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**Estate File No.: 32-2782556**

**IN THE MATTER OF THE BANKRUPTCY OF  
GOLDEN MILES FOOD CORPORATION,  
OF THE CITY OF BRANTFORD, IN THE PROVINCE OF ONTARIO**

**TRUSTEE'S REPORT TO CREDITORS ON  
PRELIMINARY ADMINISTRATION**

## **1.0 Introduction**

1. Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "Court") made on October 1, 2021 (the "Receivership Order"), KSV Restructuring Inc. ("KSV") was appointed as receiver and manager ("Receiver") of the assets, undertakings and properties of Mahal Venture Capital Inc. ("Mahal VC") and Golden Miles Food Corporation ("Golden Miles", and together with Mahal VC, the "Companies") owned or used in connection with the flour mill (the "Flour Mill") located on the property municipally known as 155 Adams Blvd., Brantford, Ontario (the "Real Property" and together with the Flour Mill, the "Property").
2. On November 15, 2021, the Receiver filed an assignment in bankruptcy pursuant to the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") on behalf of the Companies pursuant to Paragraph 3(r) of the Receivership Order. KSV was appointed the licensed insolvency trustee (the "Trustee") of the Companies by the Office of the Superintendent of Bankruptcy (Canada) (the "OSB"). The appointment of KSV as Trustee is subject to affirmation by creditors at the first meeting of creditors.
3. A separate report has been prepared regarding the bankruptcy of Mahal VC, a company related to Golden Miles.<sup>1</sup>

## **1.1 Restrictions**

1. In conducting its review and preparing this report, the Trustee has relied upon certain of the Companies' unaudited financial statements, limited books and records obtained from the Companies' principals, Santokh Mahal ("Santokh") and Jesse Mahal ("Jesse", and together with Santokh, the "Mahals") and discussions with the Mahals and a former advisor to the Companies.

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<sup>1</sup> The Trustee understands that Golden Miles is controlled by Santokh Mahal and that Mahal VC is controlled by Jesse Mahal, Santokh Mahal's son. Golden Miles and Mahal VC are accordingly "related persons" pursuant to section 4(2)(c)(ii) of the BIA.

2. The Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the financial information relied upon to prepare this report in a manner that complies with Canadian Auditing Standards (“CAS”) pursuant to the Chartered Professional Accountants of Canada Handbook and, accordingly, the Trustee expresses no opinion or other form of assurance contemplated under the CAS in respect of such information.
3. All references to dollar amounts in this report are to Canadian dollars, unless otherwise stated.

## 2.0 Background

1. Golden Miles was incorporated in 2010 as Golden Miles Bread & Bagel Corporation under the *Business Corporations Act* (Ontario) and changed its name to Golden Miles Food Corporation in 2017. The Trustee understands that Santokh is the sole officer, director and shareholder of Golden Miles.
2. Mahal VC was incorporated in 2014 under the Canada *Business Corporations Act* and is a single purpose corporation that owns the Real Property. The Trustee understands that Jesse, Santokh’s son, is the sole officer, director and shareholder of Mahal VC.
3. The Mahals advised KSV that Mahal VC owns the Real Property and that Golden Miles owns the machinery, equipment and vehicles used in connection with the Flour Mill. Golden Miles operates from the Real Property and describes itself in its unaudited financial statements as at June 30, 2020 as being “engaged in the sale of cookies, crackers, and dried plant material”.
4. Construction of the Flour Mill appears to be substantially complete; however, it has not been issued the permits, licenses and approvals necessary to operate from the relevant authorities, including the City of Brantford and various health and safety regulators. The City of Brantford has provided the Receiver with a list of deficiencies required to be addressed before an occupancy permit can be issued.
5. The Mahals have advised KSV that the Companies had no employees as of the date of the Receivership Order.
6. Further information concerning the receivership proceedings is available on KSV’s website at <https://www.ksvadvisory.com/experience/case/mahal-venture-capital-inc>.

## 3.0 Assets

1. The Trustee has been provided with Golden Miles’ draft unaudited financial statements for the period ending June 30, 2020. A copy of the financial statements is provided in Appendix “A”. Despite several requests for more recent financial statements, the Mahals have not provided this information.

