

COURT FILE NUMBER Q.B. No. 1033 of 2020

COURT COURT OF QUEEN'S BENCH FOR SASKATCHEWAN

JUDICAL CENTRE SASKATOON

IN THE MATTER OF THE NOTICE OF INTENTION TO
MAKE A PROPOSAL OF D'AMANI STUCCO
SOLUTIONS INC.

DOCUMENT TRUSTEE'S FIRST REPORT TO COURT

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT TRUSTEE

The Bowra Group Inc.
1411 TD Tower, 10088 – 102 Avenue
Edmonton, AB T5J 2Z1
Attention: Kristin Gray
Phone: 780.809.1224
Fax: 780.705.1946
kgray@bowragroup.com

**Service will be accepted by delivery, email, or fax.
No other form of service will be accepted**

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PURPOSE OF REPORT

1. On August 13, 2020, D'Amani Stucco Solutions Inc. (the "**Company**" or "**D'Amani**") filed a Notice of Intention to make a Proposal ("**NOI**") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*. The Bowra Group Inc. (the "**Proposal Trustee**") consented to act as Licensed Insolvency Trustee in the Proposal proceedings. A copy of the Certificate of Filing from the Office of the Superintendent of Bankruptcy is attached as **Appendix A**.
2. We write this report to provide this Honorable Court with an update on the Company's progress on filing a Proposal and to request this Honorable Court grant the Company an extension of time to file their Proposal to October 28, 2020.

COMPANY BACKGROUND

3. The Company provides exterior stucco finishing to residential and commercial buildings out of Saskatoon, Saskatchewan.
4. The Company's assets include accounts receivable, inventory, vehicles, scaffolding equipment, and small tools and machinery.
5. The Company was incorporated in 2013 and was financially successful over the first 4 years of business. In 2018 a previous employee of the Company established a competing business leading to major delays, crew shortages and expense over runs on existing D'Amani projects. This ultimately led to a working capital shortfall and the Company struggled to meet its obligations as they became due.
6. In response to actions taken by certain creditors, paralleled with the COVID-19 shutdown, the Company's financial struggles heightened in the summer of 2020. As such, the Company filed a NOI on August 13, 2020.
7. The Company has outstanding secured debt of approximately \$841,659 and unsecured debt of approximately \$1,899,796 as at August 13, 2020 based on the Company's books and records.
8. As described in the table below, the majority of the secured creditors are lessors or purchase money security lenders and have security over specific assets of the Company. We understand the Company is continuing to service this debt during the NOI period.

9. Business Development Bank of Canada, Loop Funding Inc, Royal Bank of Canada, BTB Marketing Inc, and 9859870 Canada Inc. have registered general security agreements granting them a priority charge over all present and after-acquired inventory and/or property.

10. The secured debt is composed of the following debts owed by the Company:

Creditor	Assets Secured	Estimated Claim (000's)
Chinook Scaffold Systems Ltd.	PMSI Registration / Specific Serial Numbered Equipment	200
Business Development Bank of Canada	General Security Agreement - all present and after-acquired property	140
Loop Funding Inc.	General Security Agreement - all present and after-acquired property	135
Mercedes-Benz Financial	Specific Serial Numbered Assets	79
Royal Bank of Canada	General Security Agreement - all present and after-acquired property PMSI Registration	70
WS Leasing Ltd.	Specific Serial Numbered Assets	69
Jubilee Ford Sales (1983) Ltd.	Specific Serial Numbered Assets	60
Ford Credit Canada	Specific Serial Numbered Assets	57
BTB Marketing Inc.	General Security Agreement - all present and after-acquired property	11
CWB National Leasing Inc.	Specific Serial Numbered Assets	9
Equirex Vehicle Leasing Inc.	Specific Serial Numbered Assets	2
HSBC Bank of Canada	Specific Serial Numbered Assets	Unknown
9859870 Canada Inc.	General Security Agreement - all present and after-acquired property	Unknown

11. The purpose of formulating a Proposal is to restructure the financial affairs of the Company in order to provide its creditors the best available opportunity to recover the funds owed to them and allow the Company to continue operating.

