled to be done on May 2, 2024.
- 2.1.5** The Receiver has redirected mail to its office.

2.2 Status of Operations

- 2.2.1** Mahal submitted an affidavit in these proceedings sworn January 8, 2024 (the “**Mahal Affidavit**”) that, among other things, summarized the operational status of the Flour Mill. A copy of the Mahal Affidavit is attached hereto as **Appendix “C”**.
- 2.2.2** Paragraphs 12 and 23 through 32 of the Mahal Affidavit and paragraphs 6 and 37 through 42 of the GPM Factum contain statements concerning the occupancy permit and operational status of the Flour Mill. These statements may be summarized as follows:
- the City of Brantford Building Department (“**Brantford**”) issued a partial occupancy permit relating to the Flour Mill on July 27, 2023;
 - a final occupancy permit would only be issued by Brantford after at least 8 weeks of operations and receiving a satisfactory Dust Hazard Analysis;
 - the Flour Mill became operational on January 5, 2024.
- 2.2.3** Prior to its appointment becoming effective, the Receiver attended at the Property and met with Mahal on February 1, 2024, to tour the Flour Mill and seek an update on the operations. The Flour Mill was not operating. Mahal advised the Flour Mill was run in October/November of 2023 but there was a problem with the consistency of the flour. The cause was too much moisture in the pipes because the Flour Mill had sat idle too long, so he had started the process to clean the equipment. Mahal did not provide a satisfactory explanation of why he swore the Flour Mill was operational on January 5, 2024, in the Mahal Affidavit when that did not appear to be the case.
- 2.2.4** The Receiver engaged a third-party Mechanical Engineering Firm specializing in the food and beverage industry, Mallot Creek Group Inc. (“**Mallot Creek**”), to attend at the Property and inspect the Flour Mill to ensure all equipment was properly shut down, identify any steps the Receiver should take to secure and safeguard same. Mallot Creek issued a Site Review Report dated March

17, 2024 (the “**First Mallot Creek Report**”), attached as **Appendix “D”**. The Receiver has taken all steps recommended by Mallot Creek in the First Mallot Creek Report, including:

- Engaging a third-party alarm monitoring company.
- Engaging a pest control company to service all pest control stations.
- Identification of third parties to clear all materials in process from the equipment.
- The Receiver has been in discussion with the former third-party electrician, Ken Black (“**Black**”) who assisted at the Flour Mill for three years installing the equipment regarding the operation of the equipment and removal of the inventory. Black has knowledge and experience interacting with the equipment in the Flour Mill.
- The Receiver engaged a third-party security company to do regular site inspections and full walk throughs of the Flour Mill.

2.2.5 On March 25, 2024 Mahal provided the Receiver an extensive list of items to be completed at the Flour Mill before it could be operational (in his opinion). This list is attached hereto as **Appendix “E”**. This list of outstanding items appears to be inconsistent with Mahal’s earlier sworn statement that the Flour Mill was operational on January 5, 2024.

2.2.6 Shortly thereafter, on the same day, Mahal provided the Receiver a Letter of Intent from an international company and a proforma invoice. Mahal’s proposal was to mill the wheat in the grain silos and sell it as flour to this international company.

2.2.7 As it appears the Flour Mill has never been fully operational, and according to Mahal there is a long list of items and capital expenditures required to make it operational, the Receiver has opted not to operate the Flour Mill and will not undertake the option to mill the raw material wheat to be sold as flour. This is particularly appropriate since the flour that has been milled thus far has a problem with its consistency, according to Mallot Creek.

2.2.8 Mallot Creek initially advised the Receiver by email the Flour Mill should only be turned on by someone who has the experience and expertise to operate the mill. Subsequent to that email, during a site visit at the Property, Mallot Creek expressed concerns about the Flour Mill being turned on before it could be thoroughly inspected.

2.3 Information Request

2.3.1 The Receiver sent an information request to Mahal on April 8, 2024. A copy of the information request is attached as **Appendix “F”**. The majority of the requested information remains outstanding, including a list of all creditors and the quantity of raw material inventory and purchase documentation for same.

2.4 Status of Inventory

2.4.1 Inventory at the Property consists of raw material wheat in the grain silos, material-in-process in the Flour Mill equipment, and bags of processed flour (the “**Inventory**”).

2.4.2 In the First Mallot Creek Report, Mallot Creek advised it was unable to determine the amount of wheat in the grain silos.

- 2.4.3** Mallot Creek has also advised all Inventory should be disposed of to prevent risk of insect infestation.
- 2.4.4** The Receiver has made arrangements for the raw material wheat to be removed by Black and sold to a local grain elevator, as discussed further in this report.
- 2.4.5** The Receiver is investigating options to remove the material-in-process from the Flour Mill equipment. According to Mallot Creek it is important this be done to prevent insect infestation inside the equipment, which would be very costly to remedy. Black has offered to clean the material-in-process and has advised it would be quicker and more cost effective if he is able to do so by safely turning the Flour Mill on, which the Receiver is not prepared to do based on the recommendation of Mallot Creek. The Receiver has also requested a quote from a local industrial cleaning company, Enviro-Cor Enterprises Ltd. The Receiver will provide a summary of the quotes and its recommendation in a subsequent report to the Court.
- 2.4.6** Black has also offered to remove the bags of completed flour and attempt to sell it, or if he is unable to find a buyer, to dispose of it.
- 2.4.7** Alternatively, Mahal has asked to remove a sample of the flour so it can be sampled by his bakery contacts and possibly sold to them. The Receiver has agreed to allow Mahal to remove the sample on condition that he disclose the age and any potential safety concerns to prospective buyers.