2. The fiscal 2020 financial statements reflect the following assets:

(unaudited; \$000s)	Amount
Cash	165
Accounts receivable	166
Due from related party	58
Taxes receivable	1,337
Inventory	3,787
Prepaid assets	-
Current Assets	<u>5,513</u>
Capital Assets	<u>47,108</u>
Total Assets	<u>52,621</u>

3. The Trustee corresponded with the Toronto-Dominion Bank ("TD"), where Golden Miles maintained accounts, and confirmed that the balance in the accounts was approximately \$1,800 as at the date of bankruptcy. These funds are being transferred to the Trustee's account. The Mahals advised the Trustee that Golden Miles does not hold any other bank accounts.
4. The Mahals provided an accounts receivable aging summary as at October 22, 2021. The summary reflects a balance owing from five parties of approximately \$189,000, of which \$159,000 is over 90 days past due. The Trustee has requested copies of the outstanding invoices from the Mahals so that it can deal directly with each account debtor. As of the date of this report, the majority of the invoices have not been provided.
5. The balance sheet reflects capital assets with a net book value of approximately \$47.1 million. The Trustee understands this to be the cost of the Flour Mill which is presently subject to a sale process being conducted by the Receiver, as discussed further below.
6. The Trustee has inquired with Golden Miles' accountant regarding the status of taxes receivable; however, the Trustee notes that the fiscal 2020 financial statements also reflect taxes payable of approximately \$1.5 million.
7. Other than an inventory of cookies which the Receiver released to the Mahals given its apparent nominal value, the Trustee is not aware of any other assets owned by Golden Miles.

## 4.0 Creditors

### 4.1 Secured Creditors

1. Skymark Finance Corporation (“Skymark”) is the Companies’ largest creditor. As of the date of the Receivership Order, the Companies were indebted to Skymark in the amount of approximately \$29.2 million<sup>2</sup>. The Skymark debt relates to various loans to Mahal VC in connection with mortgages granted by Mahal VC on the Real Property (the “Mahal Loans”) and to Golden Miles in connection with equipment financing (the “GM Loans”, and together with the Mahal Loans, the “Loans”). The Receiver understands that the primary purpose of the Loans was to construct the Flour Mill on the Real Property.
2. Several parties have advised the Receiver that they have interests in the Mahal Loans and the mortgages that secure them, including Andrew Thompson, 2620509 Ontario Inc., 2580165 Ontario Inc., Cameron Renaud, 1061307 Ontario Inc. and KLN Holdings. These parties are collectively represented by Gardiner Roberts LLP (the “Gardiner Parties”). The Receiver has not yet assessed the claims of the Gardiner Parties but it has been provided with supporting documentation from their counsel.
3. The Receiver has been provided with a copy of a promissory note allegedly issued by Golden Miles to Santokh in the approximate amount of \$24.1 million, together with a general security agreement dated December 14, 2020 (the “GSA”). Santokh filed a financing statement in the *Personal Property Security Act* (Ontario) (the “PPSA”) registry against Golden Miles on December 16, 2020. Santokh has brought a motion in the receivership proceedings seeking, among other things:
  - a) a declaration that security in his favour over all of the personal property of Golden Miles, other than inventory, is valid and enforceable, and ranks in priority to any other security interest registered under the PPSA with the exception of specific equipment (the “Declaration”); and
  - b) an order lifting the stay of proceedings imposed by the Receivership Order to permit Santokh to exercise his rights under the security, including the right to take possession of and sell the collateral in accordance with the PPSA.
4. For the purposes of the motion, Santokh is only seeking the Declaration in respect of \$3,183,305 and US\$328,000 of the total purported debt owing to him which he claims was advanced after the PPSA registration.
5. The Receiver and Skymark will be opposing Santokh’s motion. Subject to instructions from the inspectors to be appointed in this proceeding, the Trustee would also participate in this motion, including without limitation to seek a declaration that the granting of the GSA is a preference or a transfer-at-undervalue under the BIA, discussed below in Section 6.

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<sup>2</sup> This Skymark facility consists of approximately \$19.7 million owing by Mahal VC and approximately \$9.5 million owing by Golden Miles.

6. Fluid Construction & Project Management Inc. ("Fluid"), a general contractor that was engaged in the construction of the Flour Mill, registered a PPSA financing statement against Golden Miles for approximately \$1.45 million.
7. In addition to Skymark, Santokh and Fluid, the following parties have registered PPSA financing statements against Golden Miles in respect of specific equipment:
  - a) Bodkin, a division of Bennington Financial Corp., in respect of aluminum grain tank trailers;
  - b) The Bank of Nova Scotia, in respect of a 2019 Ford F150 vehicle;
  - c) Caterpillar Financial Services Limited, in respect of a Caterpillar 259D3 compact track loader; and
  - d) Toyota Industries Commercial Finance Canada Inc., in respect of certain forklifts.
8. The equipment referenced as collateral above is located at the Flour Mill other than the Ford F150, which the Trustee has been advised by the Mahals was stolen from Jesse's driveway on July 10, 2021. The Trustee understands that Jesse filed an insurance claim for the vehicle.
9. The Receiver's counsel, Blake, Cassels & Graydon LLP ("Blakes"), has been reviewing the validity and priority of the security interests claimed or registered against the Property. The Receiver will report on the results of this security review when it is complete.