CONTINUED EFFORTS TO FORMULATE A PROPOSAL

12. Since the filing of the NOI, the Company has been working with the Proposal Trustee to submit a Proposal to their creditors. However, the Company is not in a position to make a Proposal by September 14, 2020.

13. Accordingly, the Company has stated that they intend to seek an extension of time to file their Proposal to October 28, 2020. The Proposal Trustee supports an extension.

14. Since filing the NOI, and in preparation for its filing, the Company has been acting in good faith by organizing its affairs and investigating various options with a view to formulate and present a Proposal to its creditors. In particular, and as examples, the Company, with the assistance of its counsel, has:

- (a) Continued discussions with new and existing customers regarding residential and commercial construction projects;
- (b) Continued discussions with its stakeholders, including its secured and unsecured creditors, regarding the restructuring process and continued support for the Company;
- (c) Continued efforts to collect outstanding accounts receivable;
- (d) Renegotiated the terms of certain leases to reduce monthly obligations; and,
- (e) Relocated equipment storage facilities to save approximately \$1,300 a month in rent expense.

CASH FLOW

15. The Company, with the assistance of its counsel and the Proposal Trustee, prepared and filed a cash flow statement for the ten-week period ending October 15, 2020 (the “**Ten-Week Cash Flow**”) in accordance with their obligations under the BIA.

16. Management has updated the Ten-Week Cash Flow with actual amounts compared to

projected amounts for the period of August 13, 2020 to September 3, 2020, a copy of which is attached as **Appendix B**.

17. The Company has prepared and extended their projected cash flow for the period of August 13, 2020 to November 5, 2020 (the “**Extended Cash Flow**”) to further align with the extension requested, a copy of which is attached as **Appendix C**.
18. The Trustee has reviewed the Company’s cash flow projections and believes the projections are both reasonable and achievable based on discussions with management.
19. The Company is generally up to date with all their filing and post-filing payment obligations to Canada Revenue Agency, with the exception of 6 outstanding GST returns for the period January 1, 2019 through June 30, 2020. The Proposal Trustee has asked the Company to file these outstanding returns forthwith.

ADMINISTRATION CHARGE

20. In order to develop and present a viable proposal to its creditors, the Company requires insolvency counsel and the services of a Proposal Trustee.
21. Given the Company’s existing secured debt and the nature and estimated value of the Company’s assets, a first-ranking administration charge of \$50,000 is being sought to secure professional fees in these Proposal proceedings (the “**Administration Charge**”).
22. We are of the opinion that the Administration Charge is crucial to secure the professional fees which will be incurred during the performance phase of the Proposal, if accepted.

INTERIM FINANCING CHARGE

23. We understand that the Company intends to obtain interim financing of up to \$200,000 from a private lender to be used in the proposal proceedings for ongoing operations and critical expenses (the “**Interim Financing**”). The Company anticipates needing \$120,000 of Interim Financing for the period August 13, 2020 to November 5, 2020 as contemplated in the Company’s Extended Cash Flow appended to this report.
24. The Company is seeking to secure the Interim Financing by way of an interim financing charge in the second priority over the Company’s assets (the “**Interim Financing Charge**”).
25. Further to the Company’s Extended Cash Flow, we are of the opinion the Interim Financing is

necessary for the Company to be able to continue to operate and restructure under the Proposal proceedings.

26. Based on our preliminary review of the Company's assets, we believe that the secured creditors would likely suffer partial shortfalls or complete losses on their loans in the event of a bankruptcy or receivership.

27. The Trustee is therefore of the opinion that the Interim Financing is essential for the Company to be able to continue operations and restructure their financial affairs which in turn increases and ameliorates future recovery for the secured creditors.

CONCLUSION

28. The Proposal Trustee is of the view that a Proposal will likely result in a greater recovery to the Company's creditors than a liquidation of the Company's assets in a bankruptcy.

