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Estate No. 31-1890873

**IN THE MATTER OF THE BANKRUPTCY OF
AVALON LANDSCAPING TECHNOLOGIES INC.
OF THE TOWN OF HOLLAND LANDING
IN THE PROVINCE OF ONTARIO**

TRUSTEE'S PRELIMINARY REPORT TO THE FIRST MEETING OF CREDITORS-
July 29, 2014

DISCLAIMER:

One of the underlying principles of the Bankruptcy and Insolvency Act, is that of creditors' control. The Act provides for a First Meeting of Creditors to discuss the collective interest of the creditors in the administration of the bankrupt's estate.

The purpose of the First Meeting of Creditors is to consider the affairs of the bankrupt, affirm the appointment of the Trustee (or substitution of same), appointment of 1-5 inspectors and to give further direction to the Trustee as may be necessary.

In preparing this report and making the comments herein, The Trustee has been provided with, and has relied upon certain unaudited, draft and/or internal financial information, the bankrupt's books and records, discussion with management of the Bankrupt company, and information from third party sources, being the Bankrupt's Accountant and or Book-keeper, collectively ("the Information"). Except as described in this Report:

- a) *The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy of completeness of the Information in a matter that would wholly or partially comply with the generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook and accordingly, the Trustee expresses no opinion on or other form of assurance in respect of the Information;*
- b) *The Trustee has prepared this Report in its capacity as Trustee in Bankruptcy, and has made a copy available to all know creditors of the Bankrupt Estate. Parties using this Report are cautioned that it may not be appropriate for their purposes.*

Avalon Landscaping Technologies Inc. (hereafter called "the **Bankrupt**") filed an assignment in bankruptcy on July 15th, 2014 and Russo Corp., the undersigned was appointed as Trustee of the Estate of the Bankrupt by the Official Receiver. Joanne Russo, CIRP, is the Trustee responsible for the administration of the estate and Evelyn Bowles, Sr. Estate Administrator is assisting with the administration.

I. BACKGROUND

The Bankrupt was incorporated in Ontario in February 18, 1991. The Bankrupt was originally founded by Steve Chanady in 1965. Steve expanded Avalon to take on all aspects of not only the soft landscaping but also the hard landscaping that was demanded and very much in need by the growing clientele.

Steve's son Edward Chanady, had become President and sole owner of Avalon since 1989. Edward's wife, Anita, had been director for Avalon since 1989.



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The Bankrupt's business expanded to provide a wide range of products and services to the public, expanding in areas of manufacturing stone art, furniture, and lighting; garden ornaments such as; bronze sundials, plaques and a variety of cast concrete products and other custom castings.

II. CAUSES OF INSOLVENCY

The Bankrupt retained the services of an outsource accountant to bring the books and records up to date and manage the day to day operations.

Unfortunately the books were badly managed. The Accounting firm retained by the Bankrupt was under its own audit review and as a result, it was forced to shut down. It is our understanding that charges were laid against the previous accounting firm and all books and records were seized.

The previous accountant has retained all the books and records of the Bankrupt. The Bankrupt was under the impression that all corporate tax returns were filed. It appears from our review that the previous accountant had not filed any corporate tax returns for the Corporation and as such arbitrary assessments were issued by Canada Revenue Agency.

The Ministry had taken its own steps and had canceled the Corporation's Charter as a result of failure to file Corporate tax returns. As such, the Corporation was forced to shut down.

The Principals of the Bankrupt attempted on several occasions to obtain its accounting records in order to properly file its tax returns and formally shut down the Bankrupt. The emotional stress placed on the principals placed a significant role on the business being able to move forward. In addition to the economic changes in the industry, cash flows for the business were not improving.

The Bankrupt was forced to complete tax returns on very little financial information it had on file. Once all the outstanding returns were filed, Articles of revival were filed and Avalon immediately filed its assignment in bankruptcy.

