

IN THE MATTER OF THE PROPOSAL OF

NEXT WOOD INC.  
OF THE CITY OF VAUGHAN  
IN THE PROVINCE OF ONTARIO

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

This report provides an outline of the background and financial position of Next Wood Inc. (“**Next Wood**” or the “**Company**”), including relevant information that should be of assistance to the Company’s creditors in considering their position with respect to the Proposal (as defined herein) being presented by the Company to its creditors.

Enclosed are the following documents:

- Notice of Proposal to Creditors;
- Proposal, under Part III, Division I of the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c.B-3 (the “**BIA**”) lodged with Richter Advisory Group Inc. (“**Richter**” or the “**Proposal Trustee**”) by the Company and filed with the Official Receiver on May 14, 2014 (the “**Proposal**”);
- The Company’s Statement of Affairs sworn May 14, 2014;
- A Proof of Claim form and general Proxy;
- A Voting Letter; and

In preparing this report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company’s representatives, the Company’s books and records, discussions with the Company’s representatives and the Company’s legal counsel. The Proposal Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information.

Unless otherwise stated, monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined in this report have the meanings attributed to such terms in the Proposal.

**Section A – Introduction and Background**

Next Wood is a privately held company, which operates two manufacturing divisions – Inline Systems and Tricore Industries (“**Tricore**”) – and specializes in the production of premium quality modular office furniture and home storage cabinets for mass merchandisers.

The Company operates out of leased facilities in Vaughan, Ontario. The Company has approximately 50 employees, including both salaried and hourly workers. The workers are not unionized and the Company does not sponsor a pension plan for any of its employees.

Due to declining sales over the previous several years, the Company's financial results have suffered culminating in an EBITDA loss for the fiscal year ended April 30, 2014.

As a result of Next Wood's declining financial performance, the Company exhausted its liquidity and, on April 14, 2014 (the "**NOI Filing Date**"), the Company filed a Notice of Intention to Make a Proposal ("**NOI**") under Subsection 50.4(1) of the BIA.

Subsequent to the filing of the NOI, the Company determined that it was in the best interest of all stakeholders to solicit offers for the Company's assets on a going concern or other basis. The Company focused its efforts on finding a buyer that would purchase all or substantially all of its assets "en-bloc" with a view to continuing the business and providing employment to as many of Next Wood's employees as possible.

The Company, with the assistance of the Proposal Trustee, prepared an information memorandum and developed a list of parties who might potentially have an interest in this acquisition opportunity, including other modular office furniture manufacturers, competitors, and others. The Company identified and contacted in excess of 20 potentially interested parties directly in connection with the acquisition opportunity.

The deadline for the submission of offers was May 7, 2014 (the "**Offer Deadline**"). Several interested parties submitted formal letters of intent/offers for all or substantially all of the Company's assets by the Offer Deadline. Certain of the prospective purchasers that submitted formal letters of intent/offers expressed interest in an acquisition on a going concern basis.

The Company has selected one of the potential purchasers with which to pursue a transaction. This party has had extensive discussions with Next Wood's management and is in the process of completing its remaining due diligence.

Negotiations with the prospective purchaser are ongoing and, as Next Wood and the prospective purchaser have not yet signed a binding agreement of purchase and sale, the Proposal Trustee will not go into any more detail with respect to the prospective transaction or its terms at this time. The BIA requires that any sale of assets outside of the ordinary course of business be approved by the Court and, as such, the Company will bring a motion for Court approval once a definitive agreement of purchase and sale has been executed.

## **Section B – Summary of the Proposal**

A brief summary of the Proposal, which Next Wood filed with the Proposal Trustee on May 14, 2014, is provided below. The terms of the Proposal would be effective if:

1. all classes of Unsecured Creditors vote for acceptance of the Proposal by a majority in number and two thirds in value of each class of Creditors present, personally or by proxy, at the Creditors' Meeting and voting on the resolution; and
2. the Proposal is approved by the Court, in accordance with the provisions of the BIA.

Next Wood's Proposal provides for the orderly sale of the Company's assets with the expectation that Creditors will derive a greater benefit from the efforts of the Company to sell its assets and to collect its accounts receivable than would be realized from a forced liquidation.

