

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 41-2946038
ESTATE NO.: 41-2946038

SUPERIOR COURT

Bankruptcy and Insolvency Act

IN THE MATTER OF THE BANKRUPTCY
OF:

Silofit Inc.

*a body politic and corporate, duly
incorporated according to law and having its
head office and its principal place of business
at: 456 de la Gauchetière West, 2nd floor,
Montreal, QC H3Z 1E3*

Bankrupt

-and-

RICHTER INC.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On May 19, 2023, Silofit Inc. (the "**Company**" or "**Bankrupt**") filed an assignment in bankruptcy in accordance with section 49 of the *Bankruptcy and Insolvency Act* ("**BIA**") and Richter Inc. was appointed Trustee ("**Richter**" or "**Trustee**") of the Estate of the Bankrupt by the Official Receiver, subject to confirmation by the creditors at the first meeting of creditors.

The purpose of this report is to inform all interested parties about the Trustee's preliminary administration and our findings.

The information contained in this report has been prepared based on the books and records of the Company and from discussions with the Company's management. The books and records have not been audited or verified by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the accuracy or the reliability of the information contained herein.

I. INTRODUCTION

The Company, founded in 2019, operated 14 private micro-gyms (500-1,000 sq. ft.) in Montreal and Toronto. Each space was booked using a custom developed application ("**App**") and unlocked via a pin-code. The Company has a wholly owned subsidiary Silofit (USA) Inc. ("**Silofit USA**") which operated 4 micro-gyms in Miami, Florida. Silofit USA relied upon the Company for its financing. Both the Company

and Silofit USA had ceased operations prior to the bankruptcy of the Company. At its peak, the Company employed 43 people. As of the date of bankruptcy, only four employees remained.

In addition to operating the various micro-gyms, the Company developed strategic expertise in operating unmanned spaces along with the technology to service independent professionals to manage their business and build customer relationships within a 2-sided marketplace. The App would be able to service different industries.

The Bankrupt attributes its financial difficulties to the following:

- Launching of its business occurred just prior to the start of COVID;
- The Company expected a more rapid return of workers to the downtown core following COVID, consequently leading to less demand for gym space and impeding expansion;
- The inability to increase prices at the various locations to make the business profitable combined with numerous substitute products (i.e. exercise from home options);
- The costs to develop the App were higher than projected; and
- Unable to raise additional funding in a difficult economic environment.

II. FINANCIAL INFORMATION

The following financial data was extracted either from the books and records of the Bankrupt, the unaudited financial statements or from discussions held with Management. This information is submitted solely to assist the reader in assessing the current financial position of the Bankrupt.

The Trustee makes no representation or warranty as to the accuracy of said financial information.

Silofit Inc.				
Financial Results Summary	YTD (10 mo's)	Unaudited	Unaudited	
(in 000's)	04/30/2023	06/30/2022	06/30/2021	
Revenue	\$ 342	\$ 384	\$ 135	
Direct Costs	540	991	549	
Gross Margin	(198)	(607)	(414)	
<u>Other expenses</u>				
Research and Development	1,119	2,075	750	
General, Admin and Selling	2,251	4,238	2,442	
Financial	100	39	-	
	3,470	6,352	3,192	
Loss from Operations	(3,668)	(6,959)	(3,607)	
Other Income	-	806	259	
Net Loss	\$ (3,668)	\$ (6,152)	\$ (3,348)	

The above table shows the significant losses of the Company. Notwithstanding the Company's operations commenced in 2019, the business was still in the start-up phase and large costs were incurred in the development and testing of the technology to run the App.

III. STATEMENT OF AFFAIRS

In accordance with the BIA, a Statement of Affairs showing the Bankrupt's assets and liabilities as at the date of bankruptcy ("**Statement of Affairs**") was prepared from the information provided by and pursuant to the sworn declaration of Wilfred Valenta. The following summarizes the information contained in the Bankrupt's Statement of Affairs which has not been validated by the Trustee:

Silofit Inc.		
Statement of Affairs		
As at May 19, 2023		
<i>(in 000's)</i>	<i>Book value</i>	<i>Estimated Realizable value</i>
Assets		
Cash in bank	\$ 195	\$ 195
Accounts receivable	134	136
Income tax receivable	153	156
Prepaid expenses	176	100
Gym equipment	159	27
Other fixed assets	902	4
Inangible assets	47	100
Intercompany and other	3,053	-
	<u>4,819</u>	<u>719</u>
Liabilities		
Secured creditors	1,932	1,932
Preferred creditors	TBD	TBD
Unsecured creditors	143	143
Contingent liabilities	-	-
	<u>2,075</u>	<u>2,075</u>
Surplus (Deficiency)	\$ 2,745	\$ (1,356)

A) Assets

- **Cash in bank (\$195k)**

As per the Company's books and records, cash held in the Company's bank accounts amounted to \$195k and the Statement of Affairs reflects the full realization of this amount. Prior to the bankruptcy, the secured lender Silicon Valley Bank ("**SVB**") had the bank account frozen with the intent to sweep the funds against its outstanding loan balance subject to the validity of its security as discussed further below.

