

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 540-11-055629-188
ESTATE NO.: 41-2449058

SUPERIOR COURT

Bankruptcy and Insolvency Act

IN THE MATTER OF THE BANKRUPTCY
OF:

2964-3277 QUEBEC INC. (DBA CARPET
ART DECO)

legal person duly incorporated under the
laws of Canada, having its registered office
at 480 Lafleur, Montreal QC H8R 3H9

Debtor

- and -

Richter Advisory Group Inc.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On November 29, 2018, 2964-3277 Quebec Inc., doing business as Carpet Art Deco (the “**Company**” or “**Debtor**”) filed a Notice of Intention (“**NOI**”) to Make a Proposal in accordance with the Bankruptcy and Insolvency Act (“**Act**”) and Richter Advisory Group Inc. (“**Richter**” or “**Trustee**”) was appointed Trustee thereunder.

The Debtor failed to file a Proposal within the period of 30 days after the day on which the notice of intention was filed or within any extension of the period granted by the court under the subsection 50.4(9) of the Act. Accordingly, on May 29, 2019, the Debtor was deemed to have made an assignment in bankruptcy and Richter was appointed Trustee of the estate of the bankrupt by the Official Receiver, subject to confirmation by the creditors at the first meeting of creditors.

On May 28, 2019, pursuant to a motion filed by the Canadian Imperial Bank of Commerce, the Court issued an Order Appointing a Receiver which provided Richter with the customary powers of a Receiver. This is further discussed below.

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 exactness or the reliability of the information contained herein.

I. INTRODUCTION

The Debtor engaged in manufacturing and distribution of carpets and rugs which it sold to customers in both Canada and the United States.

The Company's head office, principal showroom and manufacturing facility were located in Montreal in premises owned by a related party. The Company also leased two nearby locations (one of which was from a related party) from which it distributes and warehouses its product. At the time of the filing of the NOI, the Company also operated a showroom in New York City, leased from a third party. During the NOI proceedings, the Company closed its New York City showroom and vacated one of its warehouses. At the time of bankruptcy, the Debtor employed approximately 65 people.

The Debtor has attributed its significant operating losses to difficulties arising from its efforts to expand its business in the United States and the modifications to current international trade policies.

II. FINANCIAL INFORMATION

The following financial data was extracted either from the books and records of the Debtor, 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 Debtor.

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

Carpet Art Deco Summary Financial Information Year ended September 30 (\$000's)	F2018	F2017	F2016	F2015
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
Sales	\$ 80,918	\$ 66,159	\$ 54,122	\$ 48,961
Cost of Sales	(68,557)	(51,646)	(43,319)	(38,476)
Other operating expenses	(23,194)	(14,483)	(10,601)	(9,996)
Interest and other	-	515	1,138	(386)
Net Profit (Loss)	\$ (10,832)	\$ 545	\$ 1,340	\$ 104

The above table shows the financial performance of the Company for the last four (4) fiscal years.

III. EVENTS DURING THE NOI PERIOD

A) Sale and Investment Solicitation Process (the “SISP”)

Immediately following the commencement of the NOI, the Debtor, with the assistance of the Trustee commenced the SISP to attempt to locate interested parties to continue the operations of the Debtor. Approximately 120 interested parties consisting of strategic buyers, financial investors and liquidators were contacted. 15 parties performed due diligence on the Company and 4 parties ultimately submitted a bid for the assets of the Debtor. There were no going concern offers and all of the offers received contemplated a liquidation of the Company.

Ultimately, a transaction was concluded with Gordon Brothers Canada ULC (“GB”), which transaction was approved by the court on January 14, 2019 (the “GB Agreement”).

The GB Agreement provided that GB will act as a liquidation consultant to the Company to assist in the sale of all inventory, collection of receivables and sale of intellectual property.

The inventory liquidation is ongoing and the Receiver is continuing the sale of the finished goods inventory to a customer in the United States, a process which it anticipates to complete in July of 2019.

