

**Court File No. 31-2803414
Estate File No. 31-2803414**

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

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
2519920 ONTARIO INC. o/a DOVE CLEANERS**

**FIRST REPORT OF CROWE SOBERMAN INC. IN ITS CAPACITY AS PROPOSAL
TRUSTEE UNDER THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
2519920 ONTARIO INC. o/a DOVE CLEANERS**

March 8, 2022

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March 8, 2022

1. This report (the “**First Report**”) is filed by Crowe Soberman Inc. (“**Crowe**”) in its capacity as proposal trustee (the “**Proposal Trustee**”), in connection with the Notice of Intention to Make a Proposal (“**NOI**”) filed by 2519920 Ontario Inc. o/a Dove Cleaners (“**Dove Cleaners**” or the “**Company**”).
2. On February 9th, 2022 (the “**Filing Date**”), the Company filed an NOI and Crowe was appointed as Proposal Trustee. A copy of the Certificate of Filing issued by the Superintendent of Bankruptcy for the Company is attached hereto as **Appendix “A”**.
3. The purpose of this First Report is to provide the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) and stakeholders with information pertaining to the following:
 - a. a limited summary of certain background information about the Company;
 - b. the restructuring steps to be undertaken by the Company during these proceedings; and
 - c. the Company’s request for an extension of the stay initiated on the Filing Date (the “**Stay Period**”) to April 25, 2022.

I. TERMS OF REFERENCE

4. Unless otherwise noted, all monetary amounts contained in this First Report are expressed in Canadian dollars.
5. In preparing this First Report, the Proposal Trustee has relied upon certain unaudited internal financial information prepared by the Company's representatives, the Company's books and records and discussions with their management and employees (collectively, the "**Information**"). The Proposal Trustee has not performed an audit or other verification of the Information in a manner that would comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountant of Canada Handbook (the "**CPA Handbook**") and, as such, the Proposal Trustee expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

II. GENERAL BACKGROUND INFORMATION ON THE COMPANY

6. The Company is a franchisor of a series of dry-cleaning retail stores under the Dove Cleaners and Flair Cleaners names. We understand that there are presently 11 locations, of which 10 are franchises and one location is owned by the Company. Of the 11 locations, 8 are under the Dove Cleaners name and 3 are under the Flair Cleaners name. In addition, we have been advised that there were previously three other franchise locations that have closed during the Covid-19 Pandemic (the "**Pandemic**").
7. The Company was incorporated under the Ontario Business Corporations Act on May 25, 2016. Shermin Zarif is the president, director, and is the indirect shareholder of Dove Cleaners by way of his company, Mills West Enterprises Inc. Danny Zarif (Shermin's brother) is the CEO of Dove Cleaners.

Overview of Operations

8. The Company leases an industrial facility at 354 Supertest Road in Toronto, where all the cleaning is done in a central location. Items to be cleaned are transported

from stores, or directly from customers through pickup or commercial contracts, to that facility and are then returned to either the store or the customer.

9. The Proposal Trustee has been advised that the Company presently has between 20 and 25 employees. As well, we were advised that prior to the Pandemic, it had between 40 and 45 employees.

Causes of Insolvency

10. The Proposal Trustee has reviewed the 2019 financial statements and notes that prior to the Pandemic, the Dove Cleaners brand was successful, and the Company was profitable. However, the Pandemic had a catastrophic impact on the Company's business operations. The volume of business significantly decreased to a fraction of what it had been. This was likely due to the fact that many people were working from home and were wearing more casual clothing, and thus, their dry-cleaning needs were much less.
11. Notwithstanding that many of the Company's costs are variable and a decrease in revenues would result in a decrease in expenses, many of the Company's costs are fixed and unavoidable. For example, costs with respect to rent, equipment leases, and operating vehicles to transport items to be cleaned to and from either the retail stores or from customers, need to be incurred, regardless of the volume of business the Company was generating. Accordingly, the Company has been losing money every month since the Pandemic began. The Proposal Trustee has been advised that over that time, the Company has more than doubled its debt load through borrowing under emergency loan provisions offered by the federal government.
12. The Company has advised that the current level of debt the Company has is unsustainable. This seems to be supported by the cash flow projections filed earlier, and the updated cash flow projections accompanying this report, indicates a deficit over the 13-week period. As well, we have been advised that in the Fall of 2021, the Company's bank, Toronto Dominion Bank ("TD"), put the Company's account into special loans.