29. The Proposal Trustee is of the opinion:

- (a) The Company continues to act in good faith and with due diligence in formulating a Proposal;
- (b) The Administration Charge is necessary to secure professional fees of the Company's legal counsel and the Proposal Trustee for crucial services provided during these Proposal proceedings;
- (c) The Interim Financing Charge is required for the Company to be able to continue operations and formulate a Proposal to its creditors;
- (d) If a further extension is granted, the Company will have a better opportunity to make a viable Proposal; and,
- (e) No creditor will be materially prejudiced if an extension is granted.

All of which is respectfully submitted this 4th day of September 2020.

The Bowra Group Inc.

Licensed Insolvency Trustee in the Matter of the Notice of Intention to File a Proposal for D'Amani Stucco Solutions Inc.

Per: 
Kristin Gray, CPA, CA, CIRP, LIT

APPENDIX A

CERTIFICATE OF FILING

AUGUST 13, 2020



Industry Canada

Office of the Superintendent
of Bankruptcy Canada

Industrie Canada

Bureau du surintendant
des faillites Canada

District of Saskatchewan
Division No. 02 - Saskatoon
Court No. 23-2664678
Estate No. 23-2664678

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

D'AMANI STUCCO SOLUTIONS INC.

Insolvent Person

THE BOWRA GROUP INC.

Licensed Insolvency Trustee

Date of the Notice of Intention: August 13, 2020

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 aforementioned 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 aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: August 13, 2020, 17:24

E-File/Dépôt Electronique

Official Receiver

123 2nd Avenue S, 7th Floor, Saskatoon, Saskatchewan, Canada, S7K7E6, (877)376-9902

Canada

APPENDIX B

ACTUAL CASH FLOW STATEMENT TO SEPTEMBER 3, 2020

**D'AMANI STUCCO SOLUTIONS INC.
PROJECTED VS. ACTUAL CASH FLOW
AUGUST 13, 2020 - SEPTEMBER 3, 2020**

	PROJECTED				ACTUAL	VARIANCE
	Week 1 13-Aug-20	Week 2 20-Aug-20	Week 3 27-Aug-20	Week 4 3-Sep-20	Weeks 1-4	
Receipts						
Collection of AR	81,333	-	-	-	58,442	22,892
Interim financing (note 4)	70,000	-	-	-	70,000	-
Collection of holdback	-	-	4,857	-	-	4,857
Shareholder loan funding	-	-	-	-	51,063	(51,063)
Total Receipts	151,333	-	4,857	-	179,505	(23,315)
Disbursements						
Subcontractor expense (note 5)	47,450	2,000	-	7,500	48,897	8,053
Professional fees (note 6)	30,000	-	-	-	30,666	(666)
Supplier purchases (note 7)	15,000	-	-	-	27,595	(12,595)
Management fees (note 8)	-	-	-	10,000	19,000	(9,000)
Leases/financing costs (note 9)	505	1,910	505	750	5,635	(1,965)
Automobile expenses	-	3,500	-	-	2,570	930
Insurance	-	-	-	680	785	(105)
Rent	-	-	-	667	635	32
Telephone	210	-	-	-	1,028	(818)
GST paid	-	-	-	-	1,756	(1,756)
Miscellaneous expenses	-	-	-	-	2,601	(2,601)
Total Disbursements	93,165	7,410	505	19,597	141,170	(16,136)
Cash Flow for the Period	58,168	(7,410)	4,352	(19,597)	38,335	(7,179)
Opening Cash Balance**	680	58,848	51,438	55,790	680	
Ending Cash Balance	58,848	51,438	55,790	36,193	39,015	

(a)