As set out in the Proposal, the Proposal provides for the following:

1. The monies paid by the Company to the Proposal Trustee to fund a distribution to Creditors will be comprised of all of Next Wood's cash flow generated by the Company's operations (including, without limitation, proceeds from the sale of the Company's assets and the collection of accounts receivable) net of any amounts thereof used by the Company in the ordinary course of business including, but not limited to, the payment of employee compensation, rent and applicable taxes.
2. The Proposal is not being made to Secured Creditors. The Claims of Secured Creditors are to be dealt with in accordance with existing agreements between the Company and the Secured Creditors or as otherwise agreed to by Next Wood and the Secured Creditors.
3. The fees and disbursements of the Proposal Trustee, including the legal fees and expenses of the Proposal Trustee and the Company in connection with the preparation and proceedings arising out of the Proposal, are to be paid by the Company in priority to all Claims in accordance with the scheme of distribution set out in the BIA.
4. Claims as at the NOI Filing Date that could be subject to a demand under subsection 224(1.2) of the *Income Tax Act* (Canada) (the "ITA"), any provision of the *Canada Pension Plan or Employment Insurance Act* that refers to subsection 224(1.2) of the ITA, or any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the ITA, shall be paid within six (6) months after the issuance of the Approval Order approving the Proposal, or as otherwise may be arranged.
5. Amounts owing to the Company's employees and former employees that they would qualify to receive as claims under paragraph 136(1)(d) of the BIA if the Company became bankrupt on the NOI Filing Date, as well as all wages, salaries, commissions or compensation for services rendered after the NOI Filing Date but before Court approval of the Proposal, are to be paid immediately following the granting of the Approval Order. For greater certainty, amounts due or which may become due do not include claims for severance or termination pay or any compensation *in lieu* of termination.
6. Following the payments referred to in paragraphs 3, 4 and 5 above, Claims of Preferred Creditors are to be paid, in full, from the Funds in priority to all Claims of Unsecured Creditors.
7. Following the payments referred to in paragraphs 3, 4, 5 and 6 above, the balance of the Funds are to be distributed by the Proposal Trustee, on a *pro rata* basis, to the remaining Unsecured Creditors of the Company.
8. Claims arising in respect of goods supplied, services rendered or other consideration given to the Company subsequent to the NOI Filing Date are to be paid, in full, by the Company in the ordinary course of business and on terms agreed to between the Company and its respective creditors.
9. Upon the (i) approval of the Proposal by the Creditors and the Court, (ii) the passing of the Effective Date, (iii) the closing of the Proposed Transaction, and (iv) the making of the payments provided for in the Proposal, all Claims against the Company shall be forever discharged and released.
10. Upon distribution of the payments referred to in paragraphs 3,4,5,6 and 7 above, the Proposal will have been fully performed and the Proposal Trustee will issue to Next Wood the certificate referred to in Section 65.3 of the BIA (Certificate of Full Performance of Proposal).

11. The implementation of the Proposal is conditional upon the fulfilment or satisfaction of all of the following conditions:
- i. acceptance of the Proposal by the Unsecured Creditors;
  - ii. the granting by the Court of the Approval Order and the expiry of all appeal periods in respect thereof;
  - iii. the closing of the Proposed Transaction; and
  - iv. the receipt by the Proposal Trustee of the Funds from Next Wood.

**The description of the Proposal in this report is a summary only and is being provided solely for the purpose of assisting the Creditors. In the event there is any inconsistency between this report and the Proposal, the terms of the Proposal shall govern. Creditors are advised to read the Proposal in its entirety.**

### Section C – Financial Position and Causes of Difficulties

The Company's operating results for the fiscal years ended April 30, 2012, 2013 and 2014 are summarized in the table below (as the Company has not finalized its reporting for the year ended April 30, 2014, the financial data for that period includes certain estimates):

<b>Next Wood Inc.</b>			
<b>Historical Financial Results</b>			
	(Estimated)		
For the year ending (in 000's)	Apr-14	Apr-13	Apr-12
Sales	5,999	8,717	7,961
Cost of Sales	(5,022)	(6,661)	(5,778)
Gross Profit	977	2,056	2,183
General and Admin Expense	(1,898)	(1,998)	(1,854)
<b>EBITDA</b>	<b>(921)</b>	<b>58</b>	<b>329</b>

The Company's financial difficulties over the past several years have resulted from an overall decline in sales, particularly sales of Tricore products to mass merchandisers and more recently Canadian government contract sales, which historically comprised a significant portion of the Company's total sales.

