

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION NO. : 18 - TERREBONNE
COURT NO.: 700-11-016463-160
700-11-016462-162
ESTATE NO.: 41-2101877
41-2101868

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY
OF:

2818396 Canada Inc.
- and -
2806436 Canada Inc.

bodies politic and corporate, duly
incorporated according to law formerly
having their head office located at 1905
Lionel-Bertrand Blvd, Boisbriand, Quebec
J7H 1N8

Bankrupts

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On March 22, 2016, 2806436 Canada Inc. and 2818396 Canada Inc. (the "Debtors") filed each a Notice of Intention to make a Proposal ("Notice of Intention") in accordance with the *Bankruptcy and Insolvency Act* ("BIA") of Canada. The Debtors failed to file a Proposal within the provided period following the filing of the Notice of Intention or within any Court-granted extension and was therefore deemed to have made an assignment of its assets pursuant to the provisions of the BIA.

Consequently, on September 2, 2016, Richter Advisory Group Inc. ("Richter" or "Trustee") was appointed Trustee of the estate of the Debtors by the Official Receiver, subject to affirmation by the creditors at the first meeting of creditors.

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

The information contained in this report has been prepared from the available books and records of the Debtors. 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 in this report.

I. INTRODUCTION

The Debtors were leading manufacturers of private label health and beauty care products in Canada. As part of their businesses, the Debtors offered to their customers' turnkey services for all of their private

label needs, starting with the initial concept, the development of a formula, the marketing research, the design of the package to manufacturing and distribution.

The Debtors operated out of leased facilities at 1905 Lionel-Bertrand Blvd, Boisbriand, Quebec (the "Premises").

According to Management, the Debtors' financial difficulties were attributable to the following main reasons:

- A drastic erosion in sales volume in the past few years due to substantial competition;
- A decreased in profitability due to the reduction of sales;
- Significant level of economic dependence;
- Inability to produce and deliver sufficient merchandise to respond to all purchase orders due to liquidity constraints, resulting in significant fines and penalties; and
- An overly leveraged capital structure.

As a result of the above factors, the Debtors incurred significant cash flow deficiencies and were unable to meet their obligations as they became due.

On November 20, 2015, the Debtors' first ranking secured creditor, the Canadian Imperial Bank of Commerce ("CIBC" or the "Bank"), appointed Richter as a consultant to review the Debtors' cash-flow projections and determine the position of the Bank.

In December 14, 2015, the Debtors, with the assistance and under the supervision of Richter, initiated a formal solicitation process (the "Sale Process") with the view of finding a suitable investor or purchaser for the Debtors' assets and business.

On March 18, 2016, as a result of the Sale Process, and following extensive discussions and negotiations, the Debtors accepted an offer whereby all or substantially all of their assets would be sold as a going concern to a non-related purchaser, Davion Inc. acting on behalf of 9338-9641 Québec Inc. (the "Purchaser").

On March 21, 2016, the Purchaser's offer was approved by CIBC, providing for only a partial recovery of the Bank's secured debt.

II. EVENTS POST FILING OF THE NOTICE OF INTENTION

On March 22, 2016, the Debtors each filed an Application for the Issuance of Orders Authorizing a Sale of Assets (the "Sale Applications") seeking the authorization to sell all or substantially all of their assets as a going concern to the Purchaser (the "Transaction").

On March 24, 2016, the Court rendered an order approving the Transaction, and authorizing the transfer of the Debtors' assets to the Purchaser free and clear of all charges. On the same date, the Transaction

closed and the purchase price was paid to the Trustee, acting as escrow agent. The sale proceeds were then remitted to the CIBC and BDC Capital Inc. ("BDC") who also had secured rights against certain assets.

On March 24, 2016, immediately after the Transaction closed, the Debtors ceased all operations and activities.

After the closing of the Transaction, the Debtors and the Purchaser worked collaboratively to transfer the business operations in a smooth and organized manner as it related to the principal suppliers, customers and employees thereby preserving the business relationship with each such party.

During the NOI proceedings, the Trustee filed four (4) reports with the Court, which among other things provided the Court with background information on the Debtors, the NOI proceedings, the Debtors' cash-flows and the Transaction. Copies of these reports and the orders granted by the Court during the NOI proceedings can be obtained from the Trustee's website at <http://www.richter.ca/en/folder/insolvency-cases/0-9/2806436-canada-inc> and <http://www.richter.ca/en/folder/insolvency-cases/0-9/2818396-canada-inc>.