- **Accounts receivable (\$134k)**

As per the Company's books and records, the accounts receivable approximate \$134k and mainly consist of outstanding sales tax refunds from 2022. The Statement of Affairs shows the recovery of the full amount of the refund plus interest.

- **Income Taxes Recoverable (\$153k)**

As per the Company's books and records, the Company is expecting a refund of approximately \$153k relating to research and development tax credits for the fiscal year ended June 30, 2022. The Trustee will examine the ability to claim similar tax credits for the period July 1, 2022 to May 19, 2023.

- **Prepaid Expenses (\$176k)**

The books and records of the Company indicate that the prepaid expenses consist of landlord deposits and retainers held by professionals. The Statement of Affairs reflects an estimated realizable value of \$100,000. As of the date of this report, the Trustee has recovered USD\$115,000 in respect of a retainer held by professionals.

- **Gym Equipment (\$159k)**

The Trustee has commenced an expedited sale process to sell the equipment and vacate the premises as quickly as possible. The Statement of Affairs reflects an estimated net realizable value of \$27k for the gym equipment. As of the date of this report, the Trustee has received both en bloc and individual offers on the equipment to be presented to the inspectors to be appointed at the first meeting of creditors ("**Inspectors**") for their consideration.

- **Other Fixed Assets (\$902k)**

The books and records of the Company indicate that other fixed assets consist of office furniture, computer equipment and leasehold improvements. The Statement of Affairs reflect a nominal value for the estimated realization from these assets.

- **Intangible Assets (\$47k)**

The books and records of the Company indicate that intangible assets relate to the capitalization of the product development costs. The actual product development costs are significantly higher and have been expensed as research and development. The Statement of Affairs reflects \$100k as the estimated realization value from these assets, however a full sales process will be launched, as further discussed below, to determine the actual realization value of the App technology.

- **Intercompany and Other (\$3,053k)**

The Statement of Affairs does not reflect any recovery from the Intercompany loan balance. As previously mentioned, Silofit USA has ceased operations and there are no assets to realize upon.

B) Liabilities

It is important to note that the exact amount of the Bankrupt's liabilities as at May 19, 2023, will only be determined once all proofs of claim have been submitted by the creditors and have been compiled and analyzed by the Trustee. Nonetheless, the following is a summary of the Company's liabilities based upon preliminary information.

- **Secured Creditors**

As per the Statement of Affairs, the Company's secured creditor is SVB. The Trustee has engaged independent legal counsel to provide a legal opinion as to the validity and enforceability of the security of the secured lender. A copy of this opinion will be provided to the Inspectors.

SVB has consented to fund the costs of the bankruptcy from the assets subject to its security including the fees and expenses of the Trustee. In addition, the Trustee has received a guarantee from the liquidator of SVB.

- **Preferred Creditors**

The Company's Statement of Affairs indicated that there were no known preferred creditors as at the date of the bankruptcy. The Company included several landlords in the creditors' list that have received security deposits that may offset amounts owed. The Trustee is not aware of any amounts owing to any government authorities which would be considered a priority. Notice has been sent to all employees and other possible preferred creditors and the ultimate amount of this category of claims will only be subsequently determined. As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to preferred creditors.

- **Unsecured Creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$143k. As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to the ordinary unsecured creditors.

IV. SUMMARY OF THE PRELIMINARY ADMINISTRATION

A) Books and Records

As at May 19, 2023, the Trustee took possession of the books and records (all virtual records) and made copies of the Company's computer systems available information.

B) Security and Protective Measures

The Trustee has taken the necessary security and protective measures including:

- Changing the passcodes of all the 14 gym locations;
- Continued the Bankrupt's insurance through Trustee's policy;
- Issuing a third party to oversee the control of the Montreal premises;
- Back up and securing the source codes and technical documentation of the App; and
- The Trustee has opened a trust bank account.

C) Sale by Tender

In consultation with SVB, the Trustee will proceed with a call for tenders to acquire the rights, title and interest of the App technology. Prior to bankruptcy, the Company developed materials to launch a sales process and identified interested parties. As part of the overall sales process, the Trustee will also contact those parties that have shown interest prior to bankruptcy to further pursue any potential transactions. The Trustee will report to the Inspectors the progress of the sales process.

D) Reviewable Transactions and Preferential Payments

The Trustee will perform a review of the payments to creditors preceding the date of the bankruptcy which may be reviewable, preferential or undervalue as defined within the meaning of the BIA. The Trustee, upon completion of the review, will discuss its findings with the Inspectors.

V. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

Without completing a sales process, it is premature to determine if there will be a distribution to the preferred and ordinary creditors. However, as of the date hereof, based on the estimated realizable value of the assets, the amount due to the secured creditor, the Trustee does not anticipate that there will be any dividends available to the preferred and ordinary creditors.

DATED AT MONTREAL, this 7th day of June 2023

Richter Inc.
Licensed Insolvency Trustee



Andrew Adessky, CPA, CIRP, LIT
Administrator of the Bankruptcy