### Section D – Interim Receiver

Not applicable.

### Section E – Identification and Evaluation of Assets

According to the Company's Statement of Affairs, the Company's assets consist of the following:

Asset Description	Estimated Net Book Value	Estimated Realizable Value per SOA
Accounts Receivable	2,000,000	1,400,000
Inventory	n/a	200,000
Capital Assets	n/a	200,000
<b>Total *</b>	<b>2,000,000</b>	<b>1,800,000</b>

\* the total estimated net book value of the Company's assets excludes any value for the Company's inventory and capital assets.

The Company's assets are discussed in greater detail below:

### **Accounts Receivable**

According to the Company's books and records, the Company's accounts receivable balance, as at April 30, 2014, was approximately \$1,350,000. The Company has undertaken a detailed analysis of its accounts receivable to determine the collectability of each account taking into consideration historic collection rates, the nature of the customer and the aging of the receivable. Based on the Company's analysis, the Company has estimated that on a going concern basis approximately \$1,200,000 of its accounts receivable are collectible.

However, in a liquidation scenario, it is the Proposal Trustee's view that in addition to normal credit risk, customers may claim offsets for potential outstanding warranty costs and back charges against amounts owed to the Company. As a result, the Proposal Trustee estimates that in a liquidation scenario, the realizable value of the Company's accounts receivable ranges between \$700,000 – \$850,000.

### **Inventory**

According to the Company's books and records, the estimated cost and net book value of inventory, as at April 30, 2014, was approximately \$1,330,000. According to the Company, Next Wood's inventory consists of finished goods (\$430,000) and raw materials (\$900,000). Based on discussions with the Company, the Proposal Trustee understands that approximately \$200,000 of the finished goods inventory is related to the Company's working showroom merchandise with the remaining finished goods being small quantities of other furniture items and components.

In the Proposal Trustee's view, in a liquidation scenario, there may be limited recoveries from the Company's inventory, as significant discounts may be required to sell the Company's raw materials and finished goods inventory. Based on the above and the results of the Company's solicitation of offers for the Company's assets, the Proposal Trustee estimates that in a liquidation scenario, the realizable value of the Company's inventory ranges between \$50,000 – \$100,000, net of any commissions and expenses that would be charged by an auctioneer.

### **Capital Assets**

According to the Company's books and records, the net book value of the Company's capital assets, as at April 30, 2014, was approximately \$1,000,000. The Company's capital assets consist largely of machinery and equipment and leasehold improvements.

In the Proposal Trustee's view, based on the results of the Company's solicitation of offers for the Company's assets, the realizable value of Next Wood's capital assets in a liquidation scenario ranges between approximately \$150,000 – \$250,000.

### **Section F – Conduct of the Debtor**

The Proposal Trustee has performed a preliminary review of certain of Next Wood's financial records, including the Company's bank statements for the 12-month period prior to the NOI Filing Date in order to identify (i) any disbursements greater than \$25,000 that may be considered preferences pursuant to the BIA, and (ii) any transactions that may be considered transfers at undervalue pursuant to the BIA.

Based on its preliminary review, the Proposal Trustee has not identified any disbursements and/or transactions in the 12-month period prior to the NOI Filing Date that may be considered preferences or transfers at undervalue. The Proposal Trustee will provide an update, if necessary, on its review of Next Wood's financial records at the Creditors' Meeting to consider the Proposal.

In connection with its review of Next Wood's financial records, the Proposal Trustee notes that approximately 70 cheques issued by the Company to Creditors in the ordinary course and on regular payment terms for pre-NOI Filing Date obligations cleared the Company's bank account subsequent to the NOI Filing Date (the "**Pre-Filing Date Supplier Payments**"). The aggregate amount of the Pre-Filing Date Supplier Payments total approximately \$180,000.

