

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION NO. : 01 - LONGUEUIL
COURT NO.: 505-11-013024-141
ESTATE NO.: 41-1908342

SUPERIOR COURT
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY
OF:

R. Nicholls Distributors Inc.,

a body politic and corporate, duly
incorporated according to law formerly
having its head office located at 2475 de la
Province Street, in Longueuil, Quebec
J4G 1G3

Bankrupt

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On September 5, 2014, R. Nicholls Distributors Inc. ("Nicholls" or the "Company" or the "Debtor") filed a Notice of Intention to make a Proposal ("Notice of Intention") in accordance with the *Bankruptcy and Insolvency Act* ("BIA") of Canada. The Debtor failed to file a Proposal within the provided period following the filing of the Notice of Intention or within any Court-granted extension and was therefore deemed to have made an assignment of its assets pursuant to the provisions of the BIA.

Consequently, on January 24, 2015, Richter Advisory Group Inc. ("Richter" or "Trustee") was appointed Trustee of the Estate of the Debtor by the Official Receiver, subject to affirmation by the creditors at the first meeting of creditors.

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

The information contained in this report has been prepared from the available books and records of the Company. 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 accuracy or the reliability of the information contained in this report.

I. INTRODUCTION

Nicholls was in operation for approximately 30 years and was involved in the distribution of a large number of market-leading equipment brands on an exclusive or preferred basis in Canada for leading global manufacturers and manufactured uniform apparel under several proprietary labels. Nicholls operated in three main segments: security and law enforcement equipment; hunting and sporting equipment; and uniforms/clothing. Nicholls' customer base included municipal, provincial and federal governments, security and law enforcement agencies and private companies as well as licensed independent retailers across the country.

The Company operated out of leased facilities at 2475 de la Province, in Longueuil, Quebec (the "Premises"). At the end of January 2015, Nicholls ceased all operations and activities and did not own, lease or occupy any premises nor have any employees.

According to Management, the Company's financial difficulties were attributable to the following main reasons:

- A drastic erosion in sales volume in the past few years due to budgetary constraints from all levels of the Canadian government and an erosion of gross margin;
- A decreased in profitability due to the reduction of sales and an erosion of gross margin; and
- An overly leveraged capital structure.

As a result of the above factors, the Company incurred significant cash flow deficiencies and was unable to meet its obligations as they became due.

II. EVENTS POST FILING OF THE NOTICE OF INTENTION

Following the filing of the Notice of Intention, Nicholls retained the services of Richter to assist the Company in its efforts to sell its equipment business. The sale process was unsuccessful despite numerous efforts among potential buyers.

The Trustee filed five (5) reports with the Court (the "Trustee's Reports"), which among other things provided the Court with information relating the sale of assets and the state of the Debtor's business and financial affairs. Copies of the Trustee's Reports and orders granted by the Court can be obtained from Richter's website at <http://www.richter.ca/en/insolvency-cases///les-distributeurs-r-nicholls-inc>.

III. HISTORICAL OPERATING RESULTS

The operating results of the Debtor for the years ended October 31, 2012, 2013 and 2014 are summarized below. The latest available audited financial statements, as prepared by Ernst & Young LLP, are for the year ended October 31, 2012:

R.NICHOLLS DISTRIBUTORS INC.			
Summary of Operating Results			
(In 000'S)	12 months		
	Oct-12 (audited)	Oct-13 (unaudited)	Oct-14 (unaudited)
Sales	\$ 54,022	\$ 49,676	\$ 36,201
Gross profit	16,559	8,451	6,589
	31%	17%	18%
Selling expenses	6,259	5,414	4,144
Administrative expenses	7,025	7,969	6,495
Financial expenses	2,014	1,372	1,726
Depreciation/amort	561	583	478
	15,859	15,338	12,843
Income before income taxes	\$ 700	\$ (6,887)	\$ (6,254)

We note from the above that the major decline in "Income before income taxes" for the last two years is primarily explained by the reduction of sales and gross margin.

IV. STATEMENT OF AFFAIRS

As per the BIA, a representative of the Debtor is required to inform the Trustee, by way of a declaration, of the Debtor's assets and liabilities as at the date of bankruptcy ("Statement of Affairs"). The following summarizes the information contained in the Debtor's Statement of Affairs:

R. Nicholls Distributors Inc. Statement of Affairs As at January 24, 2015	
Assets	
Accounts receivable estimated to produce	\$ 650,000
Liabilities	
Secured creditors (claim amount)	13,821,648
Preferred creditors	-
Unsecured creditors	10,075,652
	<u>23,897,300</u>
Deficiency	\$ (23,247,300)

A) Assets

- **Receivables**

As per the Company's books and record, the gross accounts receivable total approximately \$898,000. Management estimates the realizable value to be approximately \$650,000 after the provision for doubtful accounts. The Company's accounts receivable are currently being collected by Richter.

There have been no other assets declared to the Debtor.

B) Liabilities

It is important to note that the exact amount of the Debtor's liabilities as at January 24, 2015 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**

The Company's primary secured lender is National Bank of Canada with first ranking security covering all of the assets and who was owed approximately \$12.6 million as of the date of bankruptcy. The balance owing to the secured lenders is summarized as follows:

Creditor	Amount
National Bank of Canada	\$ 12,571,648 (first ranking security interest on all assets)
Harry Fried	625,000 (second ranking security interest on all assets)
Robert Nicholls	625,000 (second ranking security interest on all assets)
	<u>\$ 13,821,648</u>

The above amounts reflect the estimated claims from the Company's secured creditors. It is expected that the corresponding realization value will be substantially less than the amounts owed to each secured creditor.

Given the estimated realization of the Debtor's assets in comparison to the amount of secured claims, The Trustee's has not obtained from an independent legal counsel an opinion on the validity and enforceability of the security of the secured lenders. It is the intention of the Trustee to discuss this matter with the Inspectors to be appointed at the first meeting of the creditors. On the instructions of the Inspectors, the Trustee may or may not request to obtain such independent legal opinion.

- **Preferred creditors**

The Company's Statement of Affairs indicated that there were no known preferred creditors as at the date of bankruptcy.

- **Unsecured creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$10.1 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.

V. SUMMARY OF THE PRELIMINARY ADMINISTRATION

A) Books and Records, Security and Protective Measures

Richter made the necessary arrangements to take possession of the books and records and certain electronic data relating to the Debtor for future reference.

In addition to the above, the Trustee has taken various security and protective measures, including the following:

- Opening trust bank account;
- Safeguarding the available books and records;
- Making a backup copy of the available computer data; and
- Redirecting the Company's mail to Richter's office

B) Reviewable Transactions and Preferential Payments

The Trustee has not performed 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 BIA. It is the intention of the Trustee to discuss this matter with the Inspectors to be appointed at the first meeting of the creditors. On the instructions of the Inspectors, the Trustee may or may not perform the aforementioned review.

VI. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

All the assets of the Company are subject to the Secured Lenders security. As of the date hereof, there appears to be a significant deficit/shortfall to these lenders. As such, it is the Trustee's view that no dividends will be available to the preferred (if any) and ordinary creditors.

Dated at Montreal, this 12th day of February 2015

Richter Advisory Group Inc.

Trustee

A handwritten signature in black ink, appearing to read 'Stéphane De Broux', with a long horizontal line extending to the right.

Stéphane De Broux, CPA, CA, CIRP
Administrator of the Bankruptcy