

# RSM Richter Inc.

RSM Richter Inc.

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**CANADA**  
Province of Quebec  
District of Quebec  
Division No.: 01-Montréal  
Court No.: 500-11-041307-113  
Estate No.: 41-1537676

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

**In the Matter of the Bankruptcy of:**

**GBO Inc.**

a body politic and corporate, duly incorporated according to law and having its head office at 1010 Sherbrooke St West #410, in Montreal, Quebec and its principal place of business at 274 Ave. Duchesnay, in Sainte-Marie de Beauce, Quebec, G6E 2B4:

**Bankrupt**

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## TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On September 9, 2011, GBO Inc. ("GBO", "Company" or "Debtor") filed a Notice of Intention to Make a Proposal ("NOI") in accordance with the *Bankruptcy and Insolvency Act* ("BIA") and RSM Richter Inc. was appointed as Trustee under the NOI.

The Debtor failed to file a Proposal within the initial prescribed delay of 30 days following the filing of the NOI and did not make an application to the Court for an extension of the initial delay. Consequently, on October 10, 2011 the Company was deemed to have made an assignment in bankruptcy pursuant to the provisions of the BIA, and RSM Richter Inc. ("Richter" or "Trustee") was appointed Trustee to the Bankrupt Estate.

**The information contained in this Report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited 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. CORPORATE STRUCTURE AND BACKGROUND INFORMATION**

GBO is a Quebec based company that designed, developed, manufactured and distributed mid to high-end, energy efficient wood windows, doors and accessories. The Company operated a plant in Sainte-Marie de Beauce, Quebec and employed approximately 200 people.

The Company sold its products primarily under the brand names "Bonneville", "StormBuster" and "Polar", to the home improvement and construction markets in Quebec, Ontario, the Atlantic Provinces, and parts of Eastern and South Eastern United States. The Company mainly served independent building material distributors, distributors specializing in windows, doors and millwork, select hardware retailers as well as construction and renovation contractors.

Over the past few years, the Company's sales volume decreased significantly as a result of the poor economy and the significant decline in the real estate market, primarily in the US. These factors, coupled with a weak US currency, created the insolvency situation at hand. In addition, GBO was forced to close its plant in April and May of this year, due to significant flooding in the Beauce region. The Company therefore generated insufficient cash flows to meet its operating requirements and became unable to meet its obligations as they generally became due.

As a result of the above, GBO ceased all design, development and manufacturing operations and terminated all but four (4) of its employees on September 6, 2011.

GBO is a public company listed on the TSX Venture Exchange under the ticker symbol "GBO". The shares are held 55% by 3264289 Canada Inc., 25% by Mont Blanc Corporation and the remaining 20% by the public. On September 7, 2011 the trading of GBO shares was halted due to GBO's announcement that it had suspended its operations and that all directors except one had resigned. On September 9, 2011, as a result of the filing of the NOI, trading of GBO shares was suspended.

## **II. EVENTS LEADING UP TO AND POST FILING OF NOTICE OF INTENTION**

Prior to the filing of the NOI, on September 6, 2011, GBO ceased all design, development and manufacturing operations and terminated all but four (4) of its employees. As a result of the Company's liquidity problems, the Debtor was unable to meet its significant payroll obligations that had accrued, but were not then due, as well as its accrued vacation pay and severance obligations.

On September 9, 2011, subsequent to the Debtor's filing of the NOI, the Debtor filed a Motion for the Appointment of an Interim Receiver under s.47.1 and 47.2 of the BIA. On September 12, 2011 the Court granted an Order appointing RSM Richter Inc. as Interim Receiver, with the powers provided therein, including control of cash receipts and disbursements.

Management was hopeful that the period under the NOI would enable it to conclude discussions with a potential purchaser or investor that had communicated its interest in the Company. Given that there was no prospect of obtaining funding, and in order to maintain a skeletal operation through any possible restructuring proceedings and further discussions with the potential purchaser or investor and thereby preserve the possibility that the company could re-emerge as a going concern, on September 7, 2011, a secured loan in the amount of \$250,000 was made to the Debtor by Mr. Christopher Wood. The funds were deposited in the Interim Receiver's Trust account in order to fund the conservatory costs necessary to preserve the value of GBO's assets.

The services of certain key employees were retained in order to deal with matters relating to clients, creditors, accounting and payroll as well as assist in the ongoing discussions with the potential buyers and/or investors.

The Company has provided termination notices and records of employment to its terminated employees and the Trustee (with the assistance of the Company's former employees) intends to complete and issue all outstanding statutory employment documents.

During the initial 30 day delay following the filing of the NOI, the Company was unable to obtain a firm commitment or undertaking from the potential purchaser/investor that may have allowed the funding of a Proposal to its creditors. Furthermore, the Debtor's projected cash flow was insufficient to fund the expected conservatory and preservation costs beyond the initial 30 days period. Accordingly, the Debtor did not seek an extension of the delay to make a Proposal and was deemed to have made an assignment of its assets pursuant to the provisions of the BIA at the expiration of the initial delay period.

