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**ESTATE FILE NO.: 31-2810419**

**IN THE MATTER OF THE BANKRUPTCY OF  
SHELDON GROSS LIMITED  
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

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

## **1.0 Introduction**

1. On March 7, 2022, Sheldon Gross Limited (the "Company") filed an assignment in bankruptcy under the *Bankruptcy and Insolvency Act* (the "BIA") and KSV Restructuring Inc. ("KSV") was appointed Licensed Insolvency Trustee (in such capacity, the "Trustee") by the Office of the Superintendent of Bankruptcy (Canada). KSV's appointment as Trustee is subject to affirmation at the first meeting of creditors scheduled for March 28, 2022.

### **1.1 Restrictions**

1. In preparing this report ("Report"), the Trustee has relied upon financial and other information supplied by representatives of the Company and the Company's books and records.
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. Any party wishing to place reliance on the financial information in this Report should perform its own diligence.

## **2.0 Background**

1. The Company is a privately owned real estate holding company incorporated in 1962 under the *Business Corporations Act* (Ontario). According to the corporate profile report, the sole registered director and officer of the Company was Sheldon Gross.
2. Sheldon Gross and his son, Mark Gross, were also the sole registered directors and officers of Gross Capital Inc. ("GCI"), a real estate investment firm which, on June 25, 2021, filed an assignment in bankruptcy. KSV was appointed Licensed Insolvency Trustee (in such capacity, the "GCI Trustee") of GCI's bankrupt estate, which appointment was affirmed at GCI's first meeting of creditors on July 15, 2021.

3. Several other real estate holding companies related to the Company and GCI are also subject to their own insolvency proceedings, including: (i) Claireville Property Holdings Inc., in respect of which KSV is acting as Licensed Insolvency Trustee and Court-appointed receiver and manager; and (ii) several other entities in respect of which KPMG Inc. is acting as Court-appointed receiver and manager.
4. At the date of its bankruptcy, the Company's registered head office was leased premises located at 200 Ronson Drive in Toronto, Ontario (the "Head Office"). The Trustee will not be occupying or paying rent for the Head Office during these proceedings.

### 3.0 Estate Assets

1. Based on the Statement of Affairs sworn by Sheldon Gross on the date of bankruptcy, the estimated realizable value of the Company's assets is summarized in the table below.

(\$000s)	Amount
Interest in Co-Tenancies	1,700
Cash	350
Loan to GCI	250
<b>Total Assets</b>	<b>2,300</b>

2. The nature of each of these assets is summarized in the following sections of this Report.

#### 3.1 Interest in Co-Tenancies

1. The Company has an ownership interest in four co-tenancies (collectively, the Co-Tenancies"), as summarized in the table below.

Registered Owner	Location	Ownership %	Value
180 Constellation Holiday Inc.	Stoney Creek	10.00	900,000
125 Ferris Inc.	North Bay	5.65	400,000
733 Exeter Holding Inc.	London	8.00	300,000
40 King West Holdings Inc.	Oshawa	5.70	100,000
<b>Total</b>			<b>1,700,000</b>

2. In respect of the Co-Tenancies:
  - a) on March 18, 2022, the Trustee was advised of a pending transaction for the property held by 180 Constellation Holiday Inc., being 180 Constellation Drive. The transaction is anticipated to close on or before April 18, 2022. The Company's share of the closing proceeds is estimated to be \$875,000, which will be sent to the Trustee upon completion of the transaction; and
  - b) the Trustee will be corresponding with the management committees for the three other Co-Tenancies and monitoring the status and value of the Company's interest therein. The Trustee understands that the property held by 40 King West Holdings Inc. is in the process of being sold.

## 3.2 Cash

1. At the commencement of GCI's bankruptcy proceedings, the GCI Trustee entered into an agreement with Mark Gross and Sheldon Gross pursuant to which any distributions or sale proceeds payable to either of them personally or to certain holding companies, including the Company, shall be paid to a trust account maintained by their law firm, Tyr LLP (the "Tyr Trust Account"), and not released from the Tyr Trust Account without 20 days' advance notice to the GCI Trustee. Since that time, approximately \$432,000 was paid into the Tyr Trust Account in respect of the Company, largely from the sale of the Richard Ruston property in October 2021.
2. Immediately upon the Trustee's appointment, approximately \$372,000 was transferred from the Tyr Trust Account into the Trustee's estate account. That cash remains on deposit with the Trustee as at the date of this Report. The difference (being \$60,000) was retained by Tyr LLP on account of the Company's legal fees.
3. To the Trustee's knowledge, as of the date of bankruptcy, the Company did not have any bank accounts opened. The Trustee has been advised that the Company's bank account at CIBC was closed on January 31, 2022. The Trustee is in the process of obtaining the CIBC bank statements that it will require to perform its statutory review of the activity that went through this CIBC account prior to its closure.