Collection of receivables is ongoing and will likely continue through September 2019.

GB has advised the Receiver that at the present time, there has been no interest in the intellectual property of the Company.

B) Sale of Machinery, Equipment and Fixtures

The SISP did not yield any offers for the machinery, equipment and fixtures that were acceptable to the Business Development Bank of Canada (“BDC”) who is the first ranking secured creditor on these assets. Ultimately, the Debtor negotiated a transaction with CCF Arts & Crafts Trade Co., Limited (“CCF”) for the purchase of the majority of the Company’s machinery, equipment and fixtures. The transaction was approved by the Court on April 12, 2019 and CCF remitted the purchase price to the BDC in May 2019. CCF is in the process of dismantling the production equipment and is required to complete the removal of all equipment in 120 days.

C) Ohio Racking

Prior to the commencement of the NOI, the Company began selling certain movable racking (the “Ohio Racking”) to the Ohio Rack, Inc. company, the original supplier of this movable racking. The BDC and the Canadian Imperial Bank of Commerce (“CIBC”) both claimed entitlement to the proceeds from the sale of the Ohio Racking. The Ohio Racking was recorded as inventory in the books and records of the

Company. On March 13, 2019, the Court issued an order approving the sale of the Ohio Racking with the proceeds being held in trust pending either an agreement between the BDC and the CIBC or an order of the Court. As of the date of this report, no agreement has been reached and the matter will be heard by the court on June 19, 2019. To date, the Trustee is holding approximately US\$246,000 in trust.

IV. STATEMENT OF AFFAIRS

In accordance with the Act, 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 Fadi Melki, a former officer of the Company. The following summarizes the information contained in the Debtor's Statement of Affairs which has not been validated by the Trustee:

Carpet Art Deco Statement of affairs As at May 29, 2019 (\$000's)	
Assets	
Inventory	\$ 5,900
Accounts receivables	1,462
Trade fixtures, etc.	50
Other property	288
	7,700
Liabilities	
Unsecured creditors	47,014
Secured creditors	7,700
Preferred creditors	-
	54,714
Deficiency	\$ (47,014)

A) Assets

- **Accounts Receivable (\$1,462k)**

As per the Company's books and records, the gross accounts receivable approximate \$2,496K of which management estimates \$1,034K are not collectible for various reasons including disputes and offsets. The Receiver is continuing the collection of the accounts receivable.

- **Inventory (\$5,900k)**

The Company's books and records reflect that inventory with a book value of approximately \$16 million, which is estimated to have a net realizable value of \$5.9 million. The inventory comprises finished goods, raw materials, packaging, Ohio Racking and other racking and related

accessories. As noted above, the finished goods are being delivered to a customer in the United States, the yarn has been sold to a Chinese company and the Ohio Racking is being sold back to the supplier. The ultimate realizable value will only be known once all inventory has been shipped, which is currently estimated to occur by July 2019.

- **Trade fixtures, etc. (\$50k)**

As noted above, the Company has already sold the majority of its fixed assets during the NOI and the purchaser is in the process of removing the fixed assets. The Statement of Affairs reflects an estimated net realizable value of \$50K for the remaining fixed assets which were not sold to CCF, including certain office furniture, lifts, electrical equipment, a truck, and other miscellaneous assets.

- **Other Assets (\$288k)**

As per the Company's books and records, other assets consist of the Ohio Racking. As previously mentioned, there is a dispute between secured lenders as to the nature of these assets and which secured creditor is entitled to the proceeds from the sale of this Ohio Racking.

