

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-046776-148
ESTATE NO.: 41-1929950

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

Accessoires La Brea International Inc.
a legal person duly constituted, having its
registered office at 5800 rue St-Denis, Suite 1206
Montreal QC H2S 3L5

Debtor

- and -

Richter Advisory Group Inc.

Trustee

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL
(Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*)**

Pursuant to Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*, and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Proposal.

We caution the reader that we have neither conducted an audit nor a verification of the books and records of the Debtor. Consequently, we cannot render an opinion as to the accuracy of the information contained therein. The information discussed herein emanates from the books and records of the Debtor as well as from our discussions with the Management of the Debtor.

I. INTRODUCTION

On November 6, 2014, Accessoires La Brea International Inc. (hereinafter "La Brea", the "Debtor" or the "Company") filed a Proposal in accordance with the *Bankruptcy and Insolvency Act* (hereinafter referred to as the "Act" or "BIA"). We have enclosed herewith the Proposal made by the Debtor to its creditors, a proof of claim form, a voting form, a proxy, and a notice indicating the place and time of the Meeting of Creditors to address the Proposal.

The following summarizes the relevant information and key elements that may assist the creditors in evaluating the Debtor's affairs and the Proposal.

Take notice that, if the Proposal is accepted by the creditors at the meeting to be held on November 25, 2014, an application will be made to the Québec Superior Court, judicial district of Montréal, 1 Notre-Dame Street E., Room 16.10, Montréal, QC, H2Y 1B6 on December 3, 2014, at 9 o'clock to approve the proposal of the Debtor.

II. OVERVIEW OF THE COMPANY

La Brea is an importer and wholesale distributor of jewellery, watches and accessories. In May 2014, the Company sold its “Steelx Watches & Jewellery” trademark (“Steelx”) and related inventory excluding inventory on consignment at The Bay locations and Wal-Mart stores located in Canada. The details of the transaction are further described below.

The Debtor’s current operations are limited to the ongoing sale of its remaining Steelx inventory at five The Bay locations (Downtown Montreal, Carrefour Laval, Les Galeries de La Capitale, Promenades St-Bruno and Place Rosemère) as well as residual inventory at Wal-Mart and various independent jewelers. The Debtor is no longer operating out of its office at 5800 St-Denis Street. Mr. Marc-André Létourneau is currently assisted by a part-time operations staff and a part-time accounting staff.

III. CAUSES OF INSOLVENCY AND RECENT DEVELOPMENTS

After experiencing cash flow issues in 2013 as a result of decreased sales, the Debtor initiated a liquidation plan which involved transferring inventory to heavier traffic The Bay locations, offering 50%-90% discounts on merchandise at these stores and increasing advertising. The Company also offered independent jewellers discounted lots of merchandise and extended its business hours at the 5800 St-Denis store (this location also being the Company’s head office).

As the liquidation plan proved unsuccessful, the Debtor embarked on the sale process of its Steelx product line and remaining inventory in March 2014. The Company, with the assistance of Richter, actively searched for, identified and contacted 56 potential buyers to determine the level of interest in the marketplace. As a result of these efforts, La Brea received two offers from interested parties, one from Prime Art and Jewel (“PAJ”) for the Steelx brand and remaining related inventory, and one from a liquidator for all the inventory on-hand. La Brea deemed the liquidator’s offer insufficient and accepted the PAJ offer.

IV. TRANSACTION

PAJ Canada Company (the “Purchaser”), the Canadian division of PAJ, and the Debtor executed an Asset Purchase Agreement (“APA”) on May 29, 2014. Pursuant to the terms of the APA, the Purchaser acquired the “Steelx Watches & Jewellery” trademark and Steelx inventory excluding inventory on consignment at The Bay locations and Wal-Mart stores (“Purchased Assets”).