## Section G – Creditor Claims

According to the Company's Statement of Affairs, Next Wood's creditors are summarized in the table below:

Creditor Classification	Estimated Claim Per SOA
Secured	1,406,000
Preferred	nil
Unsecured	1,062,801
Contingent	nil
<b>Total</b>	<b>2,468,801</b>

### Secured Creditors

Based on the Company's books and records, Next Wood's secured creditors and the amounts of their respective claims, as at May 9, 2014 (excluding any accrued interest and other recovery costs), are as follows:

Secured Creditor	Amount of Claim
Laurentian Bank (the " <b>Bank</b> ")	400,000
1394507 Ontario Limited (" <b>1394507</b> ")	50,000
M. Logan (" <b>Logan</b> ")	200,000
D. Thomson (" <b>Thomson</b> ")	100,000
<b>Total</b>	<b>750,000</b>

The Proposal is not made to Secured Creditors. As noted in Section B of this report, the Claims of Secured Creditors are to be dealt with in accordance with existing agreements between the Company and the Secured Creditors or as otherwise agreed between Next Wood and the Secured Creditors.

The Proposal Trustee has obtained a legal opinion on the validity and enforceability of the security granted by the Company in favour of each of 1394507, Logan and Thomson from its independent legal counsel, Thornton Grout Finnigan LLP ("**TGF**"). TGF's legal opinion states that, subject to the customary assumptions and qualifications for an opinion of this nature, the security interests of 1394507, Logan and Thomson are valid and enforceable as against the Company.

With respect to the Bank's security, as TGF has previously acted as counsel to the Bank regarding Next Wood, the Proposal Trustee obtained a legal opinion on the validity and enforceability of the security granted by the Company to the Bank from independent legal counsel, Aird & Berlis LLP ("**A&B**"). A&B's legal opinion states that, subject to the customary assumptions and qualifications for an opinion of this nature, the security interest of the Bank is valid and enforceable as against the Company.

The Proposal Trustee also notes that, based on its review of a printout summarizing registrations of security interests against the Company pursuant to the *Personal Property Security Act* (Ontario), in addition to the above noted Secured Creditors, the Royal Bank of Canada has registered a security interest against Next Wood (the "**Other Security Registration**"). Next Wood has informed the Proposal Trustee that, as at the NOI Filing Date, no amounts were owed by the Company in respect of the Other Security Registration. The parties holding the Other Security Registration will be provided with notice of the Creditors' Meeting.

## **Preferred Creditors**

According to the Statement of Affairs, no amounts are due to Preferred Creditors. Based on the Proposal Trustee's review of certain of the Company's financial records, it appears that all amounts owed to Next Wood's employees, in respect of outstanding wages and vacation pay, which may have existed as at the NOI Filing Date, have been paid by the Company in the ordinary course. Any employee claims that might exist at the time of Court approval of the Proposal will be paid immediately following Court approval in accordance with the terms of the Proposal and the BIA.

Based on its review of certain of the Company's financial records, the Proposal Trustee is not aware of any other potential Preferred Claims.

## **Unsecured Creditors**

According to the Company's Statement of Affairs, Next Wood's Unsecured Creditors are owed \$1,062,800.50, excluding any amounts owed to the Company's former employees for termination and severance pay.

## **Contingent Creditors**

The Company is not aware of any contingent creditors.

## **Section H – Previous Dealings with the Debtor**

The undersigned Proposal Trustee confirms that neither he nor the firm with which he is related has provided previous services to the Company in any capacity other than consulting with the Company in respect of its consideration to file a Proposal. The Proposal Trustee further confirms that he does not have any knowledge of any conflict of interest situation arising from the acceptance of this appointment as Proposal Trustee under the Proposal.

## **Section I – Informal Meetings with Major Creditors**

Not applicable.

## **Section J – Remuneration of Proposal Trustee**

Payment of the fees and expenses of the Proposal Trustee, including the legal fees and disbursements of the Proposal Trustee, are provided for in the Proposal.