B) Liabilities

It is important to note that the exact amount of the Debtor's liabilities as at May 29, 2019, 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 creditors are as follows:

- Canadian Imperial Bank of Commerce – \$16,759K (first rank security interest on all inventory, accounts receivables and intellectual property of the Debtor). As noted in the Statement of Affairs, the Company estimates that the remaining assets subject to the first ranking security of the CIBC have an approximate value of \$7.4 million, such that the CIBC will be an unsecured creditor for approximately \$9.4 million prior to additional costs of realization;
- Banque de Development du Canada – \$9,803K (first rank security interest on all fixed assets, trade and fixtures of the Debtor). As noted in the Statement of Affairs, the Company estimates that the remaining assets subject to the first ranking security of the BDC have an approximate value of \$50K such that the BDC is an unsecured creditor for

approximately \$9.8 million prior to first ranking security that the BDC holds on real property owned by a related party consisting of the head office of the Company;

- Canadian Imperial Bank of Commerce / Banque de Development du Canada – \$288K in respect of the dispute over the Ohio Racking proceeds, as noted above.

The fees and expenses of the Trustee / Receiver are being paid primarily by the CIBC.

- **Preferred Creditors**

The Company's Statement of Affairs indicated that there were no known preferred creditors as at the date of the bankruptcy. 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.

- **Unsecured Creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$47 million consisting of approximately \$27.9 million of trade debt (which includes approximately \$4.5 million due to a related party) and \$19.2 million of estimated unsecured claims owing to the CIBC and BDC. 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.

V. SUMMARY OF THE PRELIMINARY ADMINISTRATION

A) Books and Records

As at May 29, 2019, the Trustee took possession of the books and records and made copies of the Company's computer systems available information.

On June 13, 2019, the Trustee discovered that the books and records of the Company were incomplete. Specifically, that various accounting and financial information had been removed from the Company's servers. Based on discussions with existing employees and the Company's IT service provider, the Trustee understands that this information was removed from the Company servers in the weeks prior to the commencement of the NOI proceedings by management of the Company. It is the Trustee's understanding that the information that was removed, was placed on a hard drive connected to the Company servers and thereafter, employees could access the information on the hard drive. Subsequently, prior to the bankruptcy on May 29, 2019, access to the hard drive was removed.

On June 13, 2019, the Trustee was advised by counsel to the Debtor that the apparent reason for this was to protect information regarding companies not related to the Debtor which were also included on the servers. The Trustee requested the immediate return of the financial and accounting information of the Debtor. Management remitted a hard drive to the Trustee on June 13, 2019 containing what it represents to be the missing information.

B) Security and Protective Measures

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

- The Trustee has not changed the locks of the head office or the warehouse in order to minimize costs and to enable the continued shipping of inventory in the most effective manner possible. The Trustee and its third-party security representatives have access to the Company and are on site during normal business hours as required; and
- Continuation of the Company's insurance program.

The Trustee has opened a trust bank account. In addition, various bank accounts have been opened in Richter's capacity as Receiver.

C) Employees

The employees of the Debtor were terminated upon the bankruptcy of the latter, as at May 29, 2019. However, in light of the fact that the continued participation of employees is required in order to continue the liquidation process and assist the Trustee/Receiver in its statutory duties, a total of 45 employees have been re-hired on a temporary basis as employees or on a contractual basis by the Receiver.

D) Sale by Tender

On November 29, 2018, the Trustee proceeded with a call for tenders to acquire the rights, title and interest in the assets of the Debtor. An initial mailing was sent to in excess of 120 potential interested parties inviting them to access information in a virtual data room created by the Trustee. Ultimately, fifteen (15) parties signed a confidentiality agreement and were granted access to the digital data room, consisting of strategic and financial investors as well as liquidators. For more information on the sale process, refer to the Third Report of the Proposal Trustee dated January 11, 2019.

E) 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 Act. The Trustee, upon completion of the review, will discuss any relevant findings with the Inspectors to be appointed at the first meeting of creditors.

VI. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

As of the date hereof, based on the estimated realizable value of the assets, the value of the amounts due to the secured creditors, the Trustee does not anticipate that there will be any dividends available to the preferred and ordinary creditors.

DATED AT MONTREAL, this 18th day of June 2019

**Richter Advisory Group Inc.
Licensed Insolvency Trustee**



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