

CANADA  
Province of Quebec  
District of Québec  
Division No.: 01-Montréal  
Court No.: 500-11-055629-188  
Estate No.: 41-2449058

SUPERIOR COURT  
(Commercial Division)  
*Bankruptcy and Insolvency Act*

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IN THE MATTER OF THE NOTICE OF  
INTENTION TO MAKE A PROPOSAL 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

**Petitioner / Debtor**

-and-

**RICHTER ADVISORY GROUP INC.**

**Proposal Trustee**

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**THIRD REPORT OF THE TRUSTEE  
ON THE STATE OF PETITIONER'S BUSINESS AND FINANCIAL AFFAIRS**

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Richter Advisory Group Inc. ("**Richter**" or the "**Proposal Trustee**"), in its capacity as trustee with respect to the Notice of Intention to Make a Proposal ("**NOI**") filed by 2964-3277 Quebec Inc., doing business as Carpet Art Deco (the "**Debtor**" or the "**Company**"), an insolvent person, does hereby report to the Court the following:

**INTRODUCTION**

1. On November 29, 2018, the Debtor filed the NOI in accordance with Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S. C. 1985, c. B.-3, as amended (the "**BIA**"), and Richter was appointed as Proposal Trustee under the NOI. A copy of the Certificate of Filing issued by the Superintendent of Bankruptcy is annexed as Exhibit "A" to the First Report of the Trustee dated December 12, 2018 ("**First Report**").
2. On December 5, 2018, documents were sent by regular mail to all creditors of the Debtor, as identified by it, which included a copy of the Debtor's NOI, which is annexed as Exhibit "B" to the First Report.

3. On December 6, 2018, the Debtor filed with the Official Receiver a Statement of Projected Cash Flow ("**Projections**") together with his report pursuant to Section 50.4(2)(c) of the Act, covering the period from November 29, 2018, to January 11, 2019, which included the major assumptions used in the preparation of the Projections. Concurrently therewith, the Proposal Trustee filed its Report on the reasonableness of the Projections in accordance with Section 50.4(2)(b) of the Act, all of which is annexed as Exhibit "C" to the First Report.
4. On December 10, 2018 the Debtor filed a motion entitled *Motion for the Issuance of an Order for an Administrative Charge, a Directors and Officers Charge, a Key Employee Incentive Program and Other Remedies* (the "**Charge and KEIP Motion**"). The Charge and KEIP Motion was granted on December 13, 2018.
5. On December 12, 2018, the Debtor filed a motion entitled *Motion for the Extension of the Delay to File a Proposal* (the "**Stay Extension Motion**"). The Stay Extension Motion was granted on December 17, 2018.
6. On December 14, 2018, the Proposal Trustee filed its Second Report in support of the Stay Extension Motion ("**Second Report**").
7. On December 18, 2018, the Court issued a Settlement Approval Order approving the settlement of a dispute between Oriental Weavers International SAE and the Debtor, as appears from the Court record.
8. On January 11, 2019, the Debtor filed a motion entitled *Motion for the Approval of a Consulting Agreement* (the "**Consulting Agreement Motion**"). The Consulting Agreement Motion will be heard on January 14, 2019.
9. In order to monitor the affairs and finances of the Debtor, the Proposal Trustee has been provided with access to the books, records and other important documents of the Debtor.

#### **PURPOSE OF THIS REPORT**

10. The purpose of this Third Report is to report to the Court on the Sales Solicitation Process (the "**SSP**") as described in the First Report, including the communications with interested parties, the opening of tenders, the analysis of offers received and the selection of Gordon Brothers Canada ULC ("**GB**") to act as consultant to the Debtor to assist in the realization of the assets of the Debtor.

#### **TERMS OF REFERENCE**

11. Unless otherwise noted, all monetary amounts contained in this Third Report herein are expressed in Canadian dollars.