As at the date of this report, the fees and expenses of the Proposal Trustee for the period ending April 18, 2014 have been included in the Company's operating costs and paid in the ordinary course from the Company's operating cash flow.

## **Section K - Cash Flow Statement**

In accordance with the BIA, the Proposal Trustee reviewed the cash flow statement and assumptions for the period May 12, 2014 to July 11, 2014 that were prepared by the Company (the "**Cash Flow Statement**") and which were filed with the Official Receiver. In reviewing the Cash Flow Statement, nothing has come to the Proposal Trustee's attention which would lead the Proposal Trustee to believe that the hypothetical and probable assumptions used by the Company in the preparation of the Cash Flow Statement are inconsistent with the purpose of the Cash Flow Statement.

## **Section L – Statement of Estimated Realizations**

### **Proposal Accepted**

The Company has determined that it is in the best interest of all stakeholders to file a Proposal to effect an orderly sale of the Company's assets. It is the Company's expectation that Creditors will derive a greater benefit from the Company's efforts to sell its assets and collect its accounts receivable than would be realized from a forced liquidation of the Company's assets.

The Funds to be distributed to the Company's Creditors will be comprised of all of Next Wood's cash flow generated from the Company's operations prior to the closing of the proposed transaction (including, without limitation, proceeds from the sale of the Company's assets and the collection of the Company's accounts receivable) net of any amounts thereof used in the ordinary course of its business.

As noted in Section A above, Next Wood has completed a sales process to solicit offers for the Company's assets on a going concern or other basis, and the Company has selected to pursue a transaction with one of the prospective purchasers interested in a going concern acquisition of the Company. This party has had extensive discussions with Next Wood's management and is in the process of completing its remaining due diligence.

Negotiations with the prospective purchaser are ongoing and, as Next Wood and the prospective purchaser have not yet signed a binding agreement of purchase and sale, the Proposal Trustee will not go into any further detail with respect to the prospective transaction or its terms at this time. The BIA requires that any sale of assets outside of the ordinary course of business be approved by the Court and the Company will bring a motion for Court approval once a definitive agreement of purchase and sale is executed.

In the Proposal Trustee's view, the proposed going concern transaction represents the best possibility for the Creditors to maximize their return from the Company's assets by:

- (i) continuing the Company's manufacturing operations;
- (ii) enhancing recoveries from accounts receivable;
- (iii) avoiding set off claims;
- (iv) optimizing realizations from raw materials and finished goods inventory;
- (v) preventing a supply disruption to the Company's direct and indirect customers; and
- (vi) providing ongoing employment to a number of the Company's employees.

In connection with the Proposal, please note that the amount owing to Unsecured Creditors and, therefore, the estimated dividend to Unsecured Creditors, is subject to variation in the event that the amounts included in the Proofs of Claim filed by the Creditors and accepted by the Proposal Trustee are different from the amounts included in the Company's Statement of Affairs.

Distributions to Unsecured Creditors in respect of Proven Claims will be subject to the Superintendent of Bankruptcy's levy that will not exceed 5% of the dividend paid.

### **Proposal Not Accepted**

If the Proposal is not accepted, Next Wood would become bankrupt on June 4, 2014 and the Company's assets would vest with the trustee in bankruptcy, subject to the rights of the Company's Secured Creditors. The Proposal Trustee is of the view that in the event of a bankruptcy of the Company, the Bank would likely appoint a Receiver to realize on the Company's assets.



In the event of the Company's bankruptcy, there is risk that realizations from the Company's assets will be reduced resulting in diminished realizations for the Creditors. In a bankruptcy scenario, assuming the Company's assets as at June 4, 2014 are substantially the same as the Company's assets detailed in Section E of this report, the Proposal Trustee estimates that the realizations that would be available to the Company's Unsecured Creditors would be as follows:

Asset Description	Estimated Realizable Value		Notes
	Low	High	
Accounts Receivable	700,000	850,000	1
Inventory	50,000	100,000	2
Capital Assets	150,000	250,000	3
<b>Estimated Gross Realizations</b>	<b>900,000</b>	<b>1,200,000</b>	
Less:			
Claims of Secured Creditors	(750,000)	(750,000)	4
Source deductions	nil	nil	5
Estimated Fees of Receiver/Trustee in Bankruptcy	(100,000)	(75,000)	
<b>Amount Available for Distribution</b>	<b>50,000</b>	<b>375,000</b>	6
<b>Estimated Unsecured Claims</b>	<b>1,062,801</b>	<b>1,062,801</b>	7
<b>Estimated % Distribution per Dollar of Unsecured Claim</b>	<b>4.70%</b>	<b>35.28%</b>	8

**Notes:**

1. In a bankruptcy, estimated recoveries from accounts receivable may be negatively impacted by customer claims for offsets against potential outstanding warranty costs and back charges.
2. In a bankruptcy, significant discounts may be required to sell the Company's finished goods, which largely consist of office furniture and small quantities of other furniture and components, and there may be limited recoveries from the Company's raw materials inventory.
3. Estimated recoveries in a liquidation scenario are based on the results of the Company's solicitation of offers for the Company's assets.
4. Represents the amounts payable to the Bank, 1394507, Logan and Thomson, as at May 9, 2014, excluding any accrued interest and other recovery costs (see Section G of this report).
5. According to the Company, there are no amounts owing for source deductions.
6. This amount does not include costs of realization such as occupancy costs (rent) and insurance.
7. This amount represents the amount owing to Unsecured Creditors as per the Company's Statement of Affairs and, as such, is subject to variation in the event that amounts included in Proofs of Claim filed by the Creditors and accepted by the Proposal Trustee are different from the amounts included in the Statement of Affairs. In this regard, it should be noted that this amount does not include any former employee claims in respect of termination and/or severance pay.
8. The estimated dividend to Unsecured Creditors in respect of Proven Claims will be subject to the Superintendent of Bankruptcy's levy that will not exceed 5% of the dividend paid.

Based on the above statement of estimated realizable value, in the event of Next Wood's bankruptcy, the estimated percentage distribution per dollar of Unsecured Claim (excluding the costs of realization, including rent and insurance) ranges from approximately 5% – 35%.

**Section M – Recommendations**

Based on the analysis set out in this report, the Proposal Trustee believes that the Proposal is advantageous since the Proposal contemplates a distribution to Creditors that likely exceeds the dividend that would otherwise be available from a bankruptcy, as described above.

The Proposal represents the best possibility for the Creditors to maximize their return from the Company's assets by providing for the possibility of the continuation of the Company's manufacturing operations which, in turn, would enhance recoveries from accounts receivable, avoid set off claims, optimize realizations from raw materials and finished goods inventory, prevent a supply disruption to the Company's direct and indirect customers and provide ongoing employment to a number of the Company's employees.

Accordingly, the Proposal Trustee recommends the acceptance of the Proposal by the Creditors.

**Section N – Meeting of Creditors**

In completing the Proof of Claim form enclosed herewith, Creditors should only include all amounts outstanding as at April 14, 2014.

**It is expressly noted and should be clearly understood that Richter, acting solely in its capacity as Proposal Trustee, assumes no responsibility for any claims against Next Wood before, on, or after the NOI Filing Date.**

Creditors may attend the meeting to consider the Proposal either in person or by proxy. The meeting to consider the Proposal will be held on June 4, 2014 at 10:00 a.m. at the offices of Thornton Grout Finnigan LLP, Toronto-Dominion Centre, 100 Wellington Street West, Suite 3200, Toronto, Ontario.

**Please note that in order for your vote to count in connection with the Proposal, it is necessary that you complete and submit the enclosed documents prior to the meeting.**

Creditors who do not wish to attend or be represented at the meeting but who wish to vote, may forward their Proofs of Claim and voting letters to the Proposal Trustee so as to be received prior to the meeting.

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Should you have any questions in connection with the Proposal or this report, please contact Mr. Adam Sherman at (416) 642-4836 or via email at [asherman@richter.ca](mailto:asherman@richter.ca).

Dated at Toronto, Ontario, this 23<sup>rd</sup> day of May, 2014

**Richter Advisory Group Inc.  
in its capacity as Proposal Trustee re  
the Proposal of Next Wood Inc.**



Paul van Eyk, CPA, CA-IFA, CIRP