

First Interim Report of the Receiver
(Subsection 246(2) of the *Bankruptcy and Insolvency Act*)

**In the Matter of the Receivership of
Graf Canada Ltd.
of the City of Calgary
in the Province of Alberta**

The Receiver gives notice and declares that:

1. On April 27, 2016, pursuant to an order (the "Appointment Order") of the Court of Queen's Bench of Alberta, Richter Advisory Group Inc. was appointed receiver and manager (the "Receiver"), without security, of all the assets, undertakings and properties (the "Property") of Graf Canada Ltd. ("Graf" or the "Company") pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, and section 13(2) of the *Judicature Act*, R.S.A. c. J-2.
2. On April 27, 2016, the Receiver took possession or control of the Company's Property, which primarily consisted of:

| <u>Assets</u> | <u>Net Book Value (\$000s)</u> |
|---------------------------|------------------------------------|
| Cash and Cash Equivalents | Nil |
| Accounts Receivable | 866 |
| Inventories | 3,700 |
| Prepaid Expenses | 95 |
| Fixed Assets | 910 |
| Total | 5,571 |

Note: The above amounts represent book values of the Company's assets as detailed in the Company's books and records and do not necessarily represent the sale or liquidation value of the Property.

3. The Receiver's actions to date include:
 - a. Taking possession of and securing the Company's leased premises at 2308 Portland Street S.E., Calgary, Alberta (the "Premises");
 - b. Securing the Company's inventory, fixed assets and books & records located at the Premises, including changing locks and alarm codes;
 - c. Undertaking a review of the Company's inventory and equipment;
 - d. Reviewing Graf's existing insurance coverage and arranging for the Receiver be listed as named insured and loss payee on the Company's insurance policies;

T. 416.488.2345

Richter Advisory Group Inc.
181 Bay St., Suite 3320
Bay Wellington Tower
Toronto, ON M5J 2T3
www.richtar.ca

Toronto, Montreal





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- e. Arranging for payment of rent for the Premises and for the continuation of all essential services, including utilities for the Premises;
 - f. Meeting with Graf's former employees ("**Former Employees**") to advise them of, among other things, the Receiver's appointment and the termination of their employment pursuant to the terms of the Appointment Order. The Receiver also informed the Former Employees of their rights and potential entitlements under the provisions of the *Wage Earner Protection Program Act* ("**WEPPA**") and the limited priority granted to employee claims for compensation in accordance with section 81.4 of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**");
 - g. Determining, according to the Company's books and records, the amounts owed to Former Employees under the WEPPA, submitting the prescribed information to Service Canada, and sending notice of the WEPPA to the Former Employees;
 - h. Retaining certain Former Employees as independent contractors, on a temporary basis, to assist the Receiver in completing various administrative activities;
 - i. Compiling the Company's books and records, based on information obtained subject to the Receiver's best efforts, for the purposes of filing delinquent income tax returns for the Company;
 - j. Mailing a copy of the notice and statement of the Receiver pursuant to sections 245(1) and 246(1) of the BIA to the Office of the Superintendent of Bankruptcy and the Company's known creditors;
 - k. Responding to calls and enquiries from the Company's creditors, including Former Employees, suppliers, customers, and other stakeholders regarding the receivership proceedings;
 - l. Contacting various parties regarding their potential interest in the Company's inventory (not subject to pre-existing orders) and fixed assets;
 - m. Fulfilling certain pre-existing customer orders, and otherwise realizing on the Company's inventories through sales to retailers and other third parties;
 - n. Liquidating the Company's fixed assets by public auction;
 - o. Vacating the Premises and recovering on the Company's security deposit; and
 - p. Realizing on the Company's accounts receivable.
4. During the period from April 27, 2016 to September 30, 2016, the Receiver has realized the following:
 - a. CAN\$1,109,685 and US\$23,800 from realizations on the Company's inventory;
 - b. CAN\$74,065 and US\$209,039 from the collection of accounts receivable;
 - c. CAN\$49,922 from realizations on certain of the Company's furniture, fixtures, and equipment;