## **4.2 Unsecured Creditors**

1. Based on the records made available to the Trustee, unsecured claims against Golden Miles are approximately \$3.2 million. This amount does not include statements of claim against Golden Miles which have not yet been determined.
2. As at the date of this report, proofs of claim filed against Golden Miles total approximately \$629,000.
3. Included in the above is a proof of claim filed by Fluid against Mahal VC in the amount of \$601,000, which Fluid advised also applies against Golden Miles, given its PPSA registration against Golden Miles. The Trustee has not yet determined which of the Companies is liable for this obligation.

## **4.3 Property of the Bankrupt Not Divisible Amongst Creditors**

1. The Trustee is not aware of any property that would not be divisible among Golden Miles' creditors by virtue of subsection 67(1) of the BIA or otherwise.

## 5.0 Books and Records

1. Despite several requests to the Mahals, the Trustee has been provided with limited books and records related to Golden Miles. The Trustee has not been provided with, among other documents, Golden Miles' minute books.
2. The Trustee obtained bank statements for the twelve months preceding the bankruptcy from TD.

## 6.0 Preferences and Transfers Undervalue

1. A trustee is required to conduct a review for preferences and transfers at undervalue. In this regard, the Trustee reviewed Golden Miles' bank statements for the year preceding the date of bankruptcy, focusing on all disbursements greater than \$10,000.
2. The bank statements do not identify the recipients of wire or account transfers and the Mahals have not provided records related to the account activity. Accordingly, the Trustee has requested that TD provide information regarding several wire and account transfers and is awaiting a response.
3. The Trustee continues to review Golden Miles' disbursements for the twelve months preceding the date of bankruptcy. The Trustee is also investigating the alleged security granted by Golden Miles in favour of Santokh in the context of a preference or transfer-at-undervalue, and will advise the inspectors appointed in this proceeding of its further findings.

## 7.0 Anticipated Realization and Projected Distribution

1. The Court issued an Order on November 22, 2021 which, among other things, approved a sale process to be carried out by the Receiver for the Flour Mill. The sale process contemplates a bid deadline of January 31, 2022, subject to flexibility for the Receiver to amend or extend the process in order to maximize value.
2. The results of the sale process will, to a large extent, determine the proceeds available for distribution to the creditors of Golden Miles.
3. The Companies are also party to numerous actions in Ontario, both as plaintiffs and as defendants. An assessment of the litigation and its value may be necessary, depending on the outcome of the sale process.

## 8.0 Third Party Guarantee

1. In consideration for KSV agreeing to act as Trustee in Golden Miles' bankruptcy proceedings, in the event there is insufficient funds available to pay administration costs incurred by the Trustee and its counsel, the Receiver has guaranteed the Trustee's fees, expenses and costs of administration of the bankrupt estate, including the fees and costs of Blakes, legal counsel to the Trustee. To the extent the Receiver is required to pay the Trustee's fees, expenses and costs of administration of the bankrupt estate, it will be entitled to be reimbursed from any recoveries made by the Trustee on behalf of the estate.

## 9.0 Debtor Compliance Exam

1. The Trustee requested that a representative of the OSB examine Santokh regarding, among other things, Golden Miles' assets and liabilities. The examination is scheduled for December 22, 2021. A similar examination has been requested of Jesse in Mahal VC's bankruptcy. The results of the examination, when completed, will be shared with the inspectors.

\* \* \*

DATED at Toronto, Ontario, this 6<sup>th</sup> day of December 2021.