The Company's Creditors

13. At the time of the filing of the NOI, the Company's records show that it owed approximately \$4,300,000 to creditors. The largest creditor is TD, which is owed approximately \$4,086,000.
14. The Proposal Trustee understands that TD's debt is comprised of long-term debt that was incurred prior to the Pandemic to pay for improvement and expansion in the Company's business (approximately \$1,500,000). A portion of the amounts owing are for equipment financing leases. The remainder is related to emergency Pandemic borrowing, which was used to attempt to keep the Company and its franchisees in business.
15. The Proposal Trustee has been advised that all amounts owing to TD are secured. As well, we have been advised that Shermin Zarif and Mills West Investments Enterprises Inc. are guarantors on amounts owing to TD.

III. THE NOI PROCEEDINGS

16. The Company advised it does not anticipate the dry-cleaning business recovering to pre-pandemic levels for the foreseeable future. Due to the financial challenges experienced by the Company and its inability to continue its operations, it was determined that it was in the best interest of all stakeholders for the Company to file a NOI and to explore restructuring options.
17. The Company is reviewing several options for restructuring during the NOI process. One option is a potential purchase of the Company's assets on a going concern basis through a new purchaser that will be related to management. Such a purchase would be done through a stalking horse sale process, conducted by the Proposal Trustee, in a publicly advertised manner.

18. The Proposal Trustee has conducted an appraisal of the Company's assets by Canam Appraiz for the purpose of evaluating the appropriateness of any potential stalking horse asset purchase agreement. The Proposal Trustee has not shared the appraisal with the Company in order that it should not affect any potential stalking horse purchase offer brought forth by a party that is related to management of the Company
19. Another option that the Company is considering, is negotiating with creditors for an amount to be paid to satisfy all creditor claims.
20. The Proposal Trustee has been advised that the Company has agreed to cooperate with TD with respect to the engagement of an independent financial advisor, msi Spergel Inc. ("Spergel"), for the purpose of conducting a review of the Company's financial position, so that TD can better assess whether to cooperate with the Company during these Proposal Proceedings.
21. The Company advises that it continues to cooperate with Spergel's requests in providing it with the particulars of the Company's financial information and documentation. The Proposal Trustee understands that once Spergel's review is complete, TD and the Company intend on further discussing the restructuring options.

IV. EXTENSION OF THE STAY PERIOD TO APRIL 25, 2022

22. The current stay of proceedings will expire on March 11, 2022. Accordingly, the Company is seeking a 45-day extension of time pursuant to Section 50.4(9) of the BIA to April 25, 2022 (the "Stay Extension").
23. The Company with the assistance of the Proposal Trustee has prepared Cash Flow Projections. A copy of the Cash Flow Projections is attached hereto as **Appendix "B"**, which is summarized below:

2519920 Ontario Inc
Cash Flow Projections
For the period from March 6 to May 29, 2022

| | | |
|-------------------------------|-------|----------|
| Receipts | | |
| Store Sales | A | 375,000 |
| Disbursements | | |
| Authorized/debit and credit | | 1,277 |
| Insurance | | 14,427 |
| Interest & Bank Charges | | 6,220 |
| Lease payments | | 29,137 |
| Material and supplies | | 39,500 |
| Office and maintenance | | 1,350 |
| Payroll and source deductions | | 123,000 |
| Professional Fees | | 60,000 |
| Rent | | 56,219 |
| Sub contract | | 96,750 |
| Utilities - Gas & Hydro | | 14,352 |
| Utilities - Phone & Internet | | 1,950 |
| Repairs and Maintenance | | 3,000 |
| Total Disbursements | B | 447,183 |
| Net Cash | C=A-B | (72,183) |
| Opening Bank Balance | D | 4,635 |
| Closing Bank Balance | C+D | (67,548) |

24. The Cash Flow Projections indicate that during the Stay Extension, the Company will continue to operate at a cash deficit, with costs exceeding revenues. The Proposal Trustee has been advised that given the anticipation of the ongoing cash deficit, the Company has arranged for an injection of finances from friends and family to make up the shortfall. Since the filing of the NOI to date, cash injections of approximately \$50,000 have been made from these sources.

25. The Proposal Trustee supports the Company's request for the Stay Extension for the following reasons:

- More time is required to develop a restructuring plan with TD;

- b. The Company is acting in good faith and with due diligence; and
- c. It is the Proposal Trustee's view that the Stay Extension will not materially prejudice any creditors.

V. CONCLUSION AND RECOMMENDATIONS

26. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honourable Court grant the Order sought by the Company, extending the Stay Period to April 25, 2022.

All of which is respectfully submitted this 8th day of March 2022.

CROWE SOBERMAN INC.

Trustee acting under a Notice of Intention to Make a Proposal of 2519920 Ontario Inc.
o/a Dove Cleaners under the *Bankruptcy and Insolvency Act*

A handwritten signature in blue ink, appearing to read "Z".

