

Court File No. CV-17-11864-00CL

STRELLMAX LTD.

SUPPLEMENT TO THE SECOND REPORT OF THE RECEIVER

MARCH 8, 2018

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

BETWEEN:

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

**APPLICATION UNDER section 243 of the *Bankruptcy and Insolvency Act*,
R.S.C. 1985, c. B-3, as amended, and under section 101 of the
Courts of Justice Act, R.S.O. 1990, c. C.43**

**SUPPLEMENT TO THE SECOND REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS RECEIVER OF THE ASSETS, UNDERTAKINGS AND PROPERTIES OF
STRELLMAX LTD.**

MARCH 8, 2018

TABLE OF CONTENTS

I. INTRODUCTION	1
II. PURPOSE OF REPORT	1
III. THE PRIORITY AND DISTRIBUTION MOTION	1
IV. RECEIVER'S STATEMENTS OF RECEIPTS AND DISBURSEMENTS	2
V. PROPOSED INTERIM DISTRIBUTION	4
VI. REQUEST FOR APPROVAL OF FEES.....	5

APPENDICES

APPENDIX "A" – LETTER FROM JULIAN HELLER RE: ACCORD FINANCIAL LTD. DATED FEBRUARY 15, 2018

APPENDIX "B" – LETTER FROM DLA PIPER (CANADA) LLP RE: ACCORD FINANCIAL LTD. DATED FEBRUARY 20, 2018

APPENDIX "C" – AFFIDAVIT OF PAUL VAN EYK, SWORN MARCH 6, 2018

APPENDIX "D" – AFFIDAVIT OF EDMOND LAMEK, SWORN MARCH 7, 2018

I. INTRODUCTION

1. This supplementary report (the “**Supplementary Report**”) is supplementary to the second report of Richter Advisory Group Inc. (“**Richter**”) in its capacity as Receiver of Strellmax Ltd. dated February 7, 2018 (the “**Second Report**”). Except where otherwise indicated, this Supplementary Report adopts the definitions contained in the Second Report. This Supplementary Report is subject to the same qualifications, and should be read in conjunction with, the Second Report.

II. PURPOSE OF REPORT

2. The purpose of this Second Report is to provide this Court with information regarding:
 - (i) an update on the Receiver’s actions taken with respect to the Priority and Distribution Motion since the date of the Second Report and related communications between Accord’s counsel and the Receiver’s counsel, DLA;
 - (ii) an updated Interim R&D, covering the period from the date of the Receivership Order to and including March 5, 2018;
 - (iii) the Receiver’s estimate of the Accrued Obligations as of the date of this Supplementary Report and the Receiver’s estimate of the Remaining Costs; and
 - (iv) an update on the amount of the Proposed Interim Distribution in respect of which the Receiver is seeking the Court’s approval.

III. THE PRIORITY AND DISTRIBUTION MOTION

3. On February 15, 2018, counsel to Accord sent a letter (a copy of which is attached hereto as **Appendix “A”**) to the Receiver’s counsel, DLA, with a copy to counsel for Strellson, asking certain questions of the Receiver which it advised had arisen from the Second Report (the “**Second Report Questions**”).
4. On February 20, 2018, the Receiver’s counsel sent a letter (a copy of which is attached hereto as **Appendix “B”**) to Accord’s counsel, with a copy to counsel for Strellson, which contained the Receiver’s responses to the Second Report Questions. The Receiver responded to all of the Second Report Questions, except questions relating to the organization of SNAL and Strellson, which the Receiver referred to Strellson’s counsel since the Receiver did not have direct knowledge of the information requested. The Receiver has been advised by Danny Nunes, associate counsel with DLA, that the questions posed by Accord’s counsel and referred to Strellson’s counsel have been answered as at the date of this Supplementary Report. Furthermore, as at the date of this Supplementary Report, neither the Receiver nor its counsel has received any follow-up questions from Accord’s counsel nor any request to examine the Receiver.

