

**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**

**THIRD 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**

June 21, 2022

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I. INTRODUCTION

1. This report (the “**Third 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. 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.
3. The Company is a franchisor of a series of dry-cleaning retail stores under the Dove Cleaners and Flair Cleaners names. The actual laundry and dry-cleaning services are done at an industrial facility, leased by the Company, located at 354 Supertest Road in Toronto. Additional information regarding the current status of the Company’s operations are detailed in the Affidavit of Danny Zarif sworn June 20, 2022.
4. On February 9th, 2022 (the “**Filing Date**”), the Company filed a NOI and Crowe was appointed as Proposal Trustee.

5. On March 28, 2022, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order which, among other things, granted an extension of time within which a Proposal must be filed to May 12, 2022 (the “**First Stay Extension**”).
6. On May 9, 2022, the Court issued an Order (the “**May 9 Order**”), which, among other things:
 - a. extended the period within which the Company may file a proposal to June 26, 2022 (the “**Second Stay Extension**”) in order to allow sufficient time for the Proposal Trustee to market and solicit offers for the purchase of the Company’s assets; and
 - b. approved the Sale Process and the Stalking Horse Agreement.
7. A copy of the May 9 Order is attached hereto as **Appendix “A”**.
8. The Proposal Trustee filed its Second Report dated May 4, 2022 (the “**Second Report**”) with the Court in support of the May 9 Order. A copy of the Second Report, without appendices, is attached hereto as **Appendix “B”**.
9. The purpose of this Third Report is to provide the Court and stakeholders with information pertaining to the following:
 - a. the activities of the Company and the Proposal Trustee since the Second Stay Extension was granted;
 - b. information concerning the Sale Process conducted by the Proposal Trustee in accordance with the October 9 Order and the results of same;
 - c. an overview of the Company’s cash flow projections for the period from the week of June 17 to September 9, 2022 (the “**Cash Flow Projections**”); and
 - d. the Proposal Trustee’s recommendation that this Court make the following orders:
 - i. an order approving the Stalking Horse Agreement as the Successful

Bid (as defined in the Sale Process) and vesting title in and to the purchased assets described in the Stalking Horse Agreement in the Stalking Horse Bidder;

- ii. an order approving the payment of the sale proceeds to Toronto Dominion Bank following the closing of the transaction;
- iii. an order approving the actions and activities of the Proposal Trustee;
and
- iv. an order approving the Company's request for a further extension of time within which to file a Proposal to August 11, 2022.

II. TERMS OF REFERENCE

10. Unless otherwise noted, all monetary amounts contained in this Third Report are expressed in Canadian dollars.

11. In preparing this Third 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.

III. THE NOI PROCEEDINGS

Overview of Dove Cleaner's Activities

12. Since the Second Stay Extension was granted, Dove Cleaners has been engaged in, among other things:
- a. communicating with the Proposal Trustee and the Company's legal counsel on various matters in connection with the NOI Proceedings;
 - b. working with the Proposal Trustee to prepare cash flow projections;
 - c. making payments towards lessor and payroll obligations; and
 - d. assisting the Proposal Trustee to assemble information for the Sale Process, as described in further detail below.

Overview of the Proposal Trustee's Activities

13. In addition to assisting Dove Cleaners and its legal counsel in connection with the above, the Proposal Trustee has been engaged in, among other things:
- i. monitoring the Company's bank balances periodically, and determining whether they approximated the Company's cash flow projections filed as part of the Second Report;
 - ii. assisting the Company in the preparation of the Cash Flow Projections and reviewing the information and support provided therein;
 - iii. maintaining the Proposal Trustee's website for these proceedings;
 - iv. conducting the sale process as described in further detail herein; and
 - v. preparing this Third Report.

IV. THE SALE PROCESS

14. The purpose of the Sale Process approved by the Court pursuant to the May 9 Order was to provide third parties with an opportunity to consider an acquisition of the Company's Assets, using the Stalking Horse offer as a benchmark. A copy of the Sale Process is attached as **Appendix "C"** hereto.
15. Given the Stalking Horse purchaser is related to and controlled by the current management of the Company, the Proposal Trustee administered all aspects of the Sale Process on behalf of the Company.
16. The key aspects of the Sale Process were as follows (defined terms used in this section and not otherwise defined herein have the meaning ascribed to them in the Sale Process):
 - a. on May 11, 2022, the Proposal Trustee published a notice advertising the opportunity with the National Post (National Addition). A copy of the publication is attached hereto as **Appendix "D"**.
 - b. the Proposal Trustee prepared a marketing teaser and posted the teaser on the Proposal Trustee's website;
 - c. the Proposal Trustee sent a teaser to all partners and senior managers in the parent firm Crowe Soberman LLP and received one inquiry;
 - d. the Proposal Trustee contacted approximately 7 relevant parties (the **"Interested Parties"**) identified by the Proposal Trustee and/or the Company who may be interested in purchasing the Business and/or Assets of the Company and provided those parties with a "teaser" document;
 - e. one (1) Interested Party contacted the Proposal Trustee to commence due diligence and, in conjunction with the same, executed a non-disclosure agreement ("**NDA**");
 - f. upon execution of the NDA by the Interested Party, the Proposal Trustee

provided access to the electronic data room, which was populated by the Proposal Trustee with the assistance of the Company;

- g. Qualifying Bids as defined in Schedule “A” of the Sale Process (Appendix “C”) were due to be submitted in writing to the Proposal Trustee by no later than 5:00pm (Toronto time) on May 31, 2022, (the “**Bid Deadline**”);
- h. no Qualifying Bid was received by the Bid Deadline; and
- i. as there was no Qualifying Bid received by the Bid Deadline, the Stalking Horse Bid was deemed the Successful Bid.