All of which is respectfully submitted,

*KSV Restructuring Inc.*

**KSV RESTRUCTURING INC.,  
SOLELY IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE  
OF THE ESTATE OF GOLDEN MILES FOOD CORPORATION,  
AND NOT IN ITS PERSONAL CAPACITY**

## **Appendix “A”**



*Financial Statements of*

**Golden Miles Food Corporation**

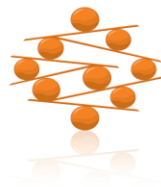
*June 30, 2020*

**Golden Miles Food Corporation**  
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**June 30, 2020**

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## Review Engagement Report

To the Board of Directors of Golden Miles Food Corporation:

We have reviewed the accompanying financial statements of Golden Miles Food Corporation which comprise the Balance Sheet as at June 30, 2020 and the income statement, statement of retained earnings and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and other within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the balance sheet of Golden Miles Food Corporation as at June 30, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

*Gill & Co. Chartered Accountants*

Chartered Public Accountants  
CPA, CA, Licensed Public Accountants  
September 21, 2021  
Mississauga, Ontario



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**Golden Miles Food Corporation**  
**Balance Sheet**  
**(Unaudited)**

As At June 30

2020

2019

**ASSETS**

**CURRENT**

Cash	\$ 164,657	\$ 62,328
Accounts Receivable	166,089	97,752
Due from Related Party (Note 2)	57,563	57,563
Taxes Receivable	1,336,905	3,899,015
Inventory	3,787,022	3,657,467
Prepaid Assets	-	37,770
<b>TOTAL CURRENT ASSETS</b>	<u>5,512,236</u>	<u>7,811,896</u>
<b>CAPITAL ASSETS (Notes 1d, 3)</b>	<u>47,108,137</u>	<u>41,527,293</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 52,620,373</b></u>	<u><b>\$ 49,339,189</b></u>

**LIABILITIES**

**CURRENT**

Accounts Payable and Accrued Liabilities (Note 5)	\$ 6,158,830	\$ 6,760,749
Current Portion of Lease	194,448	-
Taxes Payable	1,480,093	1,050,923
	<u>7,833,372</u>	<u>7,811,672</u>

**LONG TERM LIABILITIES**

Long Term Loan (Note 4)	27,328,674	25,158,412
Long Term Portion of Lease	16,204	-
Due to Shareholder	7,186,603	8,453,255
<b>TOTAL LONG TERM LIABILITIES</b>	<u>34,531,481</u>	<u>33,611,667</u>

**TOTAL LIABILITIES**

42,364,853 41,423,339

**SHAREHOLDERS' EQUITY**

Capital Stock (Note 7)	100	100
Retained Earnings	10,255,420	7,915,750
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>10,255,520</u>	<u>7,915,850</u>

**TOTAL CURRENT LIABILITIES & NET ASSETS**

**\$ 52,620,373** **\$ 49,339,189**

**APPROVED BY THE BOARD:**

\_\_\_\_\_ Director

\_\_\_\_\_ Director

**Golden Miles Food Corporation**  
**Statement of Operations**  
**(Unaudited)**

For the year ended June 30

	2020	2019
<b>Income</b>		
Sales (Notes 1c, 10)	\$ 5,409,006	\$ 10,039,643
<b>Cost of Goods Sold</b>	1,615,273	939,237
<b>Gross Profit/Loss</b>	<u>3,793,733</u>	<u>9,100,406</u>
<b>Expenses</b>		
Advertising and Promotion	-	140
Automobile	8,080	-
Dues and Subscriptions	2,216	1,876
Bad Debts	-	361,996
Bank charges and Interest	2,467	-
Duties and Taxes	12,035	-
Delivery Costs	88,381	159,130
Insurance	257,169	106,639
Occupancy Costs	334,969	396,678
Office and General	-	3,540
Professional Fees	123,468	29,807
Repairs & Maintenance	12,299	597
Salaries and Benefits	46,129	78,900
Supplies	92,153	-
Telephone and Utilities	119,429	56,696
Travel	12,858	28,915
Depreciation	3,217	2,962
<b>Total Expenses</b>	<u>1,114,869</u>	<u>1,227,875</u>
<b>Other Expenses</b>		
Foreign Exchange Gain/Loss (Notes 1h,8)	<u>(89,977)</u>	<u>194,835</u>
Net Income Before Taxes	2,768,840	7,677,697
Corporate Tax Expense (Note 1f)	<u>429,170</u>	<u>1,050,923</u>
<b>Net Income (Loss)</b>	<u><u>\$ 2,339,670</u></u>	<u><u>\$ 6,626,774</u></u>

The accompanying notes are an integral part of these financial statements.

**Golden Miles Food Corporation**  
**Statement of Retained Earnings**  
**(Unaudited)**

<b>For the year ended June 30</b>	<b>2020</b>	<b>2019</b>
<b>Retained Earnings, Opening</b>	\$ 7,915,750	\$ 1,288,976
Dividends Paid	-	-
Net Income (Loss)	2,339,670	6,626,774
<b>Retained Earnings, end of year</b>	<b>\$ 10,255,420</b>	<b>\$ 7,915,750</b>

The accompanying notes are an integral part of these financial statements.

