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**Estate File No.: 32-2782563**

**IN THE MATTER OF THE BANKRUPTCY OF  
MAHAL VENTURE CAPITAL INC.  
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 Golden Miles, a company related to Mahal VC.<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. 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 is the sole officer, director and shareholder of Mahal VC.
2. 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, Jesse’s father, is the sole officer, director and shareholder of Golden Miles.
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. Mahal VC’s unaudited balance sheet as at October 22, 2021 is provided as Appendix “A”. As reflected therein, Mahal VC’s only reported asset was land (which the Trustee presumes to be the Real Property) with a book value of \$2.1 million.
2. The Trustee understands that, for accounting purposes, all improvements to the Real Property including construction of the Flour Mill were recorded in the books and records of Golden Miles.

3. The balance sheet does not reflect a deposit of \$750,000 that Mahal VC paid in 2018 to Re/Max Twin City Realty Inc. in connection with a real estate transaction that was not completed (the “Trust Funds”). Vivian Group Inc. (“Vivian Group”), the vendor, issued a statement of claim against Golden Miles seeking, among other things, damages in the amount of \$1.5 million, including a proprietary claim to the Trust Funds. The Trustee will be assessing the merits of this claim.
4. On November 30, 2021, the Mahals advised the Trustee that Mahal VC has an interest in a pre-construction penthouse condominium unit at the Aquabella Bayside development in Toronto (the “Condominium”) pursuant to an agreement of purchase and sale dated August 3, 2017 between Mahal VC, as purchaser, and Aquabella Bayside Toronto Inc., as vendor. The Mahals have advised the Trustee that Mahal VC paid approximately \$1.3 million on account of the purchase price for the Condominium, and that Mahal VC holds the Condominium in trust for the Mahals. The Trustee has not yet assessed this trust claim.

## 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. Several other registrations have been made against the Real Property, including:
  - a) a construction lien in 2019 by Vicano Construction Limited, one of the Companies’ former general contractors, in the approximate amount of \$5.8 million;
  - b) a number of transfers of charges by the Gardiner Parties; and
  - c) a mortgage in 2021 by Golden Miles, in the amount of \$35 million (the “Golden Miles Mortgage”).

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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.

4. Mahal VC did not record any of these liabilities in its financial statements, nor did it reflect outstanding property taxes of at least \$123,000 payable to the City of Brantford<sup>3</sup>.
5. The Receiver's counsel, Blake, Cassels & Graydon LLP ("Blakes"), is in the process of 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. The Trustee has been provided with a statement of claim against the Companies by Garage Living Inc. ("Garage Living"), a contractor, where it is seeking approximately \$61,000 plus costs for flooring work it provided at the Flour Mill.
2. As at the date of this report, the Trustee has received one proof of claim filed against Mahal VC by Fluid Construction & Project Management Inc. ("Fluid") for approximately \$601,000. Although this claim was filed against Mahal VC, the Trustee understands that this liability is reflected on the books and records of Golden Miles, and Fluid also has a PPSA registration against Golden Miles. The Trustee has not yet determined which of the Companies is liable for this obligation.
3. The Trustee is not aware of any unsecured claims against Mahal VC other than those of Fluid, Garage Living and Vivian Group.

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

1. Other than potentially the Trust Funds, which are subject to review by the Trustee, the only property that the Trustee is aware of that may not be divisible among Mahal VC's creditors by virtue of subsection 67(1) of the BIA or otherwise is the Condominium.
2. The Trustee is awaiting supporting documentation from the Mahals to substantiate their trust claim and will assess such trust claim when these documents have been provided.

#### **5.0 Books and Records**

1. Despite several requests to the Mahals, the Trustee has been provided with limited books and records related to Mahal VC. The Trustee has not been provided with, among other documents, Mahal VC's minute books.
2. The Trustee obtained Mahal VC's bank statements for the twelve months preceding the bankruptcy from Royal Bank of Canada ("RBC").

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<sup>3</sup> Although not a secured claim, this amount and any property tax that accrues will need to be paid when the Real Property is sold.

## **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 Mahal VC's bank statements for the year preceding the date of bankruptcy, focusing on all disbursements greater than \$10,000.
2. The Trustee has requested support documentation from RBC regarding two transfers in April and May, 2021 totalling \$192,000, and is awaiting a response.
3. Once the Trustee has obtained the necessary records, it will review whether the granting of the Golden Miles Mortgage constitutes a preference or transfer-at-undervalue.
4. The Trustee continues to review Mahal VC's disbursements for the twelve months preceding the date of bankruptcy and will advise the inspectors appointed in these proceedings 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 Mahal VC.
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 Mahal VC's 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 Jesse regarding, among other things, Mahal VC's assets and liabilities. The examination is scheduled for December 21, 2021. A similar examination has been requested of Santokh in Golden Miles' 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 MAHAL VENTURE CAPITAL INC.,  
AND NOT IN ITS PERSONAL CAPACITY**

## **Appendix “A”**

# Mahal Venture Capital Inc.

## Balance Sheet

All Dates

	TOTAL
<b>Assets</b>	
Current Assets	
Cash and Cash Equivalent	
Cash on hand	0.00
<b>Total Cash and Cash Equivalent</b>	<b>\$0.00</b>
<b>Total Current Assets</b>	<b>\$0.00</b>
Non-current Assets	
Property, plant and equipment	
Land	2,107,625.10
<b>Total Property, plant and equipment</b>	<b>\$2,107,625.10</b>
<b>Total Non Current Assets</b>	<b>\$2,107,625.10</b>
<b>Total Assets</b>	<b>\$2,107,625.10</b>
<b>Liabilities and Equity</b>	
Liabilities	
Non-current Liabilities	
Intra Company Transfer	1,000,000.00
Shareholder Notes Payable	1,107,625.10
<b>Total Non-current Liabilities</b>	<b>\$2,107,625.10</b>
<b>Total Liabilities</b>	<b>\$2,107,625.10</b>
Equity	
Retained Earnings	0.00
<b>Total Equity</b>	<b>\$0.00</b>
<b>Total Liabilities and Equity</b>	<b>\$2,107,625.10</b>