

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

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

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

Petitioner / Debtor

-and-

RICHTER ADVISORY GROUP INC.

Proposal Trustee

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

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, hereby reports 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 are 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**"), which motion was granted on January 14, 2019 (the "**GB Consulting Agreement Order**").
9. On January 11, 2019, the Proposal Trustee filed its Third Report in support of the Consulting Agreement Motion ("**Third Report**").
10. On January 14, 2019, the Proposal Trustee, through its counsel, agreed to provide counsel for Oriental Weavers International SAE ("**OW**") with a copy of the legal opinion prepared by its legal counsel regarding the validity and opposability of the security interests registered by the secured creditors of the Debtor, the whole subject to certain undertakings which were provided by OW. Follow up requests for the copies of the underlying loan and security documents were also fulfilled by the Proposal Trustee.
11. On January 23, 2019, the Debtor filed a motion entitled *Motion for the Extension of the Delay to File a Proposal* (the "**Second Stay Extension Motion**"). The Second Stay Extension Motion was granted to March 8, 2019 and was subsequently extended to March 13, 2019.

12. On January 23, 2019, the Proposal Trustee filed its Fourth Report in support of the Second Stay Extension Motion (“**Fourth Report**”).
13. On March 11, 2019, the Debtor filed the following motions:
 - a) *Third Motion for the Extension of the Delay to File a Proposal* (the “**Third Extension Motion**”); and
 - b) *Motion for the Issuance of an Approval and Vesting Order with Respect to the Sale of Racking* (the “**Racking Motion**”).
14. On March 12, 2019, the Debtor filed the *Motion for the Issuance of an Order for a Key Employee Retention Program* (the “**KERP Motion**”).
15. On March 12, 2019, the Proposal Trustee filed its Fifth Report in support of the Third Extension Motion, the Racking Motion and the KERP Motion (“**Fifth Report**”).
16. The Third Extension Motion, the Racking Motion and the KERP Motion were all granted on March 13, 2019.
17. On March 29, 2019, the Debtor filed the *Motion for the Issuance of an Approval and Vesting Order with Respect to the Sale of Certain Assets* (the “**Equipment Sale Motion**”).
18. 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

19. The purpose of this Sixth Report is to provide this Court with information pertaining to:
 - a) The Debtor’s request for the issuance of an approval and vesting order with the respect to the sale of certain equipment assets; and
 - b) The Proposal Trustee’s recommendation that this Court issue an order as requested by the Debtor approving the Equipment Sale Motion.

TERMS OF REFERENCE

20. Unless otherwise noted, all monetary amounts contained in this Sixth Report herein are expressed in Canadian dollars.
21. In preparing this Sixth 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**”).

22. Except as otherwise described in this Sixth 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.

EQUIPMENT SALE MOTION

23. Pursuant to the Equipment Sale Motion, the Debtor seeks permission to sell the majority of its equipment (the “**Equipment**”) to CCF Arts & Crafts Trade Co. Limited (“**CCF**” or the “**Purchaser**”), a company based in Shanghai, China.
24. The Proposal Trustee has been provided with a copy of the *Sale of Equipment Agreement* with CCF (“**CCF Agreement**”) which was filed under seal as exhibit R-3 to the Equipment Sale Motion. The key terms of the CCF Agreement can be summarized as follows:
- a) The assets which form part of the Equipment are located at the Debtor’s three (3) facilities in Montreal located at 480 Avenue LaSalle, 7900 St-Patrick and 2555 Dollard. Said assets appear to include the majority of the fixed assets owned by the Debtor, excluding however certain other fixed assets which include computer equipment, certain rolling stock and various office furniture;
 - b) The CCF Agreement provides for a non-refundable deposit of equaling 20% of the purchase price which the Proposal Trustee understands has already been paid directly to the BDC and the balance of the purchase price to be paid by the Purchaser by way of an unconditional telegraphic transfer (“**TT Payment**”) immediately upon receipt of the Required Authorizations (as defined below) and prior to any dismantling of the Equipment;
 - c) The Debtor must obtain the approval of the BDC and the Court (“**Required Authorizations**”) in order to proceed with the transaction. The outside date to obtain the Required Authorizations is May 31, 2019;
 - d) The Equipment is being sold on an as-is basis with no legal warranties and free and clear of any and all liens, hypothecs, security interests or charges; and
 - e) The Purchaser shall have 120 days from the date of receipt of the Required Authorizations and the TT Payment to dismantle and remove the Equipment at the Purchaser’s cost and expense.

25. The process leading to the proposed transaction with CCF can be summarized as follows:

a) Sales and Solicitation Process (“SSP”):

- The Debtor with the assistance of the Proposal Trustee initiated the SSP on November 29, 2018 with the issuance of a teaser to approximately 120 interested parties;
- Following a due diligence process, three offers were submitted by the December 19, 2018 noon deadline with a fourth offer submitted after the deadline. Following an analysis of the offers received, the Debtor, the CIBC, the BDC and the Proposal Trustee reached a consensus that the most advantageous offer received was from GB;
- GB is thus acting as the Debtor’s liquidation consultant in respect of the liquidation of all inventory, the collection of receivables and the sale of intellectual property for a fee. While the offer from GB also contemplated acting as liquidation consultant for the Debtor’s fixed assets (also for a fee), BDC, the first ranking creditor with respect to these fixed assets preferred to evaluate its options with respect to the eventual liquidation of the fixed assets;
- Further details regarding the SSP can be found in the First Report and the Second Report of the Proposal Trustee.

b) Subsequent Sales Process:

- BDC subsequently had direct discussions with GB in respect of a guaranteed floor price for the liquidation of the fixed assets but ultimately did not conclude a transaction with GB;
- The Proposal Trustee understands that the Debtor has been seeking purchase offers for the fixed assets and ultimately received an offer from CCF. The Proposal Trustee cannot opine directly on the process leading up to the sale, as it was not involved in the marketing efforts undertaken by the Debtor and it was not involved in the discussions and negotiations with CCF;
- However, based on discussions with GB following the SSP and based on the projected realization from the CCF Agreement, the Proposal Trustee believes that the CCF Agreement should result in a realization that is at least equal to the original offer received from GB pursuant to the SSP.
- The Trustee also notes that the BDC, which is the first ranking secured creditor with respect to the Equipment, supports the Equipment Sale Motion and that the CIBC, which is the second ranking secured creditor, does not oppose the Equipment Sale Motion.

CONCLUSION AND RECOMMENDATION

26. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honourable Court grant the relief sought in the Equipment Sale Motion as summarized in paragraph 19(b) of this Sixth Report.

Respectfully submitted at Montreal, this 1st day of April 2019.

Richter Advisory Group Inc.
Licensed Insolvency Trustee



Olivier Benchaya, CPA, CA, CIRP, LIT



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