

IN THE MATTER OF THE BANKRUPTCY OF  
1836816 ONTARIO INC.  
A CORPORATION INCORPORATED UNDER THE LAWS OF ONTARIO

**TRUSTEE'S REPORT ON PRELIMINARY ADMINISTRATION**

**ESTATE NUMBER: 35-2681654**

**Background**

1836816 Ontario Inc. o/a Hacienda Sarria (“Hacienda” or the “Company”) is a privately owned business that carried on business as an event planner in Kitchener, Ontario. Events planned were being held exclusively at leased premises located at 1254 Union St., Kitchener ON.

The Company’s head office was located at 1254 Union St., Kitchener, ON. Hacienda has been operating from this location since 2011.

Due to the outbreak of Covid-19 the Company temporarily ceased all operations on March 17, 2020. Following the easing of Government restrictions the Phase II reopening of Covid-19 restrictions announced on June 12<sup>th</sup> allowed some outdoor dining. The Company offered outdoor dining one or two days a week beginning July 3<sup>rd</sup>. On July 17<sup>th</sup> the phase III lifting of some restrictions allowing indoor events with a guest limit of 50. The Company’s first event under these restrictions was on August 16<sup>th</sup>.

On Tuesday October 13, 2020, the company received a demand for payment from a key vendor. The demand indicated that failure to pay the amount of approximately \$123,000 before October 23, 2020 would result in the suspension of further services. This amount included \$51,000 plus HST of fees related to postponed events and \$10,750 plus HST related to cancelled events. These postponements and cancellations were related to Covid 19. The Company would not be able to continue operations without this vendor.

This creditor demand, coupled with a lack of revenue, ongoing costs and uncertainty on future event sizes, resulted in the company filing an assignment in bankruptcy effective October 21, 2020.

**Financial Review**

Excerpts from the Notice to Reader October 31, 2018 and 2019 financial statements and the internal statements from November 1, 2019 to October 20, 2020 are include below:

CAD \$	Oct. 20, 2020 YTD	FY 2019	FY 2018
Sales	\$902,696	\$3,011,046	\$2,778,154
Gross Profit	434,513	1,202,613	1,208,311
Expenses	834,180	1,384,674	1,269,898
Net Income/(Loss)	(399,666)	(176,761)	(55,110)
Cumulative gains or losses since inception	(1,105,229)	(705,563)	(528,800)
Dividend Payments / Payments to shareholders	\$0	\$0	\$0
Cash on Deposit	\$14,477	\$206,435	\$376,267

The Company had incurred significant losses for the past two fiscal years, combined with the effects of Covid-19 management could not determine when the Company would return to profitability.

### Impact of Covid-19

During the government, mandated shutdown the Company took the following steps to mitigate the effects of Covid-19:

1. Employees - The Company temporarily laid-off 37 its staff to save wage costs.
2. Rent Reduction - the Company negotiated a rent reduction with its landlord to reduce the monthly rent from \$16,500 to \$4,125. The reduction was effective as of April 2020.
3. CEBA - the Company obtained a \$40,000 loan under the Canada Emergency Business Account program.
4. Additional Funding - the Secured creditor funded an additional \$85,000 between April 21 and July 23, 2020. No repayments were made prior to the bankruptcy.

The following chart illustrates the Company's operating results during the Covid-19 shut down from March 18 to August 15, 2020 and the operating results following the reopening on August 16, 2020 until bankruptcy.

CAD \$	March 18 - Aug 15, 2020	Aug 16 - Oct. 20, 2020
Sales	\$75,255	188,135
Gross Profit	26,038	138,606
Expenses	250,683	131,600
Net Income/(Loss)	(\$224,645)	7,006

The above results do not include postponement and cancellation charges levied by several of the Company's vendors. The inclusion of these charges, approximately \$62,000 from a single vendor alone, would further increase the expense line and the Net Loss.

### Future Operations and Cashflow

Traditionally, the Company took a 25% deposit at the time an event was booked and collected the remaining 75% just prior to the event. With the Government imposed limit of 50 guests the future cash flow that would be received by the Company at the time of an event was significantly reduced.

The Company had 6 events booked between October 21, 2020 and December 31, 2020. An additional 7 events were scheduled for the first three months of 2021. Had the Company completed the 6 events for 2020 the cash inflows would have been approximately \$30,861. An additional \$37,499 would have been received in the first 3 months of 2021.

The Company had monthly salary costs of over \$30,000 related to maintenance and event planning staff (additional hourly staff were brought in to work events). As a result the Company would have had staff costs that exceeded \$165,000 between the date of bankruptcy and the end of March 2021 compared with cash inflows of \$68,360. Additional costs for utilities, property taxes, catering, alcohol and insurance would further increase the cash flow deficiency.

The cash inflows from operating at reduced capacity were insufficient to cover the operating costs.

## Event Deposits

The Company records indicated that deposits totaling \$672,938.70 were received with respect to 111 events that were scheduled to take place between October 21, 2020 and December 31, 2021. The breakdown of the events is as follows:

Type of Event	#
Wedding	90
Private Party	4
Holiday Party	4
Graduation	8
Fundraiser	2
Corporate	1
Not disclosed	2

The last deposit accepted at the rate of 25% was on Sep. 9, 2020 in the amount of \$2,115. A \$500 only policy was adopted effective Oct. 1, 2020 and five \$500 deposits were accepted between Oct. 1, 2020 and Oct. 13, 2020. The Trustee has found no evidence of the Company accepting deposits after this date.