(a) Ending Cash Balance
W Law Group in trust
Company's deposit account

	40,000
	(985)
	<u>39,015</u>

APPENDIX C

PROJECTED CASH FLOW STATEMENT TO NOVEMBER 5, 2020

D'AMANI STUCCO SOLUTIONS INC.
 PROJECTED CASH FLOW
 AUGUST 13, 2020 - NOVEMBER 5, 2020

	Week 1 13/Aug/20	Week 2 20/Aug/20	Week 3 27/Aug/20	Week 4 3/Sep/20	Week 5 10/Sep/20	Week 6 17/Sep/20	Week 7 24/Sep/20	Week 8 1/Oct/20	Week 9 8/Oct/20	Week 10 15/Oct/20	Week 11 22/Oct/20	Week 12 29/Oct/20	Week 13 5/Nov/20	TOTAL 10 Weeks
Receipts														
Collection of AR	81,333	-	-	-	-	143,875	-	-	-	160,154	-	-	115,730	501,092
Interim financing (note 4)	70,000	-	-	-	50,000	-	-	-	-	-	-	-	-	120,000
Collection of holdback	-	-	4,857	-	-	-	-	-	-	8,300	-	-	-	13,157
Total Receipts	151,333	-	4,857	-	50,000	143,875	-	-	-	168,454	-	-	115,730	634,249
Disbursements														
Subcontractor expense (note 5)	47,450	2,000	-	7,500	24,000	32,000	-	4,500	24,000	27,450	-	-	37,000	205,900
Professional fees (note 6)	30,000	-	-	-	30,000	5,000	5,000	5,000	5,000	40,000	2,500	2,500	2,500	127,500
Supplier purchases (note 7)	15,000	-	-	-	-	40,000	-	-	-	45,000	-	-	31,000	131,000
Management fees (note 8)	-	-	-	10,000	-	-	-	-	10,000	-	-	-	10,000	30,000
Leases/financing costs (note 9)	505	1,910	505	750	505	1,050	505	750	505	1,050	505	505	750	9,795
Automobile expenses	-	3,500	-	-	500	-	-	-	500	-	-	-	-	4,500
Insurance	-	-	-	680	-	-	-	680	-	-	-	-	-	680
Rent	-	-	-	667	-	-	-	667	-	-	-	-	-	667
Telephone	210	-	-	-	210	-	-	-	210	-	-	-	210	840
Contingency and miscellaneous	-	-	-	-	7,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	19,500
Total Disbursements	93,165	7,410	505	19,597	62,715	79,550	7,005	13,097	41,715	115,000	4,505	4,505	84,307	533,076
Cash Flow for the Period	58,168	(7,410)	4,352	(19,597)	(12,715)	64,325	(7,005)	(13,097)	(41,715)	53,454	(4,505)	(4,505)	31,423	101,173
Opening Cash Balance**	680	58,848	51,438	55,790	36,193	23,478	87,803	80,798	67,701	25,986	79,440	74,935	70,430	680
Ending Cash Balance	58,848	51,438	55,790	36,193	23,478	87,803	80,798	67,701	25,986	79,440	74,935	70,430	101,853	101,853

Schedule A

Assumptions for Projected Cash Flow

This cash flow assumes that D'Amani Stucco Solutions Inc. (the "**Company**") continues to operate the business:

1. This statement of Projected Cash Flow of D'Amani Stucco Solutions Inc. is prepared in accordance with Section 50.4(2) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with The Trustee's Report on Cash Flow Statement. Management of the Company has prepared the Projected Cash Flow based on probable and hypothetical assumptions detailed in notes below. Readers are cautioned that since forecasts are based on assumptions about future events and conditions that are not ascertainable, the actual results may vary from projections, even if the assumptions materialize, and the variations could be significant. The information contained in the cash flow forecast is not intended to be relied upon by any parties in any transaction with the Company.
2. The Company is in the business of providing exterior stucco for new construction and renovations within Saskatchewan and Alberta.
3. The Company remits GST on an annual basis.
4. Interim Financing is provided by one or more private lenders.
5. The Company does not employ any employees. These are subcontractors and the fees associated with such subcontractors on the projects.
6. Professional fees of the Company's counsel (W Law Group LLP), the Proposal Trustee (The Bowra Group Inc.) and counsel for the Proposal Trustee.
7. Supplier purchases include all costs for direct purchases from suppliers on projects.
8. Management fees is in relation to management compensation during the NOI and proposal period in lieu of dividends.
9. Lease/finance costs relate to the Company's equipment for operations.