

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO.: 01-LAVAL  
COURT NO.: 540-11-010093-187  
ESTATE NO.: 41-2345632

SUPERIOR COURT

*Bankruptcy and Insolvency Act*

IN THE MATTER OF THE BANKRUPTCY  
OF:

**Pharmetics (2011) Inc.**

a body politic and corporate, duly  
incorporated according to law and having its  
head office and its principal place of business  
at:  
3695 Laurentian Autoroute  
Laval, QC H7L 3H7

**Debtor**

- and -

**Richter Advisory Group Inc.**

**Trustee**

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

On February 16, 2018, Pharmetics (2011) Inc. (the "**Company**" or "**Debtor**") filed a Notice of Intention ("**NOI**") to Make a Proposal in accordance with the *Bankruptcy and Insolvency Act* ("**Act**") and Richter Advisory Group Inc. ("**Richter**" or "**Trustee**") was appointed Trustee thereunder.

On March 16, 2018, the Company filed an assignment in bankruptcy in accordance with section 49 of the Act and Richter was appointed Trustee of the estate of the bankrupt by the Official Receiver, subject to confirmation by the creditors at the first meeting of creditors.

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

**The information contained in this report has been prepared based on the books and records of the Company and from discussions with the Company's management. 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 exactness or the reliability of the information contained herein.**

**I. INTRODUCTION**

The Debtor engaged in manufacturing, packaging and distribution of pharmaceutical and natural health products. The Company was also involved in custom manufacturing and packaging for other firms in which it had no proprietary interests. The Company provided over 1,300 sku's in multiple dosing formats

across multiple product categories including vitamins, minerals, herbals and supplements amongst others. The Company was originally founded in 1956.

Pharmetics' head office and main production facility is located in Laval (Quebec) in a 150,000 square foot facility. The Debtor also operated a 22,000 square foot facility in Burlington (Ontario) which was used primarily for packaging. It also had a sales office in Toronto (Ontario). All of the facilities were leased. At the time of bankruptcy, the Debtor employed approximately 200 people.

The Debtor attributes its financial difficulties to the following:

- Increase in material and labour costs that the Company was unable to pass onto its customers;
- Undercapitalization of the Company;
- An overall increase in competition in the industry.

## II. 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.

<b>Pharmetics (2011) Inc. Financial Results Summary (in 000's)</b>	<b>YTD (9 mo's) 27-Jan-18</b>	<b>Unaudited 29-Apr-17</b>	<b>Unaudited 23-Apr-16</b>	<b>Unaudited 25-Apr-15</b>
Net Sales	\$ 19,506	\$ 26,736	\$ 20,863	\$ 26,526
Cost of sales and other operating costs	(27,972)	(40,512)	(30,165)	(34,493)
<b>EBITDA</b>	<b>\$ (8,466)</b>	<b>\$ (13,776)</b>	<b>\$ (9,302)</b>	<b>\$ (7,967)</b>
Interest, amortization and other	(1,053)	(4,420)	(3,208)	(4,366)
<b>Net loss</b>	<b>\$ (9,519)</b>	<b>\$ (18,195)</b>	<b>\$ (12,510)</b>	<b>\$ (12,333)</b>

The above table shows the poor financial performance of the Company for the last four (4) fiscal years.

### III. STATEMENT OF AFFAIRS

In accordance with the BIA, a Statement of Affairs showing the Bankrupt's assets and liabilities as at the date of bankruptcy ("**Statement of Affairs**") was prepared from the information provided by and pursuant to the sworn declaration of Mario Ricci. The following summarizes the information contained in the Debtor's Statement of Affairs which has not been validated by the Trustee:

Pharmetics (2011) Inc. Statement of affairs As at March 16, 2018 (In \$ CDN) (in thousands)		Book value
<b>Assets</b>		
Accounts receivable	\$	3,155
Inventory		8,381
Machinery and equipment		3,573
Long term assets		1,128
Other assets		1,117
		<u>17,354</u>
<b>Liabilities</b>		
Secured creditors		8,780
Preferred creditors		-
Unsecured creditors		32,582
Contingent liabilities		-
		<u>41,362</u>
Deficiency	\$	<u>(24,008)</u>

#### A) Assets

- **Accounts Receivable (\$3,155k)**

As per the Company's books and records, the gross accounts receivable approximate \$3.2 million of which management estimates \$0.5 million are not collectible for various reasons including disputes and offsets.