## 3.3 Loan to GCI

1. The Company's Statement of Affairs listed a \$250,000 loan to GCI as an asset of the Company. GCI's Statement of Affairs listed the Company as an unsecured creditor of GCI in the amount of \$1 million. Neither claim has been proven as of the date of this Report.
2. The Trustee and the GCI Trustee will review what *bona fide* claims, if any, the Company may have against GCI.

## 4.0 Creditors

### 4.1 Secured Creditors

1. A search under the Personal Property Security Registration System (Ontario) identified two registrants against the Company as of March 6, 2022 under the *Personal Property Security Act* ("PPSA"). The PPSA registrants are listed below.
  - The Bank of Nova Scotia ("BNS")
  - Computershare Trust Company of Canada ("Computershare")
2. The Trustee is not aware of any obligations owing by the Company to either BNS or Computershare. The Trustee's legal counsel has been corresponding with BNS and Computershare to determine whether these parties have a valid security interest in the Company's assets.

## **4.2 Unsecured Creditors**

1. Based on the Statement of Affairs, amounts owing to the Company's 42 unsecured creditors totaled approximately \$6.4 million. The Trustee understands that most of these unsecured obligations relate to loans/advances made to the Company to invest in real estate.
2. It remains unclear how investor monies were used – this is one of the purposes of the Investigation (as defined and discussed in Section 6 of this Report).

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

1. At this time, the Trustee is not aware of any property that would not be divisible among the Company's creditors by virtue of Section 67(1) of the BIA or otherwise.

## **5.0 Books and Records**

1. Immediately upon GCI's assignment in bankruptcy on June 25, 2021, the GCI Trustee arranged for a backup and imaging of the GCI server to secure the data stored thereon, which included the accounting records of the Company. The Trustee therefore has access to these materials.
2. To the extent the Trustee does not have physical possession of any of the Company's books and records, the Trustee is working with GCI's former CFO and, accordingly, the Trustee has access to the books and records it requires to complete its administration.

## **6.0 Investigation & Preferences and Transfers at Undervalue**

1. The GCI Trustee is currently conducting an investigation into the assets and pre-bankruptcy operations of GCI and several of its subsidiaries and related parties (the "Investigation"). The Investigation commenced due to, among other things, accusations made by investors of misappropriation of investor funds by Mark and Sheldon Gross and/or entities controlled by Mark and Sheldon Gross.
2. The GCI Trustee has conducted two examinations to-date under Section 163 of the BIA and is in the process of scheduling others. Subject to inspector approval, the Trustee will, in all likelihood, examine Sheldon Gross pursuant to Section 163 of the BIA.
3. Given that GCI and the Company are related, a portion of the Investigation will be focused on the Company and, therefore, its source of uses of investor funds.
4. The Trustee intends to report the relevant findings of its Investigation to the estate inspectors (once appointed at the first meeting of creditors), and to consult with and seek instruction from the inspectors in regards to other related matters, including, without limitation, the Investigation's implications on the Company and these bankruptcy proceedings.

## 7.0 Anticipated Realization and Projected Distribution

1. Based on the cash on deposit in the Trustee's account and the anticipated realizations on the Company's interest in the Co-Tenancies, it appears that there will be funds available for distribution to the Company's creditors. The outcome of any process to realize on the Co-Tenancies will ultimately determine the magnitude of creditor recoveries in these proceedings.
2. Creditors can monitor the status of these realization efforts by following the information made available as filed on the Trustee's website at <https://www.ksvadvisory.com/experience/case/sheldon-gross-limited>.

## 8.0 Other Matters

1. In consideration of KSV agreeing to act as Trustee in these bankruptcy proceedings, Jerry Di Iorio, a creditor of the Company and GCI, guaranteed the Trustee's costs of administration of the bankrupt estate up to \$20,000. This guarantee will not be drawn upon unless there are insufficient funds in the estate to fund the Trustee's costs. Subject to the Trustee's determination of any secured claims and/or reviewable transactions, it does not appear that any advances under the third-party guarantee will be required.
2. There are no other matters to be discussed at this time.

\* \* \*

DATED at Toronto, Ontario, this 28<sup>th</sup> day of March, 2022.

*KSV Restructuring Inc.*

**KSV RESTRUCTURING INC.  
IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE OF  
SHELDON GROSS LIMITED  
AND NOT IN ITS PERSONAL CAPACITY**