The APA provides for the Purchaser to use commercially reasonable efforts to sell the Purchased Assets at prices mutually agreed to by both the Purchaser and the Debtor. As per the APA, the Purchaser will pay the Debtor an amount equal to sixty percent (60%) of the total collected net sales revenue (defined as gross sales revenues from the sale of the inventory after the date of the agreement less any discounts, rebates, chargebacks and returns) from sales of the Purchased Assets (up to December 30, 2019) until La Brea has received the lesser amount of: i) La Brea’s documented inventory cost (amount estimated at \$714,840) or ii) \$600,000. Any remaining inventory as at December 31, 2019, will terminate the obligation to pay the purchase price. The Purchased Asset consideration is payable on a monthly basis. At closing, La Brea received a deposit of \$100,000 from the Purchaser for the inventory and \$50,000 for the trademark. These amounts were remitted to CIBC to pay down a portion of the Debtor’s outstanding secured loan.

In addition, the APA provides for Mr. Létourneau’s continual involvement with the brand on a consulting basis.

V. 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.

A) Statement of Earnings (Deficit)

Accessoires La Brea International Inc. Statement of Earnings			
	F2014 Unaudited (6 months ended Dec. 31, 2013)	F2013 Unaudited (May 31, 2013)	F2012 Unaudited (May 31, 2012)
Revenue	\$ 1,993,675	\$ 3,119,669	\$ 3,161,464
Cost of Goods Sold	1,123,773	1,493,832	1,579,824
Gross Margin	<u>869,902</u>	<u>1,625,837</u>	<u>1,581,641</u>
Salaries and Benefits (Operations)	288,651	535,446	510,844
Salaries and Benefits (Administration)	88,315	174,461	214,525
Subcontractor	25,228	23,404	43,303
Advertising and Promotions	2,029	116,593	232,635
Bad Debts	73	29,901	13,472
Commissions	106,496	156,023	190,761
Interest and Bank Fees	22,341	35,623	36,708
Interest on Line of Credit	51,174	75,315	59,515
Interest on Long term Debt	5,772	13,095	21,475
Office Supplies	69,377	118,961	119,804
Professional Fees	80,344	27,520	33,741
Rent	50,647	86,568	87,578
Membership Dues	2,990	30,750	17,769
Taxes and Permits	10,508	81	1,996
Insurance	15,462	33,831	36,935
Travel and Sales Representative	42,912	126,170	152,544
Electricity	4,375	6,833	6,860
Depreciation	25,616	53,749	60,844
General and Administrative Expenses	<u>892,309</u>	<u>1,644,325</u>	<u>1,841,310</u>
Earnings Before Taxes	(22,407)	(18,488)	(259,669)
Taxes	-	(2,394)	(34,788)
Net Earnings (Deficit)	<u>\$ (22,407)</u>	<u>\$ (16,094)</u>	<u>\$ (224,881)</u>

As shown in the above table, for the 6-month period ended December 31, 2013 (the latest information available), the Debtor reported revenues of \$1,993,675 and a net loss of \$22,407. It is important to note that consignment inventory shipped to The Bay and Wal-Mart is included in the revenue amount therefore, distorting the actual sales amount for the period. The Company obtains sales reports from Wal-Mart and The Bay in order to track its consignment sales. **Management estimates that, for the 6-month period ended December 31, 2013, actual sales represented approximately \$550K of the \$1,993,675.**