2.5 Site Clean Up

- 2.5.1** There were scattered pieces of equipment and materials at the rear of the Property.
- 2.5.2** The Receiver engaged Black to clean this. Most of the equipment and materials appear to be garbage. Where possible it will be sold as scrap and the rest will be disposed of.

2.6 Insurance

- 2.6.1** The GPM property insurance policies expired April 4, 2024. The Receiver has arranged to for a renewal of the policies.
- 2.6.2** The total premiums due under the policies are \$594,724 plus HST, a total of \$642,302. This is in line with the premiums that were paid by FCC for the prior year. The premiums due for the 2023 year were paid by FCC despite the fact that GPM was obligated to pay them under the Credit Agreement.

2.7 Receiver's Notice

- 2.7.1** The Receiver has set up a website at mnpdebt.ca/corporate/gpm-food to post documents relating to the receivership that is available to public, including the Appointment Order and SISP Order.
- 2.7.2** Since the Receiver has not received a creditor list from Mahal, the Receiver has sent the notice to all creditors identified through a PPSA search and mail found at the Property.

3.0 Proposed Wheat Sale

- 3.1.1** The Receiver and Mallot Creek have been unable to confirm the amount or quality of raw material wheat in the silos at the Property.
- 3.1.2** Mallot Creek advised the Receiver the wheat should be removed if it has been in the silos longer than one year. Based on pre-receivership meetings with Mahal, the Receiver believes the wheat has been in the silo for longer than one year.
- 3.1.3** Mahal has not provided the requested purchase documentation to confirm when the wheat was purchased.
- 3.1.4** Black was able to inspect some of the wheat and witnessed evidence of some possible rotting.
- 3.1.5** Black is familiar with the process to remove the wheat from the silos. He has offered to remove the wheat and arrange for its sale at a local grain elevator. Black will charge 10% of the sale proceeds for removal and transportation of the wheat. The price paid by the grain elevator will be established by the Chicago Board of Trade, subject to any adjustments for grade and quality once inspected by the elevator. The grain elevator will provide scale tickets to confirm the quantity and quality of the wheat once inspected by the elevator.
- 3.1.6** The sales proceeds cannot be estimated until this information is known.
- 3.1.7** As the Receiver does not intend to operate the Flour Mill and has not identified any other options to remove and sell the wheat, the Receiver recommends acceptance of the Black offer.

4.0 SISP update

- 4.1.1** The SISP includes a timeline of milestones based on a commencement date (the “**Commencement Date**”) that is not strictly defined.
- 4.1.2** The Receiver requires information on equipment, processes and safeguard systems of the Flour Mill to finalize its marketing material.
- 4.1.3** The Receiver attempted to get this information from the former engineer employed by GPM, Richard Rosetti (“**Rosetti**”). Although some information was initially provided by Rosetti, he has now made it clear he will not provide any assistance to the Receiver unless he is compensated with a percentage of the ultimate sale proceeds of the Property and Flour Mill. This is not a practical solution.
- 4.1.4** As an alternative, the Receiver has engaged Mallot Creek to prepare the required information, Mallot Creek has communicated with the equipment manufacturers and Rosetti to gather the details of the processes and safeguards and expects to have a report prepared by the end of April, 2024.
- 4.1.5** The Receiver intends to use the date of receipt of this information from Mallot Creek as the Commencement Date.

5.0 Receivership Funding

5.1.1 The Receiver has issued a Receiver Certificate to FCC and borrowed \$125,000 to date. A copy of the Receiver Certificate is attached at **Appendix “G”**.

5.1.2 The Receiver has committed to approximately \$80,000 in disbursements to date, which including:

- Mallot Creek advisor fees
- Equipment appraisal
- Locksmith
- Videographer to prepare a virtual tour of the Flour Mill for the SISP
- Utilities, security, pest control, etc.

A full accounting of these costs will be provided in a future report to the Court once invoices are received and amounts confirmed.

5.1.3 As previously stated, pursuant to the Appointment Order, the Receiver is authorized to borrow up to \$250,000.

5.1.4 The Insurance Premium of \$642,302 (inclusive of HST) is due by May 9, 2024.

5.1.5 The Receiver must borrow additional funds to cover the insurance premiums, and potential additional receivership costs. Notably, the costs to clean the material-in-process from the Flour Mill equipment are still unclear but Mallot Creek has advised there could be significant costs if the Flour Mill equipment must be turned on to complete the clean-out.

5.1.6 The Receiver requests its authorized borrowing limit be increased to \$1.5 million.

6.0 Order Sought

6.1.1 We submit this First Report to the Court and respectfully request that the Court make an order as requested in paragraph 1.2.1 above.

All of which is respectfully submitted this 25th day of April, 2024.

**MNP Ltd.,
in its capacity as Court Appointed Receiver of
12175622 Canada Inc. and GPM Food Inc.
and without personal or corporate liability**



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