- d. CAN\$40,359 from pre-filing GST/HST refunds; and
 - e. CAN\$12,500 from the refund of a portion of the security deposit held by the landlord for the Premises.
5. As at the date of this report, the following Property remains to be realized by the Receiver (in CAN\$):
- a. \$236,000 of accounts receivable outstanding from inventory liquidation sales made by the Receiver on credit terms to customers,
 - b. \$508,000 (book value) of outstanding accounts receivable existing as at the date of the Receiver's appointment; and
 - c. Approximately \$5,400 in proceeds from the sale of certain fixed assets.
6. The intended plan of action of the Receiver to complete the receivership is to:
- a. Realize on the remaining Property as noted above, and;
 - b. Distribute, subject to further order of the Court, the net amounts realized by the Receiver from the Property (subject to any required withholdings to complete the Receiver's administration) to the Bank of Montreal ("BMO") on account of the outstanding secured indebtedness owed by the Company to BMO.
7. Attached as **Appendix "A"** and **Appendix "B"** are the Receiver's Statements of Receipts and Disbursements for its Canadian dollar and United States ("U.S.") dollar accounts, respectively, for the period April 27, 2016 to September 30, 2016. As indicated in **Appendix "A"**, as at September 30, 2016, the Receiver's Canadian dollar cash receipts have exceeded disbursements by approximately \$721,061. As indicated in **Appendix "B"**, as at September 30, 2016, the Receiver's U.S. dollar cash receipts have exceeded disbursements by approximately \$223,986.
8. The realizations from the sale of the Property will be insufficient to pay, in full, the secured claim of BMO. Accordingly, there are no funds available to support a distribution to the Company's unsecured creditors
9. Further interim reports regarding the status of its appointment will be prepared approximately once every 6 months pursuant to subsection 246(2) of the BIA. Creditors who wish to receive a copy of this interim report may request a copy by writing to the Receiver at the following address:

Richter Advisory Group Inc.
Court Appointed Receiver of
Graf Canada Ltd.
181 Bay Street, Suite 3320
Toronto, ON M5J 2T3

Attention: Katherine Forbes
Telephone: +1 416 785 1151
Facsimile: +1 416 488 3765

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9. Further information and materials related to the receivership proceedings may be obtained from the Receiver's website at <http://www.richter.ca/en/folder/insolvency-cases/g/graf-canada-ltd>

Dated at Toronto, Province of Ontario, on October 27, 2016.

Richter Advisory Group Inc.
in its capacity as Receiver of
Graf Canada Ltd.

Per:



Adam Sherman, MBA, CIRP, LIT
Senior Vice President

Appendix “A”

APPENDIX A

| Graf Canada Ltd. | | |
|--|----------------------|-------|
| Statement of Receipts and Disbursements (Canadian Dollars) | | |
| For the period April 27, 2016 to September 30, 2016 | | |
| Receipts | | Notes |
| Receiver's borrowings | \$ 200,000.00 | |
| Asset realizations - Inventory | 1,109,684.87 | 1 |
| Accounts receivable collections | 74,064.86 | |
| GST/HST collected | 109,946.53 | |
| Asset realizations - Fixed Assets | 49,922.35 | 1 |
| Pre-receivership GST/HST refund | 40,359.11 | |
| Refund of security deposit held by landlord | 12,500.00 | |
| Other receipts | 3,202.26 | |
| Total Receipts | <u>1,599,679.98</u> | |
| Disbursements | | |
| Repayment of Receiver's borrowings | 201,727.05 | |
| Professional fees | 246,294.28 | 2 |
| Operating expenses | 171,886.79 | |
| Contract services | 149,741.91 | 3 |
| HST remittances | 63,595.41 | |
| GST/HST paid on disbursements | 44,039.78 | |
| Bank charges and other fees | 1,334.12 | |
| Total Disbursements | <u>878,619.34</u> | |
| Excess Receipts over Disbursements / Cash on Hand | <u>\$ 721,060.64</u> | |
| Notes: | | |
| 1. Proceeds collected by the Receiver in connection with the sale of certain of the Company's inventory and furniture, fixtures, and equipment | | |
| 2. Fees of the Receiver (\$232k) and its counsel (\$14k) incurred during these proceedings. | | |
| 3. The Receiver engaged certain former Graf employees as independent contractors to assist with the receivership proceedings. | | |

Appendix “B”

APPENDIX B

| Graf Canada Ltd. | | |
|---|-----------------------------|------|
| Statement of Receipts and Disbursements (U.S. Dollars) | | |
| For the period April 27, 2016 to September 30, 2016 | | |
| Receipts | | |
| Asset realizations - Inventory | \$ 23,800.00 | Note |
| Accounts receivable collections | 209,038.97 | |
| Other receipts | 229.95 | |
| Total Receipts | <u>233,068.92</u> | |
| Disbursements | | |
| Operating expenses | 8,775.48 | |
| Bank charges and other fees | 307.06 | |
| Total Disbursements | <u>9,082.54</u> | |
| Excess Receipts over Disbursements / Cash on Hand | <u>\$ 223,986.38</u> | |
| Note: | | |
| Proceeds collected by the Receiver in connection with the sale of certain of the Company's inventory and furniture, fixtures, and equipment | | |