12. In preparing this Third Report, the Proposal Trustee has relied upon certain unaudited financial information prepared by the Debtor's representatives, the Debtor's books and records, and discussions with the Debtor's representatives and legal counsel (the "**Information**").
13. Except as otherwise described in this Third Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountant of Canada Handbook and, as such, the Proposal Trustee expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

### **SALES SOLICITATION PROCESS**

14. While the SSP was summarized in the First Report, the Proposal Trustee wishes to provide a quick overview of the chronology of the SSP in connection with the Consulting Agreement Motion:
  - a) The SSP was launched on November 29, 2018 with the issuance of a teaser (Exhibit "D" to the First Report) to approximately 120 interested parties consisting of strategic buyers, financial investors and liquidators;
  - b) The Proposal Trustee created a virtual data room with the necessary information to enable interested parties to evaluate all aspects of the Company's business. 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. Many of these fifteen parties were in communication with both the Company and the Proposal Trustee as they performed their due diligence. In addition to being active in the data room, four (4) of the interested parties visited the Debtor's premises to meet with the Debtor and Proposal Trustee and to tour the Debtor's warehouses;
  - c) Throughout the SSP, the Debtor and the Proposal Trustee responded to information requests from interested parties and posted additional financial information to the data room. Attached as **Exhibit "A"** to this Third Report is a summary of the information included in the digital data room;
  - d) The bid deadline was December 19, 2018, at noon eastern time with offers to be submitted to the office of the Proposal Trustee.

### **OFFERS RECEIVED**

15. Three offers were submitted to the Proposal Trustee by the noon deadline on December 19, 2019. A fourth offer was received shortly after the noon deadline and was marked late but was opened

nonetheless. There were no going-concern offers. All of the offers contemplated a liquidation of the assets of the Debtor. A summary of the offers received is attached as **Exhibit “B”**.

16. The offers were opened at the offices of the Proposal Trustee in the presence of representatives of:
  - a) the Canadian Imperial Bank of Commerce (“**CIBC**”) which has registered a first-ranking security interest on the Debtor’s accounts receivable and inventory, as well as a second-ranking security interest on the Debtor’s fixed assets;
  - b) the Business Development Bank of Canada (“**BDC**”) which has registered a first-ranking security interest on the Debtor’s equipment, as well as a second-ranking security interest on the Debtor’s accounts receivable and inventory. BDC has also registered a first-ranking security interest on the real estate used in the Debtor’s operations and owned by a related party, 9220-5749 Québec Inc. (“**9220**”); and
  - c) the Debtor.
17. The Proposal Trustee has obtained a legal opinion from its independent legal counsel, Stikeman Elliott LLP, confirming the respective validity and opposability of the security interests registered by CIBC and BDC in respect of the assets of the Debtor. Stikeman Elliott did not opine on the security granted by 9220 to BDC, seeing as 9220 is not a party to these insolvency proceedings.
18. Following an analysis of the offers received, the Debtor, CIBC, BDC and the Proposal Trustee reached a consensus that the most advantageous offer was the offer submitted by GB.
19. On January 11, 2019, GB and the Debtor executed an agreement (the “**GB Agreement**”) which sets out the terms and conditions of the services to be provided by GB. We summarize the terms of the GB Agreement, which is annexed as Exhibit “R-4” to the Consulting Agreement Motion as follows:
  - a) GB will assist the Debtor in the liquidation of all its inventory, the collection of its outstanding receivables and the sale of intellectual property, in consideration for an incentive fee of 3% on gross proceeds, plus up to \$100,000 of expenses;
  - b) This is a best efforts “fee based deal” and there is no guarantee as to the amounts that will be realized;
  - c) The duration of the realization is expected to be a maximum of 120 days, beginning on the date of issuance of the order authorizing the execution of the GB Agreement (the “**Sale Term**”). The Sale Term can be extended by GB in its discretion as regards the collection of accounts receivable, for up to 8 months and the Sale Term can also be extended indefinitely by agreement of the parties, with the approval of the Proposal Trustee, as regards the assets of the Debtor other than accounts receivable;