B) Historical Balance Sheet

Accessoires La Brea International Inc.			
Balance Sheet			
	As at Dec. 31, 2013	As at May 31, 2013	As at May 31, 2012
	Unaudited	Unaudited	Unaudited
Assets			
Cash	\$ -	\$ -	\$ -
Accounts Receivable (Note 1)	2,120,717	1,351,188	1,342,268
Prepaid Expenses	39,641	40,737	43,289
Inventory	1,353,775	1,892,977	2,111,687
Certificate of Deposit (USD)	2,606	2,481	2,426
	<u>3,516,740</u>	<u>3,287,382</u>	<u>3,499,670</u>
Deferred Charges	370,364	350,295	256,653
Property, Plant and Equipment	258,652	283,928	323,160
	<u>\$ 4,145,755</u>	<u>\$ 3,921,605</u>	<u>\$ 4,079,483</u>
Liabilities			
Bank indebtedness	\$ 1,321,603	\$ 1,739,956	\$ 1,775,425
Trade Accounts Payable	480,377	252,784	260,683
Other Accounts Payable & Accrued Liabilities	217,663	80,348	97,929
	<u>2,019,643</u>	<u>2,073,089</u>	<u>2,134,036</u>
Due to Marc Létourneau	1,041,004	621,335	587,691
Long-term debt	151,730	190,072	306,094
	<u>3,212,377</u>	<u>2,884,495</u>	<u>3,027,821</u>
Shareholder's Equity			
Capital Stock	50,210	50,210	50,210
Retained Earnings	883,168	986,900	1,001,452
	<u>\$ 4,145,755</u>	<u>\$ 3,921,605</u>	<u>\$ 4,079,483</u>

Note 1: Management estimates the value of the Accounts Receivable balance related to consignment inventory shipped to The Bay and Wal-Mart stores but not yet sold to be \$1.3 million.

C) Debtor's Statement of Affairs - Assets

Based on the Debtor's Statement of Affairs as of November 6, 2014, and certain additional information provided by Management, the Debtor's assets can be summarized as follows:

Accessoires La Brea International Inc.	
Assets	
Cash in Bank	\$ 28,810
Accounts Receivable - Collectible	
Accounts Receivable - Total	\$ 1,272,833
Accounts Receivable - Bad	(1,157,009)
Accounts Receivable - Doubtful	<u>(55,061)</u>
Van - Dodge Caravan 2011	14,850
Inventory (estimate)	10,000
	<u>\$ 114,423</u>

Estimated gross realization amount is prior to consideration of the payment of post-filing obligations as well as professional fees.

Of the remaining \$1,273K of receivables currently on the books, \$1,157K of receivables are considered uncollectible based on the age of the accounts (approximately \$700K relate to goods on consignment at full wholesale value), and \$55K are considered doubtful. The Debtor estimates the recoverable accounts receivable balance at approximately \$61K. This balance is due from two department stores and approximately 30 independent jewelers.

The Company currently leases a 2011 Chrysler Dodge Caravan used for merchandise delivery. As per the Canadian Black Book of car values, the average asking price is \$14,850 for this model. Actual asking price can vary to reflect the vehicle's individual characteristics.

The Company estimates that the liquidation value of the remaining inventory held by La Brea is \$10,000 based on the expressions of interest and offers received during the sale process. Management plans on selling this merchandise at The Bay locations over the next few months (consignment sales).

D) Debtor's Statement of Affairs - Liabilities

The Debtor has provided us with a list of its creditors. Notices have been sent to the known creditors and, to date, we are unable to determine if the Debtor's records agree with those of its creditors. As Proofs of Claim are received, we shall record the specific amounts claimed by the creditors, and prior to paying any dividend, we shall perform a variance analysis (where applicable).

Liabilities indicated below are based on the books and records of the Debtor, the Statement of Affairs as of November 6, 2014, Management's representations as well as information provided by certain creditors.

Accessoires La Brea International Inc.	
Liabilities	
Secured Creditors	
Related Party (Mr. Létourneau)	\$ 610,644
Unrelated Creditors	-
Crown Claims and Preferred Creditors	46,001
Unsecured Creditors	
Related Party (Mr. Létourneau)	1,261,918
Unrelated Creditors	788,518
	<u>\$ 2,707,081</u>

In August 2014, Mr. Létourneau purchased the CIBC debt (\$610,644) and security and therefore, Mr. Létourneau has a first ranking secured claim against all the assets of the Debtor. The Crown Claims and Preferred Creditors balance of \$46,001 pertains to the employee portion of outstanding federal and provincial deductions at sources. In addition, Mr. Létourneau has advanced funds to the Debtor totaling \$1.3 million.