III. TRUSTEE'S ACTIONS TO DATE

Upon the Assignment in Bankruptcy, in addition to the statutory duties required up to the first meeting, the Trustee has done, but not limited to, the following:

- Discussions with the Corporations accountant regarding its tax filing;
- Discussions with Counsel regarding the filing of the Articles of Revival;
- Discussions with Canada Revenue;
- Notified creditors of the bankruptcy and arranged for notice of the bankruptcy to appear in the Financial Post on July 18, 2014;
- Attended the premises to view the equipment and inventory of the bankrupt;
- Written to CRA, who are a significant creditor and held discussion regarding the disposition of the assets



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Please note, the Trustee has not conducted any investigation of any historical transactions, nor will any such investigation be done, unless the Trustee is authorized by the creditors/inspectors to do so and the creditors provide funding for such an investigation;

IV. SECURED CREDITORS

A P.P.S.A. search conducted by the Trustee indicating the following secured creditors:

1. The Ministry of Revenue/CRA have filed several registrations against all assets of the bankrupt;
2. the Bankrupt has a significant Source Deduction debt, which has a statutory super-priority claim over all assets. We will be seeking instructions from the CRA with regard to disposition of assets on their behalf.

V. LEGAL PROCEEDINGS

The Trustee is not aware of any legal proceedings that the company is involved in.

VI. EVALUATION OF ASSETS and ANTICIPATED REALIZATION

The total amount anticipated to be realized from the sale of the assets is estimated to be approximately \$21,700.00 gross. Should the assets be liquidated, auctioneer expenses and advertising costs will need to be considered. A significant portion of the assets are in bad shape and require repair. The actual amount to be realized from a sale is unknown at this time. We will be in discussion with CRA as to their position, as they would hold a super-priority over the proceeds.

Asset	Actual Recovery to date	Anticipated Recovery	Cost of Disposition	Gross anticipated Value to the Estate	Comments
Tools of the trade including skids; mini excavator and hand tools				\$12,000 Less auction fees	Will need to factor auctioneer expenses and storage costs
Accounts Receivable	NIL	NIL	NIL	NIL	NIL
Various Automobiles- 2004 Mercedes				\$2,000.00	Will need to factor auctioneer



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1999 International 4700 with 12 F Dump Box				\$3,0000	expenses and storage costs Will need to factor auctioneer expenses and storage costs
1987 Trailer				\$200.00	
1984 International F509 with 19ft Dump Box				\$ 3,000.00	
2001 Ford F350				\$ 1,500.00	

VII. REVIEWABLE TRANSACTIONS/PREFERENCE PAYMENTS/SETTLEMENTS

As noted above, the books and records of the company are in the possession of the bankrupt's accountant . The Trustee has not conducted any investigation of any historical transactions, nor will any such investigation be done, unless the Trustee is authorized by the creditors/inspectors to do so and the creditors provide funding for such an investigation. The Trustee will be seeking creditor/inspector instructions in this regard.

VIII. PROOFS OF CLAIM(S)

Please refer to attached claims register received as of the meeting of creditors.

IX. OTHER MATTERS

The Trustee has not previously had any dealings with the bankrupt, prior to being contacted and consulted with regard to this assignment.

The Trustee has received a third party guarantee for its fees and disbursements in the amount of \$8,000.00. The Trustee has obtained written agreement for the third party guarantee in accordance with the BIA. The Trustee will be seeking creditor/inspector approval for a draw of its fees from the third party guarantee as these funds are not funds generated from the bankrupt estate.

The Trustee will also be seeking directions from the creditors/inspectors on the following matters:

- a) Approval of all of the Trustee's actions to date including the actions outlined in this Preliminary Report and affirmation of Trustee's appointment;



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- b) Appointment of inspectors;
- c) Investigation into the company's books and records and funding for same:
 - (a) Preference Payments;
 - (b) Reviewable Transactions;
 - (c) Settlements;
- d) The Disposition of the assets;
- e) Any other matters which may arise at this first meeting;

DATED at Aurora, Ontario this 29th day of July 2014.

RUSSO CORP.
Trustee of the Estate of
Avalon Landscaping Technologies Inc, a Bankrupt

Per: Joanne Russo, CIRP
Trustee in Bankruptcy