- **Inventory (\$8,381k)**

The Company's books and records reflect that the composition of the inventory is as follows:

- Finished goods
- Work in process
- Bulk
- Raw materials
- Packaging

The realizable value of the inventory will primarily depend on the ability of the Trustee to sell the finished goods as well certain raw materials, which in itself is dependent on whether the inventory has been inspected through the Company's normal quality control process as well as various Health Canada regulations. The Statement of Affairs reflects an estimated realizable value of approximately \$1.7 million.

It should also be noted that immediately following the bankruptcy, Health Canada attended at both the Laval and Burlington facilities and placed various inventory which are classified as controlled substances under seizure. As of the preparation of this report, Health Canada is still conducting a physical count of this inventory. The Trustee will provide a further update to the inspectors as required.

- **Machinery and Equipment (\$3,573k)**

The Trustee will attempt to sell the inventory through a sale by tender process as outlined elsewhere in this report. The Statement of Affairs reflects an estimated net realizable value of \$0.5 million for the machinery and equipment.

- **Long-Term Assets (\$1,128k)**

The books and records of the Company indicate that the long-term assets are intangible assets such as product development costs, customer relationships and computer software. The Statement of Affairs reflect no estimated realization value from these assets. Any realization would only result from the sale of all the assets of the Company as a going concern.

- **Other Assets (\$1,117k)**

As per the Company's books and records, other assets consist of prepaid expenses and deposits. The Statement of Affairs do not reflect any recovery of other assets.

## **B) Liabilities**

It is important to note that the exact amount of the Debtor's liabilities as at March 16, 2018, will only be determined once all proofs of claim have been submitted by the creditors and have been compiled and analyzed by the Trustee. Nonetheless, the following is a summary of the Company's liabilities based upon preliminary information.

- **Secured Creditors**

As per the Statement of Affairs, the Company's secured creditors are as follows:

- Employees – \$410k (security interest over the Company's short term assets by virtue of s. 81.3 of the BIA). Amount based on the maximum secured portion per employee (\$2,000) to be adjusted based on the actual amounts owed;
- Accord Financial – \$2,618k (first rank security interest on all assets of the Debtor);
- 2357400 Ontario Inc. – \$5,752k (second rank security interest on all assets of the Debtor);

- The Trustee has engaged Stikeman Elliott to provide a legal opinion as to the validity and enforceability of the security of the secured lenders. A copy of this opinion will be provided to the Inspectors to be appointed.

In the event there is no equity in the realization of assets, the Trustee has made arrangements with Accord Financial in respect of the Trustee's fees and expenses.

- **Preferred Creditors**

The Company's Statement of Affairs indicated that there were no known preferred creditors as at the date of the bankruptcy. The Trustee is not aware of any amounts owing to any government authorities which would be considered a priority. Notice has been sent to all employees and other possible preferred creditors and the ultimate amount of this category of claims will only be subsequently determined. As of the date of this Report, one landlord claim has been received which will be reviewed at the appropriate time.

- **Unsecured Creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$32.6 million. As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to the ordinary unsecured creditors.

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

##### **A) Books and Records**

As at March 16, 2018, the Trustee took possession of the books and records and made copies of the Company's computer systems available information.

##### **B) Security and Protective Measures**

The Trustee has taken the necessary security and protective measures including:

- Changing the locks and alarm codes of the Laval, Quebec and Burlington, Ontario premises;
- Continued the Company's insurance program;
- Issuing a third party to oversee the control of the Laval, Quebec premises.

The Trustee has opened a trust bank account and has also redirected the Company's mail to its office.

**C) Sale by Tender**

On March 29, 2018, the Trustee proceeded with a call for tenders to acquire the rights, title and interest in the assets of the Debtor. An initial mailing was sent to in excess of 250 potential interested parties inviting them to access information in a virtual data room created by the Trustee. The Trustee will provide a further report on the sale process to the inspectors named at the first meeting of creditors.

**D) Reviewable Transactions and Preferential Payments**

The Trustee will perform a review of the payments to creditors preceding the date of the bankruptcy which may be reviewable, preferential or undervalue as defined within the meaning of the Act. The Trustee, upon completion of the review, will discuss any relevant findings with the Inspectors to be appointed at the first meeting of creditors.

**V. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION**

As of the date hereof, based on the estimated realizable value of the assets, the value of the amounts due to the secured creditors, the Trustee does not anticipate that there will be any dividends available to the preferred and ordinary creditors.

DATED AT MONTREAL, this 4<sup>th</sup> day of April 2018

**Richter Advisory Group Inc.  
Licensed Insolvency Trustee**



**Andrew Adessky, CPA, CA, CIRP, LIT  
Administrator of the Bankruptcy**