We caution that these amounts may change as proofs of claim are received.

VI. PROPOSAL

A) Summary

As noted above, the Debtor's current operations are limited to the ongoing sale of its remaining Steelx inventory at five The Bay locations, residual inventory at various independent jewelers as well as collection from the PAJ transaction. The Debtor is no longer operating out of its office at 5800 St-Denis Street. Mr. Létourneau is currently assisted by a part-time operations staff and a part-time accounting staff to assist the Debtor in collecting the remaining trade receivables.

The terms of the Proposal provide that a payment of \$100K less payment of Crown Claims, Employee Claims and Preferred Claims be remitted by the Debtor to the Trustee within 90 days following approval of the Proposal for distribution to Ordinary Creditors. Subject to the approval of the Proposal, the payment of the Dividend is guaranteed by the Guarantor, Mr. Létourneau.

Upon acceptance of the Proposal, Mr. Létourneau agrees as follows in respect of funds owing to him as Secured and Unsecured Creditor (the "Létourneau Claims"):

- The Létourneau Claims shall be subordinated and postponed and shall not be entitled to receive any payment from the Debtor of any principal or interest unless and until all the dividend has been fully paid to Ordinary Creditors under the Proposal;
- Mr. Létourneau waives and renounces to any right to prove the whole or any portion of the Létourneau Claim as an ordinary claim under the Proposal.

B) Amounts to be paid as a priority

According to the terms of the Proposal, the following amounts must be paid in priority:

- All Secured Claims other than the Létourneau Secured Claim shall be paid in accordance with existing agreements or as may be otherwise arranged with each of the Secured Creditors;
- Amounts due to Her Majesty the Queen in right of Canada or of any province which are subject to a demand under subsection 224 (1.2) of the *Income Tax Act*, or of any provision of the *Canada Pension Plan* or of the *Employment Insurance Act* that refers to subsection 224 (1.2) of the *Income Tax Act* and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or an employee's premium, or employer's premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts, or of any provision of provincial legislation essentially similar to the foregoing provisions as provided in paragraph 60(1.1)(c) of the Act and that

were outstanding at the time of the filing of the Proposal, shall be paid in their entirety, without interest, within sixty (60) days after the approval of the Proposal;

- Amounts owing to employees (past and present) and that they would have been entitled to receive under Section 136(1)(d) of the Act if the Debtor had been declared bankrupt on the date of the approval of the Proposal, shall be paid in their entirety immediately after the approval of the Proposal;
- The Preferred Claims, without interest or penalty, shall be paid in their entirety in priority to Unsecured Claims within sixty (60) days of the approval of the Proposal.

C) Amounts to be disbursed to Ordinary Creditors

The amount available after payment of the above-mentioned amounts ("Net Amount") shall be paid to the Trustee within 90 days of the Approval of the Proposal and shall be distributed to Ordinary Creditors as follows:

- Each of the Ordinary Creditors shall receive, in full and final payment of its Unsecured Claim, without interest or penalty:
 - a) Provided the creditor makes an election, the lesser of five hundred dollars (\$500) or the amount of its Unsecured Claim as set out in its proof of claim or an irrevocable and unconditional reduction of such Unsecured Claim to five hundred dollars (\$500); or
 - b) A pro-rata share of the balance of the Net Amount (after payment of the amount defined in a) above).

D) Creditors' Committee

The Debtor consents to the creation of a committee which shall be comprised of, at most, three (3) individuals (the "Committee") designated by the creditors at the Meeting of Creditors. The Committee shall have the following powers:

- to advise the Trustee with respect to the administration of the Proposal;
- to waive any default in the execution of the Proposal;
- to confirm that the Debtor has satisfied all of the terms and conditions of the Proposal; and
- to adjourn the payment of any dividends to Ordinary Creditors provided for in the Proposal.