- d) The GB Agreement contains standard provisions that govern the management of the liquidation process, indemnification, insurance and representations and warranties. Among other terms, it is contemplated that GB will assist the Debtor in implementing strategies to liquidate its assets at the best possible prices and that for the duration of the process, the Debtor will continue to employ its employees, collect sales taxes and otherwise continue operating at its various locations for so long as these locations are required; and
  - e) The GB Agreement does not contemplate nor deal with (i) the liquidation of the equipment of the Debtor on which BDC has registered a first-ranking security interest; or (ii) the sale of the real property owned by 9220.
20. Subsequent to the acceptance of the GB offer, GB advised that it wished to partner with one of the unsuccessful bidders, namely Merchant Retail Solutions ULC (“**Hilco**”), in connection with the collection of the Debtor’s receivables. Hilco is not a party to the GB Agreement but will contract directly with GB. The Proposal Trustee supports this partnership as does the Debtor and the CIBC.
21. On January 10, 2019, BDC, having reviewed the terms proposed by GB pursuant to which the equipment of the Debtor over which BDC registered first-ranking security interests would have been included in the assets to be liquidated under the GB Agreement, advised that it would evaluate its options and maintain all of its existing rights with respect to its realization options on said assets. As a result, the GB Agreement does not include terms which would apply to the liquidation of these assets.

## **RECOMMENDATION**

22. In light of the nature of the offers received as a result of the SSP and in particular, the absence of any going concern offer, the Proposal Trustee is of the view that the GB Agreement represents the best course of action to realize a maximum value for the creditors of the Debtor in a liquidation of the inventory, receivables and intellectual property of the Debtor.
23. The Proposal Trustee recommends that this Court authorize the Debtor to enter into and to implement the GB Agreement. In issuing this recommendation, the Proposal Trustee is mindful of the fact that the GB Agreement is supported not only by the CIBC which has a first ranking security on the receivables, inventory and intellectual property of the Debtor, but also by the Debtor itself.
24. The draft order sought in connection with the Consulting Agreement Motion seeks, in addition to the approval of the GB Agreement, an authorization of this Court for the Debtor to distribute the proceeds of the sales of assets in the same order and priority as the encumbrances that exist as of

the date of the issuance of the order. This distribution will be undertaken by the Debtor, with the oversight of the Proposal Trustee.

25. The Proposal Trustee is of the view that such a distribution order is warranted in the circumstances, provided the Proposal Trustee keeps in trust a provision equivalent to the amount of the Administration Charge and the D&O Charge (both terms as defined in the order issued by this Court on December 31, 2018), as provided for in the draft order.

Respectfully submitted at Montreal, this 11<sup>th</sup> day of January 2019.

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



Olivier Benchaya, CPA, CA, CIRP, LIT



Andrew Adessky, CPA, CA, MBA, CIRP, LIT

# **Exhibit A**





# Carpet Art Deco International


## Due Diligence

### Due Diligence

#### Sale Process




-  CADI - Confidentiality and Non-Disclosure Agreement.pdf
-  CADI - Request for Offers.pdf

#### Company Profile












-  CADI - Company Brochure.pdf

#### Financial Statements












##### Annual Financial Statements

-  F2016 Audited Financial Statements.pdf
-  F2017 Audited Financial Statements.pdf
-  F2018 Aug YTD Preliminary Financial Statements.pdf







##### Monthly YTD Financial Statements

-  2018\_04\_Etats\_financiers.pdf
-  2018\_05\_Etats\_financiers.pdf
-  2018\_06\_Etats\_financiers.pdf
-  2018\_07\_Etats\_financiers.pdf
-  2018\_08\_Etats\_financiers.pdf
-  2017\_10\_Etats\_financiers.pdf
-  2017\_11\_Etats\_financiers.pdf
-  2017\_12\_Etats\_financiers.pdf
-  2018\_01\_Etats\_financiers.pdf
-  2018\_02\_Etats\_financiers.pdf
-  2018\_03\_Etats\_financiers.pdf



##### Monthly P&L

-  2018\_05\_Monthly\_P&L.pdf
-  2018\_06\_Monthly\_P&L.pdf
-  2018\_07\_Monthly\_P&L.pdf
-  2018\_08\_Monthly\_P&L.pdf
-  2017\_10\_Monthly\_P&L.pdf
-  2017\_11\_Monthly\_P&L.pdf
-  2017\_12\_Monthly\_P&L.pdf
-  2018\_01\_Monthly\_P&L.pdf
-  2018\_02\_Monthly\_P&L.pdf
-  2018\_03\_Monthly\_P&L.pdf
-  2018\_04\_Monthly\_P&L.pdf