5. Pursuant to the Controlled Funds Order, the cross examinations of Jim Bates, on behalf of Accord, and Valeria Gomon, on behalf of Strellson (the “**Cross Examinations**”), took place on February 27 and February 28, 2018, respectively. The Receiver’s counsel attended the Cross Examinations, and based on the evidence presented therein, nothing has come to the Receiver’s attention as at the date of this Supplementary Report that, in the Receiver’s view, would alter the priority of the Secured Creditor’s claim as outlined in the security opinion obtained.

IV. RECEIVER’S STATEMENTS OF RECEIPTS AND DISBURSEMENTS

6. The updated CAD R&D for the period from the date of the Receivership Order to March 5, 2018 is summarized as follows:

Strellmax Ltd.		
Statement of Receipts and Disbursements (Canadian Dollars)		
For the period July 7, 2017 to March 5, 2018		
Receipts		Notes
Net proceeds from Strellmax	\$ 1,859,672.73	a
SNAL Transaction - cash purchase price	186,781.60	b
Cash in bank at the date of the Receivership Order	54,975.16	
Interest earned	10,298.33	
Miscellaneous refunds	188.14	
FF&E Sales	-	c
Samples Transaction	-	c
Total Receipts	2,111,915.96	
Disbursements		
Funding the Business	259,322.48	a
Professional fees - Receiver	152,916.50	d
Professional fees - Receiver's counsel	75,275.94	d
HST paid on disbursements	29,665.02	
Receivership filing fees	70.00	
Bank charges	72.16	
Total Disbursements	517,322.10	
Excess of Receipts over Disbursements/ Cash on Hand	\$ 1,594,593.86	

Notes:

- a) net proceeds from Strellmax in the amount of approximately \$1.9 million include the net proceeds from the Liquidation Sale and collections of the Company’s accounts receivable (including the Controlled Funds). Of the net proceeds collected, the Receiver provided funding to Strellmax in the amount of approximately \$260,000 to operate the Business, as authorized and directed pursuant to the Receivership Order;

- b) the proceeds from the SNAL Transaction shown in the table above reflect the cash portion of the purchase price paid by Strellson in the amount of approximately \$187,000. The total purchase price of the SNAL Transaction amounted to approximately \$970,000, including the portion satisfied by way of a credit bid of a portion of Strellson's secured debt;
 - c) the purchase prices for the FF&E Sales and the Samples Transaction were also satisfied by way of credit bids of a portion of Strellson's secured debt, in the amounts of approximately \$87,000 and \$38,000, respectively; and
 - d) in addition to the professional fees paid to the Receiver and the Receiver's counsel reflected in the table above, Strellmax paid certain fees and disbursements of the Receiver and the Receiver's counsel directly, which payments are reflected in the Company Cash Flow.
7. As detailed in the above table, the Receiver had total CAD receipts of approximately \$2.1 million between the date of the Receivership Order and March 5, 2018, the majority of which related to net proceeds from Strellmax's Business. Total disbursements over the same period were approximately \$517,000, and as at March 5, 2018, cash on hand was approximately \$1.6 million.
8. The updated USD R&D for the period from the date of the Receivership Order to March 5, 2018 is summarized as follows:

Strellmax Ltd.	
Statement of Receipts and Disbursements (U.S. Dollars)	
For the period July 7, 2017 to March 5, 2018	
Receipts	
Net Proceeds from Strellmax	\$ 125,472.75
Interest earned	412.97
Total Receipts	125,885.72
Disbursements	
Bank charges	19.95
Total Disbursements	19.95
Excess of Receipts over Disbursements/Cash on Hand	\$ 125,865.77

9. As detailed in the above table, the Receiver had total USD receipts of approximately \$126,000 between the date of the Receivership Order and March 5, 2018, the majority of which related to net proceeds from Strellmax's Business, predominantly accounts receivable collections denominated in USD. Total disbursements over the same period were approximately \$20, and as at March 5, 2018, cash on hand was approximately \$126,000.

10. The Receiver estimates there remains approximately \$30,000 in Accrued Obligations primarily relating to professional fees and disbursements incurred up to the date of this Supplementary Report as part of these receivership proceedings. In addition, the Receiver estimates Remaining Costs, including the Remaining Fees and Disbursements (as detailed later in this Supplementary Report), in the amount of \$80,000 (for Outstanding Disbursements of \$110,000 in aggregate).