Appendix “A”



Industry Canada
**Office of the Superintendent
of Bankruptcy Canada**

Industrie Canada
**Bureau du surintendant
des faillites Canada**

District of Ontario
Division No. 09 - Toronto
Court No. 31-2803414
Estate No. 31-2803414

In the Matter of the Notice of Intention to make a proposal of:

2519920 ONTARIO INC. o/a DOVE CLEANERS

Insolvent Person

CROWE SOBERMAN INC.

Licensed Insolvency Trustee

Date of the Notice of Intention: February 09, 2022

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforesigned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act;

Pursuant to subsection 69. (1) of the Act, all proceedings against the aforesigned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: February 09, 2022, 15:35

E-File/Dépôt Electronique

Official Receiver

151 Yonge Street, 4th Floor, Toronto, Ontario, Canada, M5C2W7, (877)376-9902

Canada

Appendix “B”

2519920 Ontario Inc
Cash Flow Projections
For the period from March 6 to May 29, 2022 (C\$, Unaudited)

| For The Week Beginning | 06-Mar | 13-Mar | 20-Mar | 27-Mar | 03-Apr | 10-Apr | 17-Apr | 24-Apr | 01-May | 08-May | 15-May | 22-May | 29-May | Total |
|--------------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening Cash Balance (Note 1) | 4,635 | (9,769) | (8,769) | (24,126) | (29,485) | (36,735) | (12,889) | (26,628) | (57,612) | (62,362) | (33,516) | (45,313) | (44,798) | 4,635 |
| Receipts | | | | | | | | | | | | | | |
| Store Sales | 22,500 | 22,500 | 27,500 | 27,500 | 27,500 | 27,500 | 30,000 | 30,000 | 30,000 | 32,500 | 32,500 | 32,500 | 32,500 | 375,000 |
| Total Receipts | 22,500 | 22,500 | 27,500 | 27,500 | 27,500 | 27,500 | 30,000 | 30,000 | 30,000 | 32,500 | 32,500 | 32,500 | 32,500 | 375,000 |
| Disbursements | | | | | | | | | | | | | | |
| Authorized/debit and credit | | | | | | | | | | | | | | |
| Insurance | 2,154 | | 623 | 425 | 2,154 | 402 | 2,032 | | 2,154 | 450 | | | | 1,277 |
| Interest & Bank Charges | | | 2,050 | 2,032 | | 623 | | | | 623 | | | | 14,427 |
| Lease payments (Note 2) | | | | 9,712 | | 2,080 | | | | 2,090 | | | | 6,220 |
| Material and supplies | 3,500 | 1,000 | 3,500 | 1,000 | 3,500 | 3,500 | 10,000 | 3,500 | 1,000 | 3,500 | | | | 29,137 |
| Office and maintenance | | | 450 | | | 450 | | | | 450 | | | | 39,500 |
| Payroll and source deductions | 17,500 | 20,000 | 17,500 | 17,500 | 17,500 | 17,500 | 20,000 | 17,500 | | 17,750 | | | | 1,350 |
| Professional Fees | | | | | | | 18,740 | | 13,750 | | | | | 123,000 |
| Rent | 13,750 | | 13,750 | | 13,750 | 13,750 | 18,740 | | | 14,000 | | | | 60,000 |
| Sub contract | | | 4,784 | | | 4,784 | | | | 4,784 | | | | 56,219 |
| Utilities - Gas & Hydro | | | 650 | | | 650 | | | | 650 | | | | 96,750 |
| Utilities - Phone & Internet | | | | | | | | | | | | | | 14,352 |
| Repairs and Maintenance | | 500 | | 500 | | 500 | | 500 | | 500 | | | | 1,950 |
| Total Disbursements | 36,904 | 21,500 | 42,857 | 32,859 | 34,750 | 3,654 | 43,739 | 60,984 | 34,750 | 3,654 | 44,297 | 31,984 | 55,250 | 447,183 |
| Net cash inflow/(outflow) | (14,404) | 1,000 | (15,357) | (5,359) | (7,250) | 23,846 | (13,739) | (30,984) | (4,750) | 28,846 | (11,797) | 516 | (22,750) | (72,183) |
| Closing Cash Balance (Note 3) | (9,769) | (8,769) | (24,126) | (29,485) | (36,735) | (12,889) | (26,628) | (57,612) | (62,362) | (33,516) | (45,313) | (44,798) | (67,548) | (67,548) |

Notes:

1 Opening Cash Balance consists of the following:

| | | |
|-------------------------------|----|-----------------|
| TD Bank operating account | \$ | 1,114.02 |
| Scotia Bank operating account | | 3,521.40 |
| | | <u>4,635.42</u> |

2 Lease payments are for trucks and equipment that are essential to the Company's ongoing operations.

3 In the event of a deficit, the principals have agreed to invest the funds as needed.