#### Sales & Accounts Receivable

-  Accounts Receivable as at Nov 25, 2018.xlsx
-  Accounts Receivable as at Nov 18, 2018.xlsx
-  Sales by Customer F2017 & YTD F2018.xlsx
-  Forecasted Sales by Customer.xlsx
-  Detailed Accounts Receivable as at Nov 25, 2018 (with customer names).xlsx
-  Sales by Customer F2017 & YTD F2018 (with customer names).xlsx

#### Purchases

-  F2017 Purchase per supplier.xlsx
-  F2018 Purchase per supplier.xlsx

#### Inventory

-  Inventory Listing as at Nov 25, 2018 - Additional info.xlsx
-  Inventory Listing as at Nov 25, 2018.xlsx
-  Inventory Listing as at Nov 18, 2018.xlsx
-  GIT Listing as at Nov 25, 2018.txt.xlsx
-  Sales by Customer & SKU.xlsx



- Inventory Location (summary) as at Nov 28, 2018.xlsx
- Inventory Location (by SKU QTY) as at Nov 28, 2018.xlsx
- Inventory Categorization.xlsx
- Replenishment SKU list.xlsx
- Occupancy Leases
  - 7900 St-Patrick - Lease 2017.pdf
  - 480 Lafleur - Lease 2010.pdf
  - 480 Lafleur - Option Exercice 2016.pdf
  - Textile Building Fifth Avenue - Lease 2017.pdf
  - Monthly Rents & Warehouse SqFt.xlsx
- Fixed Assets & Intangibles
  - Equipment
    - Equipment List.pdf
    - Fixed Assets Net Book Value as at Aug 31, 2018.xlsx
  - Building
    - 480 Lafleur - Description.pdf
  - Trademarks
    - Trademark - S.T.Y.L.E.S..pdf
    - Trademark - Carpet Art Deco.pdf
- Employees
  - Employees & Salaries.xlsx
- Terms and Conditions
  - CADI - Terms and Conditions to the Sale Process.pdf
- Offer Form
  - CADI\_Offer Form (English).docx

# **Exhibit B**

	<b>Hilco</b>	<b>Corporate Assets</b>	<b>Gordon Brothers ("GB")</b>	<b>Natco Products Corp.</b>
<b>Structure</b>	Fee-based offer, best efforts	Fee-based offer, best efforts	Fee-based offer, best efforts	Minimum Gross Proceeds Guarantee
<b>Inventory</b>	3% of GOLV <\$10M; 4% of GOLV \$10M to \$20M; 5% of GOLV \$20M to \$24.56M; 6% of GOLV >\$24.56M.	Industry standard buyer's premium, which will be charged and collected directly to and from the buyers.	3% of GOLV	<b>All intellectual property, inventory, accounts receivable, equipment (excluding the looms pledged to BDC)</b>
<b>Accounts Receivable</b>	0% of GOLV <\$0.5M; 3.5% of GOLV >\$0.5M	TBD	3% of GOLV	<b>Inventory &amp; Equipment:</b> Aggregate bid of \$5M subject to completion of due diligence to be completed by Jan. 5, 2019.
<b>Equipment</b>	15%	Industry standard buyer's premium, which will be charged and collected directly to and from the buyers.	10%	Estimated guaranteed amount between \$17M and \$20M in Net Proceeds (Net Proceeds is defined as sales less only taxes and fees) from the Sale of the Assets ("Guarantee Amount"). Payment of the guarantee would be funded upfront upon the signing and closing of a definitive Agency Agreement.
<b>IP</b>	TBD	TBD	3% of GOLV	Once net proceeds exceed the Guarantee Amount, GB would retain a priority return equal to 15% of the Guarantee Amount ("Priority Return") to cover our equity risk return and deal related expenses (e.g. cost of capital, legal, GB travel, GB supervision, marketing, etc.).
<b>On-Site Management</b>	\$310K	\$50K	\$100K	Once net proceeds exceed the Guarantee Amount and Priority return any excess proceeds would be shared 90% to Company and 10% to GB.
<b>Expected period (assume start date of Jan 14/19)</b>	15 weeks (end date Apr 29/19).	90 - 120 days (end date May 14/19)	120 days (end date May 14/19)	120 days (end date May 14/19)
<b>Conditions / Comments</b>				The Guarantee Structure is subject to additional due diligence (~14 business days), confirmation and documentation for a transaction of this nature.