V. PROPOSED INTERIM DISTRIBUTION

11. As detailed in the Reports and summarized earlier in this Second Report, the security granted by the Company in favour of TD and assigned to Strellson pursuant to the Assignment Agreement, is valid and enforceable according to the independent, written legal opinion obtained by the Receiver in respect of same.
12. The table below sets out the Receiver's Proposed Interim Distribution of the net proceeds from realization to Strellson and/or Accord, in order of priority as determined by this Court:

Strellmax Ltd.	
Funds Available for Interim Distribution	
As at March 5, 2018	
Cash on Hand (in CAD) ⁽¹⁾	\$ 1,756,847.42
Less: Reserves	
81.4 Claims	(21,000.00)
Accrued Obligations	(30,000.00)
Remaining Fees and Disbursements	(70,000.00)
Other Remaining Costs	(10,000.00)
Contingency	(25,847.42)
Total Reserves	(156,847.42)
Proposed Interim Distribution (in CAD)	\$ 1,600,000.00
Note:	
¹ USD-denominated cash on hand has been converted to CAD at the Bank of Canada March 2, 2018 daily rate (1.2891) for presentation purposes.	

13. As at the date of this Supplementary Report, the Receiver seeks this Court's authority to make the Proposed Interim Distribution in the amount of \$1,600,000. Funds reserved by the Receiver are anticipated to be sufficient to fund the estimated remaining administrative costs and professional fees to complete the receivership, and any remaining priority claims of which the Receiver is aware and any further tax remittances required by Strellmax or the Receiver.

14. The Receiver notes that additional funds are expected to be received in the remaining administration, including income tax refunds and input tax credits claimed in the amount of approximately \$170,000, and import duties refunds (although the Receiver is unable to estimate the timing and likelihood of the recoveries on import duties paid at this time).

VI. REQUEST FOR APPROVAL OF FEES

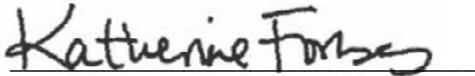
15. The Receiver and its counsel have maintained detailed records of their professional time and disbursements since the date of the Receivership Order.
16. The Receiver's professional fees incurred for services rendered from July 3, 2017 to February 28, 2018 amount to \$346,111.99, plus disbursements in the amount of \$556.34 (all excluding HST). The Receiver's professional fees and disbursements have not yet been approved by the Court. The time spent by the Receiver's professionals is described in the affidavit of Paul van Eyk attached hereto as **Appendix "C"**.
17. The fees of the Receiver's prior counsel, WeirFoulds, for services rendered from June 22, 2017 to December 31, 2017 amount to \$161,882.50, plus disbursements in the amount of \$2,032.39 (all excluding HST). The fees and disbursements of the Receiver's prior counsel have not yet been approved by the Court.
18. The fees of the Receiver's counsel, DLA, for services rendered from January 1, 2018 to February 28, 2018 amount to \$17,710.50, plus disbursements in the amount of \$71.50 (all excluding HST). The fees and disbursements of the Receiver's counsel have not yet been approved by the Court.
19. The time spent by the WeirFoulds and DLA professionals is described in the affidavit of Edmond Lamek attached hereto as **Appendix "D"**. The Receiver has reviewed WeirFoulds' and DLA's accounts and has determined that the services have been duly authorized and duly rendered and that the charges are reasonable given the circumstances.
20. In addition to the fees incurred by the Receiver and its counsel, and on the assumption that there are no delays, disputes or unforeseen developments in connection with these proceedings, including the within motion and the performance of the Remaining Matters, the Receiver has estimated Remaining Fees and Disbursements in the amount of \$70,000.00 for the Receiver and its counsel (all amounts excluding HST). These amounts represent the Receiver's best estimate of the reasonable professional and legal fees required to complete the administration of these proceedings up to the effective date of discharge.

All of which is respectfully submitted on the 8th day of March, 2018.

Richter Advisory Group Inc.
as the Receiver of
Strellmax Limited
and not in its personal capacity



Paul van Eyk, CA·CIRP, CA·IFA
Senior Vice-President



Katherine Forbes, CPA, CA
Vice-President