**Golden Miles Food Corporation**  
**Statement of Cash Flows**  
**(Unaudited)**

For the year ended June 30

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 2,339,670	\$ 6,626,774
Adjustments for non-cash items - Depreciation	<u>3,217</u>	<u>2,962</u>
	2,342,887	6,629,736
Changes in non-cash working capital		
Accounts receivable	(68,336)	325,037
Due from Related Party	-	(57,563)
Taxes Receivable	2,562,110	(1,737,102)
Prepaid Assets	37,770	(37,770)
Inventory	(129,555)	(2,141,596)
Accounts payable and accrued liabilities	(601,918)	5,190,286
Taxes Payable	<u>429,170</u>	<u>1,050,923</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>4,572,128</b>	<b>9,221,950</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to capital assets	<u>(5,584,061)</u>	<u>(23,718,440)</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>(5,584,061)</b>	<b>(23,718,440)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long Term Loan	2,170,262	13,840,855
Leased Equipment	210,652	-
Due to Shareholder	<u>(1,266,652)</u>	<u>30,375</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>1,114,262</b>	<b>13,871,230</b>
<b>NET INCREASE/(DECREASE) IN CASH</b>	<b>\$ 102,329</b>	<b>\$ (625,260)</b>
<b>CASH - beginning of year</b>	<u>62,328</u>	<u>687,589</u>
<b>CASH - end of year</b>	<b><u>\$ 164,657</u></b>	<b><u>\$ 62,328</u></b>

The accompanying notes are an integral part of these financial statements.

# Golden Miles Food Corporation

## Notes to the Financial Statements

For the year ended June 30, 2020

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Nature of Business** Golden Miles Food Corporation (the "Company") is incorporated under the business Corporations Act (Ontario). The Company is engaged in the sale of cookies, crackers, and dried plant material.
- b. Basis of Accounting** The Company has prepared its financial statements in accordance with Canadian accounting standards for private enterprises ("ASPE").
- c. Revenue Recognition** The Company generates revenues by importing cookies, crackers, and dried plant material and reselling these goods to their customers. Revenue is only recognized when ultimate collection is reasonably assured upon completion of delivery of the goods.
- d. Capital Assets** Capital assets are carried at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is as follows:
- |                         |   |                       |
|-------------------------|---|-----------------------|
| Machinery and equipment | - | 20% declining balance |
| Furniture and fixtures  | - | 20% declining balance |
| Building                | - | 4% declining balance  |
- One-half of the regular rate is applied in the year of acquisition.
- e. Impairment of Long-Lived Assets** The Company monitors its use of capital assets and when the capital asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.
- f. Income Taxes** The Company follows the current income taxes method in accounting for income taxes.
- g. Financial Instruments** Financial instruments are recorded at fair value when acquired or issued and subsequently measured at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.
- h. Foreign Currency Translation** Foreign currency accounts are translated to Canadian dollars as follows:
- At the transaction date, each asset, liability, revenue, and expense are translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.



## 2. RELATED PARTY BALANCE AND TRANSACTIONS

	<u>2020</u>	<u>2019</u>
Due from Mahal Venture Capital Inc., unsecured, non-interest bearing and repayable on demand. The Company has agreed not to demand repayment within the next twelve months	\$ 57,563	\$ 57,563

During the year, transactions with this related company was as follows:

	<u>2020</u>	<u>2019</u>
Reimbursement of Expenses	\$ -	\$ 57,563

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties).

## 3. CAPITAL ASSETS

	<u>2020</u>		<u>2019</u>	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Cost</b>	<b>Accumulated Amortization</b>
<b>Buildings</b>	\$ 33,620,808	\$ 854,334	\$ 29,685,742	\$ 854,334
<b>Machinery &amp; Equipment</b>	17,784,691	3,452,389	16,136,679	3,452,389
<b>Furniture &amp; Fixtures</b>	16,577	7,216	15,594	3,999
	<u>\$ 51,422,076</u>	<u>\$ 4,313,939</u>	<u>\$ 45,838,015</u>	<u>\$ 4,310,722</u>
<b>Net Book Value</b>		<u>\$ 47,108,137</u>		<u>\$ 41,527,293</u>

Assets under construction are included in buildings and machinery & equipment.