### **III. STATEMENT OF AFFAIRS**

In accordance with the BIA, a Statement of Affairs was prepared from information supplied by management and pursuant to the sworn declaration of an authorized representative of the Company. As noted above, the Trustee has not reviewed or otherwise audited this information and it is provided herein solely to reflect such Statement of Affairs and is not to be relied on for any other purposes.

The following summarizes the Company's assets as reflected in the Statement of Affairs filed with the Official Receiver:

<b>GBO Inc</b>	
<b>Statement of Affairs</b>	
<b>As of October 10, 2011</b>	
	<b><u>Amount</u></b>
Inventory	\$ 250,000
Accounts Receivable	750,000
Machinery and Equipment	500,000
Real Property - St-Marie	3,000,000
Real Property - St-Francois	395,000
Real Property - St-Raphael	125,000
	<b><u>\$ 5,020,000</u></b>

**A) Assets**

• **Inventory (\$250,000)**

The Company's inventory consists of the following:

- Finished goods – primarily custom made windows and doors;
- Work in process – window and door components at various stages of production;
- Raw materials – mainly pre-cut wood, profiled aluminum extrusions, custom sized insulated glass and windows and doors hardware and components.

The Trustee, with the assistance of the certain former GBO employees, has communicated with the Company's customers in order to attempt to permit such customers to retrieve, on a COD basis, the available finished goods in order to ensure that they pay the amounts due in respect of fulfilled orders and therefore improve the collectability of the accounts receivable. We cannot at this stage determine the potential realization value of the inventory. Corporation Financière Brome Inc. ("Brome") has registered notices of hypothecs in respect of all inventory of the Company.

• **Accounts Receivable (\$750,000)**

Brome, GBO's accounts receivable financing company, has also registered notices of hypothecs in respect of the accounts receivable. Under the financing agreement, the accounts receivable are directly collectable by Brome, with the assistance of GBO. The nominal value of gross accounts receivable amount to approximately \$2,548,000. The Company has provided for potential dilution (reflecting as-yet undetermined claims from customers for warranty, incomplete contracts etc.) in

its Statement of Affairs and has reflected the accounts receivable at an estimated realizable value of \$750,000.

The Trustee is working closely with Brome to recover the maximum amount of accounts receivable, the whole in order to reduce the overall indebtedness of the Company to Brome and with a view to optimizing overall realizations for all creditors of the Company. As of the date of this report it is premature to evaluate the amount that will ultimately be collected.

- **Machinery & Equipment (\$500,000)**

The Company's equipment consists of milling, moulding and "jointing" equipment, tools, small equipment and assembly tables. A detailed listing of the Company's machinery and equipment is presently being compiled by the Trustee and will be circulated to potential purchasers and investors as part of the Sale Process. At this point, it is premature to estimate the realization value for the machinery and equipment.

- **Real Property (\$3,520,000)**

The real property held by the Debtor consists of the following buildings:

- 274 Ducheneau, Sainte-Marie de Beauce, QC ("Sainte-Marie Building") – Operating plant (Value per Statement of Affairs of \$3.0MM);
- 40, Chemin St-Francois E, St-Francois de la Rive-du-Sud ("St-Francois Building") - Vacant facility (Value per Statement of Affairs of \$395,000);
- 16, Cote du Moulin, St-Raphael, QC ("St-Raphael Building") – Vacant facility (Value per Statement of Affairs of \$125,000).

The realization value of the real estate will ultimately be determined following the Sale Process. In respect of the Sainte-Marie Building, there are notices of registered hypothecs granted by the Company to each of Brome (for up to \$1.0MM plus interest) and Christopher M. Wood (for up to \$300,000 plus interest).

- **Lawsuits**

The Debtor is involved in a legal proceeding that, if successful, could generate proceeds for the benefit of the Estate. The Trustee is presently obtaining additional information and will seek instructions from the Inspectors of the Estate concerning this issue.

**B) Liabilities**

It is important to note that the exact amount of the liabilities which existed as at October 10, 2010, will only be determined once all proof of claims are submitted by the creditors and have been compiled and verified by the Trustee. We, nonetheless, present hereinafter a summary of the Company's liabilities as reflected in its Statement of Affairs.

Description	Amount
Secured Creditors	2,255,000
Preferred Creditors	-
Unsecured Creditors	4,495,000
	<u><u>\$ 6,750,000</u></u>

• **Secured Creditors**

The Company's apparent secured lenders include Brome, the Interim Receiver for its unpaid professional fees and Mr. Christopher Wood. Their claims and the value ascribed to their apparent security as per the Statement of Affairs are as follows:

- Brome's claim is in the amount of \$1,670,137, and appears to be secured by a first-registered charge on the Company's accounts receivable and inventory. Brome's claim is also secured by a first-registered charge on the Sainte-Marie Building for up to \$1.0MM. Christopher Wood's claim is in the amount of \$279,264, and appears to be secured by registered charges (filed after those of Brome) on the assets of the Company, including a registered charge on the Sainte-Marie Building for up to \$300,000 plus interest.