V. STALKING HORSE ASSET PURCHASE AGREEMENT

- 17. The Company negotiated the Stalking Horse Agreement with the Stalking Horse Bidder which provided that, unless an offer was received through the Sale Process that, among other things, provided for a break fee and consideration that was at least \$5,000 in excess of the aggregate of the purchase price contemplated by the Stalking Horse Agreement, then the transaction contemplated by the Stalking Horse Agreement would be completed, subject to final Court approval. A copy of the Stalking Horse Agreement is attached hereto as **Appendix “E”**.
- 18. The Stalking Horse Agreement contemplates the purchase of all or substantially all of the Company’s assets and offers employment (or cause employment to be offered) to select employees of the Company on substantially the same terms as their current employment.
- 19. The Stalking Horse Purchaser is related to and controlled by the current management of the Company. As noted above, for this reason, the Sale Process was carried out by the Proposal Trustee.

20. The salient terms of the Stalking Horse Agreement are as follows (defined terms used in this section and not otherwise defined herein have the meaning ascribed to them in the Stalking Horse Agreement):

a. The cash purchase price shall be the sum of two hundred and fifty thousand dollars (\$250,000) comprising:

i. a twenty-five thousand dollar (\$25,000) deposit to be paid to the Proposal Trustee upon acceptance of the Stalking Horse Agreement by the Vendor; and

ii. balance to be paid on closing.

a. The Stalking Horse Bidder will seek to obtain assignments of certain contracts of the Company, either consensually or through a court order, as per the Schedule "C" included in the Stalking Horse APA.

b. The Stalking Horse Bidder will not be assuming any liabilities.

VI. EXTENSION OF THE STAY PERIOD TO AUGUST 11, 2022

21. The current stay of proceedings will expire on June 26, 2022. Accordingly, the Company is seeking a 45-day extension of time pursuant to Section 50.4(9) of the BIA to August 11, 2022 (the "Stay Extension").

22. 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 "F"**, which is summarized below:

2519920 Ontario Inc
Cash Flow Projections
For the period from June 17 to September 9, 2022

Receipts		
Store Sales	A	375,000
Disbursements		
Authorized/debit and credit		1,277
Insurance		14,427
Interest & Bank Charges		6,220
Lease payments (Note 2)		29,137
Material and supplies		32,500
Office and maintenance		1,350
Payroll and source deductions		123,000
Professional Fees		40,000
Rent		56,220
Sub contract		96,750
Utilities - Gas & Hydro		14,352
Utilities - Phone & Internet		1,950
Repairs and Maintenance		3,000
	B	<u>420,183</u>
Net Cash	C=A-B	(45,183)
Opening Bank Balance	D	2,925
Closing Bank Balance	C+D	(42,258)

23. 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 \$137,000 have been made from these sources.

24. The Proposal Trustee has been advised that the Company is current with respect to its HST remittances and source deductions. As well, the Proposal Trustee understands that any further amounts payable in respect to such obligations will

continue to be paid up to the date of the closing of the transaction contemplated by the Stalking Horse Agreement.

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

- a. the Stay Extension is necessary to allow the Company to complete the transaction contemplated by the Stalking Horse Agreement;
- b. the Stay Extension is necessary to provide the Company time to determine if it can develop a third-party funded proposal to its creditors;
- c. the Company is acting in good faith and with due diligence; and
- d. it is the Proposal Trustee's view that the Stay Extension will not materially prejudice any creditors and, in fact, if the Stalking Horse transaction does not close, the benefits of the same will be lost.

26. After the Transaction is completed, the Proposal Trustee anticipates making a distribution of the sale proceeds to the Company's senior secured lender, the Toronto Dominion Bank ("TD"). The Proposal Trustee's counsel, Manis Law, has performed a preliminary review of TD's security and is of the view that, subject to standard assumptions and qualifications, the security is valid and enforceable against the Company's personal property situated in Ontario. A copy of the Manis Law's opinion on TD's security is attached hereto as **Appendix "G"**.

VII. CONCLUSION AND RECOMMENDATIONS

27. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honorable Court grant the Orders sought by the Company:

- a. approving the Stalking Horse Agreement as the Successful Bid and vesting title in and to the purchased assets described in the Stalking Horse Agreement in the Stalking Horse Bidder;
- b. approval of the payment of the sale proceeds to TD following the closing of the transaction;
- c. approval of the actions and activities of the Proposal Trustee; and
- d. extending the Stay Period to August 11, 2022.

All of which is respectfully submitted this 21st day of June 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*