## 4. LONG TERM LOANS

The Company has the following facilities available:

- i) \$9,600,000 CAD (2019 - \$9,600,000) demand operating loan bearing interest at the bank's prime rate plus 11.3% per annum.
- ii)
- iii) \$6,400,000 CAD (2019 - \$6,400,000) demand operating loan bearing interest at the bank's prime rate plus 11.3% per annum.
- iv) \$4,000,000 CAD (2019 - \$4,000,000) demand operating loan bearing interest at the rate of 10% per annum.
- v) \$8,481,950 CAD (2019 - \$8,481,950) demand operating loan bearing interest at the rate of 9.95% per annum.

The above facilities are secured by a general security agreement providing a first charge over all present and after acquired personal property and a floating charge over all present and after acquired property, unlimited guarantee by a company under common management supported by a first collateral land mortgage over the related company's land and premises.

## 5. GOVERNMENT REMITTANCES

Included in accounts payable and accrued liabilities are government remittances including payroll withholdings and related taxes of \$16,675 (2019 - \$3,017).

## 6. DUE TO SHAREHOLDER

The amount due to shareholder is secured, non-interest bearing and due on demand. The shareholder has agreed not to demand repayment within the next twelve months.

## 7. SHARE CAPITAL

	<u>2020</u>	<u>2019</u>
<b>Issued</b>		
<b>100 Common Shares</b>	\$ 100	\$ 100

## 8. FINANCIAL INSTRUMENTS

### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company provides credit to its customers in the normal course of its operations. The Company limits its exposure to this risk by closely monitoring outstanding accounts receivables.

The Company's cash is also subject to credit risk and the Company mitigates this risk by maintaining its cash with major financial institutions.

### **Liquidity Risk**

Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value that is less than its worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities, long term loan, amounts due to shareholder and commitments. The Company limits its exposure to this risk by closely monitoring its cash flow requirements.

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company is exposed to interest rate risk in relation to interest expense on its loans since the loans bear interest at a floating interest rate.

### **Foreign Currency Risk**

Currency risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the

degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

Balances denominated in U.S. dollars expressed in Canadian dollars that are considered financial instruments are approximately as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$44,635	\$1,628
Accounts payable and accrued liabilities	\$0	\$314,422
Year-end exchange rate U.S. dollars/CDN. dollars	1.3628	1.3087

## 9. COMMITMENTS

The Company also has a premises lease with a related party under common management commencing approximately March 2022 and ending on July 1, 2036 with aggregate minimum annual payments approximately as follows:

Year	Amount
2021	\$ -
2022	200,000
2023	600,000
2024	600,000
2025	600,000
	\$ 2,000,000

The Company also has a premises lease with an unrelated party that commenced on February 1, 2016 and ending on January 31, 2021 with aggregate minimum annual payments approximately as follows:

Year	Amount
2021	223,313
2022	-
2023	-
2024	-
2025	-
	\$ 223,313

## 10. SIGNIFICANT CUSTOMERS

Sales to one (2019- one) customer represents approximately 94% (2019 - 97%) of total sales.

#### **11. PLANT CLOSURE**

The plant was closed for approximately six months due to major construction that was under taken during the fiscal year.

#### **12. LEGAL MATTERS**

The Corporation has been named in a legal action by Vicano Construction Limited for an alleged breach of contract in the amount of \$5,079,998. This matter is ongoing and as of the date of the audit report, the outcome is unknown.

The Corporation filed legal action against Vicano Construction Limited for an alleged breach of contract and negligent building design for damages in the amount of \$79,200,000 plus reimbursements of \$1,500,000. This matter is ongoing and as of the date of the audit report, the outcome is unknown.

The Corporation filed legal action against The City of Brantford for alleged breach of duty of care and performance of a negligent inspection for damages in the amount of \$79,200,000. This matter is ongoing and as of the date of the audit report, the outcome is unknown.

The Corporation filed legal action against Skylark Holding Limited et al. for an alleged breach of the mortgage commitment for damages in the estimated amount of \$148,000,000. This matter is ongoing and as of the date of the audit report, the outcome is unknown.

#### **13. COMPARATIVE FIGURES**

Certain comparative figures have been restated where necessary to conform with current period presentation.

#### **14. COVID-19**

In March 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic (the "COVID-19 pandemic"), based on the rapid increase in exposure globally. Various government agencies-imposed travel restrictions, social distancing measures and closures of non-essential workplaces. These implications did not have an adverse effect on the Company's overall operations and performance. The Company is continuing to monitor the impact of COVID-19 on its operations and cash flows.