The Trustee has requested from its legal counsel, McMillan LLP, an independent legal opinion on the validity and enforceability of the security of each of the above-described lenders. The results of the independent legal opinion will be communicated at the First Meeting of Creditors.

In addition to the above secured debt, the Company's former employees have, under s. 81.3 of the BIA, a secured claim for their unpaid wages and vacation pay earned in the six (6) months preceding the bankruptcy, for a maximum of \$2,000 per employee (the "81.3 Claim"). Based on preliminary payroll information provided, the 81.3 Claims in total are estimated to amount to approximately \$306,000 and rank ahead of the Company's secured lenders on the Company's current assets (inventory and accounts receivable). The balance of the unpaid wages and vacation pay due to employees are considered to be unsecured claims.

The Company also has outstanding deductions at source remittances of \$88,551, of which \$58,230 are subject to a deemed trust and rank ahead of all secured claims including the 81.3 Claim (the Statement of Affairs does not reflect the foregoing amounts).

- **Preferred Creditors**

The Company may have preferred claims (ranking below those of the secured creditors) for amounts owing to landlords and government authorities. The Trustee will review such claims if produced.

- **Unsecured Creditors**

The unsecured claims listed on the Statement of Affairs are based on the Company's books and records, which may be incomplete and/or out of date. Accordingly, the amounts of claims received from unsecured creditors may differ from the amounts reflected on the Statement of Affairs. The unsecured proof of claims will be reviewed as they are received.

#### **IV. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE**

- **Books and records**

The books and records of the Company were not up to date as of the date of the bankruptcy. The Trustee engaged the Company's former controller to update the books and records of the Company and assist in the administration of the Bankrupt Estate.

The books and records are currently located at the Company's premises and under the Trustee's control. The Trustee is in the process of taking inventory of the books and records, which will eventually be taken into custody by the Trustee.

The Trustee has also taken measures to preserve the electronic records of the Company.

- **Security and Protective Measures**

Since October 10, 2011, the Trustee has undertaken various security and protective measures including the following:

- Changing the locks on all doors giving access to the premises and notifying the alarm company;
- Hiring three (3) former employees, on a temporary basis, to assist the Trustee in its functions;
- Safeguarding measures to preserve the electronic records of the Company;
- Confirmed that the insurance policies covering the assets of the Company are in force and requested that the Trustee be added as insured and loss payee to the various insurance policies;

- Made arrangements with the suppliers of essential services (Hydro, Gaz Met....) to ensure the continuity of services required to conserve the Company's assets;
- Communicated with all known third parties in possession of assets of the Company to advise them of the Bankruptcy; and
- Identified Property of Others on the Company's premises and inventory potentially subject to s.81.1 claims.

- **Transfers at Undervalue and Preferences**

The Trustee will be performing a review of payments to creditors in the last three months, twelve months and five years (depending on whether the parties are related) preceding the date of Bankruptcy to determine if any transfer at undervalue or preferential payments were made. The Trustee will advise the inspectors of any relevant findings upon completion of the review.

## **V. SUMMARY OF ONGOING SALE PROCESS**

The Trustee has initiated a sale process to solicit offers for the assets of the Bankrupt Estate from strategic buyers, investors and auctioneers.

As at the date of this report, a teaser has been prepared and is about to be mailed to a list of identified prospective purchasers. In this regard, the Trustee has gathered relevant information and compiled a virtual data room, which prospective purchasers can access.

The Trustee has requested that all offers be submitted by no later than December 6, 2011 at 3:00 p.m.(Montreal time). Time is of the essence since the Trustee currently has limited funds available and substantial costs are being incurred to safeguard and secure the assets. The offers will be reviewed with the secured creditors and the Inspectors.

## **VI. PROPERTY OF OTHERS**

The Trustee has received property claims which are in the process of being reviewed.

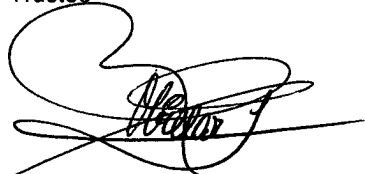


**VII. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION**

Virtually all the assets of the Company are subject to the secured lenders' security. As of the date of this report, it is premature to determine what the realization values of the assets will be and therefore, whether sufficient funds will be available to fully reimburse the secured creditors and pay a dividend to the unsecured creditors.

DATED AT MONTREAL, this 28<sup>th</sup> day of October 2011.

**RSM Richter Inc.**  
Trustee

A handwritten signature in black ink, appearing to read "Gilles Robillard", is written over a horizontal line. The signature is stylized and somewhat cursive.

Gilles Robillard, CA, CIRP