The language in the event contract does not appear to establish a trust agreement. As a result the deposits have been classified as unsecured claims.

## Related Parties

1. 1291029 Ontario Limited (“129 Ontario”) - 100% shareholder of the Company. Directors of the two companies are related.
  - a. Rent
 

129 Ontario is the legal owner of the real estate and the landlord for the Company. Pursuant to a May 1, 2018 lease agreement rent was \$16,500 per month. As noted above the rent was reduced to \$4,125 effective April 2020. The Company was current on its rental payments.

Land title searches indicate that 129 Ontario purchased the property on March 10, 2004.
  - b. Secured Debt
 

The Trustee has engaged Harrison Pensa LLP as independent legal counsel at this time. Legal counsel to the Trustee confirmed the validity and enforceability of the security of 129 Ontario. 129 Ontario loaned the Company \$319,625 in 2011 and took a General Security Agreement from the Company. No repayments were ever made on the 2011 loan and no interest was charged. 129 Ontario provided additional funding of \$85,000 throughout the current fiscal year. (Apr 21, 2020 of \$50K, Jun 24, 2020 of \$15K and Jul 23, 2020 of \$20K.)
2. Hacienda Roasting Company- Same director as the Company. Director of the Company owns Hacienda Roasting Company
  - a. Purchases
 

The Company purchased approximately \$4,000 in coffee from Hacienda Roasting Company during 2020. No other transactions took place and no balance is owed to or from Hacienda Roasting Company by the Company.
3. Wages
  - a. An extended family member was employed to do building and property maintenance. The individual received a market rate wage for their services equal to what would have been paid between arm’s length parties.

- b. The president of the Company has not received any type of compensation since 2018.

## **Employees**

Hacienda had 25 employees at the time of the bankruptcy. The Trustee has filed the Wage Earner Protection Program applications for the employees and the Company has completed the employee Record of Employment and T4's. Any former employee with questions on the WEPP program or obtaining and ROE or T4 are encouraged to contact the Trustee.

## **Section A - Trustee's Duties**

Under Section 16(1) of the *Bankruptcy and Insolvency Act* ("BIA"), the Trustee is required to give security in cash or by bond of a guaranty company in an amount set by the Official Receiver. No bond has been set in this estate.

### **Class I - Stocks of Merchandise**

The Company had approximately \$111,000 in realizable value of inventory at the time of the filing. The inventory has been secured and is subject to a secured claim from 1291029 Ontario Limited. The Trustee has obtained an appraisal of the inventory/equipment and the estimated realizable value is \$57,000. The estate does not have sufficient proceeds to redeem the security. Furthermore, the redemption of the security would not likely provide any benefit to the unsecured creditors. As a result, the Trustee will be recommending that the assets be released to the secured creditor pursuant to its secured claim.

### **Class II - Plant, Machinery and Equipment**

The equipment is included in the Stock of Merchandise.

### **Class III - Buildings and Real Estate**

As described in the Background above, the Company leased the real estate.

### **Class IV - Books and Records**

The Trustee has taken possession of the records required to complete the administration of the estate.

### **Class V - Other Assets**

The Company had two receivables at the time of the bankruptcy. A refund of approximately \$1,800 owing from the Beer Store and a \$4,000 repayment of a pro-rata share of a utility bill from the Working Centre. The Trustee is pursuing the collection of both receivables.

The Trustee took possession of \$14,477 in cash the Company had on deposit at the time of the bankruptcy.

Due to the restrictions on the retail and wholesale sale of alcohol, the Company has returned a majority of the alcohol for a refund. The remaining alcohol cannot be sold and has a realizable value of zero.

## **Section B - Conservatory and Protective Measures**

The Trustee has safeguarded the assets and the landlord has obtained insurance coverage.

### **Section C - Legal Proceedings**

The Trustee is not aware of any claims for or against the Company.

### **Section D - Provable Claims**

As at 8:30 am on November 6, 2020, 88 unsecured claims with a total value of \$952,268.84 and 10 preferred claim with a value of \$15,813.32 have been received.

### **Section E - Secured Creditors**

Based on the Company records, the Company had one secured creditor. As noted above legal counsel to the estate has reviewed the security and found it to be valid and enforceable as against the estate. The following secured claim has been received:

1291029 Ontario Limited	\$404,625
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### **Section F - Total Anticipated Realization and Projected Distribution**

Based on the realizations to date the Trustee estimates a distribution will not be made to the unsecured creditors.

### **Section G - Preference Payments and Transfers at Under Value**

The Trustee has reviewed the bank statements from March 1, 2020 to the date of bankruptcy. The Trustee notes the following preference transactions were identified:

1. Repayment of the Business Development Bank of Canada loan- on July 31, 2020 the Company received a \$100,000 loan from the Business Development Bank of Canada ("BDC"). The BDC loan was unsecured. The loan, plus interest of \$68.85, was repaid October 19, 2020.
2. Return of Payment- an individual that had an event scheduled made an additional payment of \$3,000 on October 15, 2020. The Company returned the \$3,000 on October 15, 2020.
3. Return of Deposit- the deposits for 6 events totaling \$43,553.15 were refunded between August 4<sup>th</sup> and October 14<sup>th</sup>, 2020.

### **Section H - Other Matters**

1291029 Ontario Limited has provided a guarantee to the Trustee to cover the administrative costs and fees for the Trustee.

Dated at Kitchener, Ontario this 6<sup>th</sup> day of November, 2020.

BDO Canada Limited  
Trustee of the estate of  
1836816 Ontario Inc.