VII. ESTIMATE AS TO DISTRIBUTION TO CREDITORS

In the event that the creditors reject the Proposal, the Debtor will automatically be bankrupt and the net proceeds from the liquidation of the assets (after the payment of the Trustee's fees and expenses) will be distributed to the creditors in the order provided for under the Act. The following information is to inform the creditors on the estimate as to the distribution to creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

A) Proposal

Based on the Claims reflected in the Debtor's Statement of Affairs, the amount of the Proposal (\$100,000) would be distributed as follows:

Accessoires La Brea International Inc. Proposal			
Proposal Amount		\$ 100,000	
		<u> </u>	
	Estimated Claims	Estimated Distribution	
Crown Claims	\$ 46,001	\$ 46,001	100.0%
Unsecured Creditors (Note 1)	788,518	53,999	6.8%
		<u>\$ 100,000</u>	
Note 1: Excluding the Létourneau Unsecured Claim.			

B) Bankruptcy

In a bankruptcy scenario, it has been estimated that the net realization value of the assets would be \$127,423 and therefore all proceeds would be for the benefit of the Crown Claims and Secured Creditors.

Accessoires La Brea International Inc. Estimated Distribution - Bankruptcy Scenario			
Net Realization of Assets (estimated)			
Cash on hand		\$ 28,810	
Accounts Receivable		60,763	
Inventory		10,000	
Other Assets (Van)		14,850	
Receipts from PAJ Transaction (2015 Estimate)		63,000	
Professional Fees		<u>(50,000)</u>	
		<u>\$ 127,423</u>	
	Estimated Claims	Estimated Distribution	
Crown Claims	\$ 46,001	\$ 46,001	100.0%
Secured Creditors (Mr. Létourneau)	610,644	81,422	13.3%
Unsecured Creditors	788,518	-	0.0%
Unsecured Creditors (Mr. Létourneau)	1,261,918	-	0.0%
	<u>\$ 2,707,081</u>	<u>\$ 127,423</u>	

The Company obtained a gross sales report from the Purchaser for the four-month period ending September 30, 2014. The report shows gross sales of approximately \$77,000 for the period, therefore, considering the \$100,000 deposit, no amount is receivable from PAJ as at September 30, 2014. Management anticipates the October 2014 to January 2015 sales will cover the remaining deposit balance of \$100,000 at which point the Debtor will begin receiving funds from the collection of sales. The Debtor estimates that beginning in March 2015, it will receive monthly payments of approximately \$7,000 to \$8,000 for the remainder of the year (\$63,000 for the year ended December 31, 2015). It is estimated by Management that proceeds from this transaction beyond December 2015 will be minimal.

C) Other considerations

The following are additional elements to be considered:

- i. The Proposal provides for the payment of a dividend to Ordinary Creditors within ninety (90) days of the approval of the Proposal. In a bankruptcy, it is expected that any distribution will occur at a much later date.
- ii. Sections 95 to 101 of the Act will not be applicable to the Proposal. The remedies pursuant to these provisions relate to the recovery of certain amounts under reviewable transactions, preferential treatments and asset disposals.

Since these remedies would be available in the event of a bankruptcy of the Debtor, we are in the process of performing a summary analysis of various transactions involving the Debtor during the last twelve months and will provide an update at the Meeting of Creditors.

VIII. CONCLUSION & RECOMMENDATION

The Trustee is of the opinion that if the Proposal is not approved by the creditors, it is unlikely that the Unsecured Creditors will realize any recovery of their debt in view of the significant prior ranking Crown and Secured Claims (over \$650,000). It is estimated that the Proposal will provide recovery to the Unsecured Creditors of approximately 7%. **The Trustee therefore recommends to vote in favour of the Proposal.**

Dated at Montreal, Province of Quebec, this 12th day of November 2014.

Richter Advisory Group Inc.
(Trustee)

Benoit Gingues, CPA, CA, CIRP