Following the closing of the Transaction, the Debtors no longer had the ability to file a viable proposal to its creditors within the time period required by the Court, pursuant to section 50.4(8) of the BIA. Consequently, the Debtors were deemed to have made an assignment in bankruptcy on September 2, 2016.

On September 9, 2016, all known creditors of the Debtors were sent the notice of the first meeting of creditors, along with proof of claim and proxy forms. On September 10, 2016, the notice of the bankruptcy and the first meeting of creditors was published in a local newspaper, *Le Nord info*.

III. HISTORICAL FINANCIAL RESULTS

The consolidated financial results of the Debtors for the years ended December 31, 2012, 2013 and 2014 are summarized below. The latest available audited financial statements, as audited by PSB Boisjoli, are for the year ended December 31, 2014:

Consolidated Income Statement Summary			
(In 000's)			
	F2014 (audited)	F2013 (audited)	F2012 (audited)
Sales and commissions	\$ 13,546	\$ 14,132	\$ 15,809
Cost of goods sold	10,392	10,933	12,391
Gross margin	3,154	3,199	3,418
% gross margin	23%	23%	22%
Expenses			
Selling	1,959	1,787	1,845
Administrative	721	1,130	1,381
Financial	580	590	442
Amortization	102	145	139
	<u>3,362</u>	<u>3,652</u>	<u>3,807</u>
Net loss before income tax	(208)	(453)	(389)
Income tax (recovery)	-	-	(57)
Net loss	<u>\$ (208)</u>	<u>\$ (453)</u>	<u>\$ (332)</u>

We note from the above that the Debtors suffered financial losses in the last three (3) fiscal years, primarily explained by declining sales.

IV. STATEMENT OF AFFAIRS

As per the BIA, a representative of the Debtors is required to inform the Trustee, by way of a declaration, of the Debtors' assets and liabilities as at the date of bankruptcy ("Statement of Affairs"). The following summarizes the information contained in the Debtors' Statements of Affairs:

2806436 Canada Inc. and 2818396 Canada Inc. Statements of Affairs As at September 9, 2016		
	2806436 Canada Inc.	2818396 Canada Inc.
Assets	\$ -	\$ -
Liabilities		
Secured creditors	-	-
Unsecured creditors	4,692,820	6,031,281
Deficiency	<u>\$ (4,692,820)</u>	<u>\$ (6,031,281)</u>

A) Assets

As per the Debtors' books and record and following the Transaction, there are no assets declared by the Debtors.

B) Liabilities

It is important to note that the exact amount of the Debtors' liabilities as at September 9, 2016 will only be determined once all proofs of claim have been submitted by the creditors and have been compiled by the Trustee.

- **Secured Creditors**

Although CIBC and BDC each held security rights over the assets of the Company, as a result of the Transaction, their claim has been reclassified as unsecured for the purposes of the bankruptcy Statement of Affairs. As at the date of the bankruptcy, their respective debts are summarized below:

Creditor	Amount
CIBC	\$ 2,793,855
BDC Capital Inc.	890,000
	<u>\$ 3,683,855</u>

- **Preferred creditors**

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

- **Unsecured creditors**

As of the date of this Report, the Trustee has not received sufficient proofs of claim to accurately determine the actual amount owing to the other unsecured creditors. However, based on the Statement of Affairs, the combined unsecured debt of the Debtors, excluding the residual amounts owing to the CIBC and BDC approximate \$3.4 million.

V. SUMMARY OF THE PRELIMINARY ADMINISTRATION

A) Books and Records, Security and Protective Measures

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.

B) Reviewable Transactions and Preferential Payments

The Trustee has not performed a review of the payments/transactions made during the months immediately preceding the date of the bankruptcy which may be preferential, reviewable, or undervalued as provided for within the meaning of the BIA. In light of the limited funds available within the bankrupt estate, the feasibility of completing such a review will be discussed with the Inspectors to be appointed at the first meeting of the creditors.

VI. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

Seeing that all known assets of the Debtors were sold as part of the Transaction, and the secured lenders still have residual claims, it is the Trustee's view that no dividends will be available for the benefit of the preferred and unsecured creditors.

Dated at Montreal, this 21st day of September 2016

Richter Advisory Group Inc.

Trustee



Raymond Massi, CPA, CA, CIRP
Administrator of the Bankruptcy