

RICHTER

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-043820-121
ESTATE NO.: 41-1697486

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

IN THE MATTER OF THE BANKRUPTCY
OF:

PROBEX BUILDING SUPPLIES INC.
MATERIAUX DE CONSTRUCTION
PROBEX INC.

a corporation duly incorporated having its
head office at 10 000 Boul. Gouin Ouest,
Roxboro, QC H8Y 3K9

Bankrupt

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On December 17, 2012, Probex Building Supplies Inc. ("Probex" or the "Company") filed a Notice of Intention to make a Proposal ("NOI") in accordance with the *Bankruptcy and Insolvency Act of Canada* ("BIA") and Richter Advisory Group Inc. (formerly RSM Richter Inc.) ("Richter") was named as Trustee to the NOI. On January 14, 2013, the Company made a motion to the Court for an extension of the delay to file a Proposal. On January 16, 2013, the Court granted the Company with the requested delay to file a Proposal, namely to March 1, 2013.

Following the granting of the extension, it became apparent to the Company that it would not be able to make a viable Proposal to its creditors and consequently, on January 31, 2013, the Company made a Voluntary Assignment in Bankruptcy under s. 49 of the BIA. On the same day, Richter was appointed as Trustee to the Bankrupt Estate of the Company (the "Trustee").

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

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I. OVERVIEW AND BACKGROUND

The Company was founded in 1976 by its principal shareholder, Mr. Carl Strulovitch and his former partner and is incorporated under provincial statute. Probex is a supplier of building materials to construction contractors and concurrently operates a retail outlet, selling hardware and building materials to the general public. The Company operated out of premises located in Roxboro, in the west end of Montreal, which were leased from a related party.

Since 2008, the Company operated under the "Rona" banner, a national franchisor of hardware stores pursuant to a commercial agreement between it and Rona.

The Company's sales have significantly declined over the past few years, from approximately \$12.6 million in 2010 (fiscal year ending on October 31) to approximately \$7.7 million in 2012, primarily due to a pronounced downturn in the residential construction and home renovation industry.

The following table summarizes the Company's results for the past three (3) fiscal years:

Probex Building Supplies Inc. Summary Operating Results			
For the year ended October 31	2012 (unaudited)	2011 (audited)	2010 (audited)
Sales	\$ 7,708,714	\$ 10,396,950	\$ 12,639,129
Cost of sales	<u>6,057,823</u>	<u>7,734,550</u>	<u>9,566,845</u>
Gross profit	1,650,891	2,662,400	3,072,284
	21%	26%	24%
Operating expenses			
Administration	516,734	571,751	527,997
Selling	1,404,380	1,468,026	1,610,827
Warehouse	<u>788,675</u>	<u>978,643</u>	<u>916,646</u>
Total operating expenses	2,709,789	3,018,420	3,055,470
Total other expenses (income)	(8,837)	-	-
Earning before taxes	<u>(1,050,061)</u>	<u>(356,020)</u>	<u>16,814</u>
Income taxes (recovery)	-	(53,263)	5,644
Net profit (loss)	<u>\$ (1,050,061)</u>	<u>\$ (302,757)</u>	<u>\$ 11,170</u>

II. CAUSES OF INSOLVENCY

The Trustee understands that the Company's financial difficulties were attributable to the following:

- A drastic erosion in sales due to the downturn in the home renovation and construction industry in the past few years;
- The inability to reduce fixed costs to compensate for the reduction in sales;
- A strained liquidity position due in part to delayed accounts receivable collections; and
- The lack of trade credit and operating credit resulting in reduced purchases and consequently lost sales and customers.

III. EVENTS LEADING UP TO THE BANKRUPTCY

On October 16, 2012, the Canadian Imperial Bank of Commerce ("CIBC"), the Company's primary secured lender having a first ranking security on the universality of the Company's assets (with the exception of the Company's shares in the public stock of its franchisor, Rona), issued its Notice of Intention to Enforce its security under s. 244 of the BIA ("s. 244 Notice") and demanded the repayment of its loans. On the same day, the Company and the CIBC entered into a Forbearance Agreement which stipulated amongst other things that the CIBC would delay its enforcement procedures to allow some time for the Company to solicit offers for its assets and/or an investment in the Company (the "Solicitation Process") with the assistance of Richter, then acting as consultant to the CIBC.

Despite the time that was granted to the Company by the CIBC, the Solicitation Process did not culminate in an acceptable offer being received.

The Company filed its NOI on December 17, 2012 to avail itself of the protection afforded by the BIA while it continued to seek a purchaser and/or investor. Due to its restricted liquidity availability, the Company ceased its commercial activities shortly after the filing of the NOI as it would not have been able to meet normal operating expenditures. A few employees were retained to collect Probex' accounts receivable, the net proceeds of which were used to reduce the Company's operating bank loan.



Following the filing of the NOI, the Company continued its discussions and negotiations with several prospective purchasers and in particular, a group interested in purchasing the Company's assets with a view of re-starting the Company's operations. **Unfortunately none of the discussions with the aforementioned prospective parties proved to be fruitful. It also became clear to the Company that the amounts which had been discussed for its assets would be insufficient to repay the CIBC and that no amounts would be available to fund a Proposal to the Company's unsecured creditors.** Without the possibility of making a Proposal to its unsecured creditors, the Company made an Assignment in Bankruptcy on January 31, 2013.

The CIBC has issued its Prior Notice of the Exercise of a Hypothecary right to enforce on its security and is presently evaluating its options in realizing the assets securing its advances (i.e.: inventory and equipment).

IV. Statement of Affairs Filed With Official Receiver

The following table summarizes the Company's Statement of Affairs [estimated unaudited balance sheet] as at January 31, 2013, as filed with the Official Receiver.

Probex Building Supplies Inc. Summary Statement of Affairs Filed on January 31, 2013		
	\$	Secured Creditor
<u>Assets</u>		
Accounts Receivable	\$ 120,000	CIBC
Inventory	500,000	CIBC
Securities	120,000	Rona
Fixed Assets	40,000	CIBC
Truck	34,000	Location Eureka
	<u>814,000</u>	
<u>Liabilities</u>		
Secured Liabilities (claim amount)		
CIBC	792,000	
Employees	56,000	
Location Eureka	34,000	
Rona	765,208	
	<u>1,647,208</u>	
Unsecured Liabilities	525,621	
Total Liabilities	<u>2,172,829</u>	
Deficiency	<u>\$ (1,358,829)</u>	

A) Liabilities

It is important to note that the actual amount of the liabilities as at January 31, 2012, the date of bankruptcy, will only be determined once Proofs of Claim are submitted by the creditors and compiled by the Trustee.

i) Secured Claims (\$1,647,208)

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

- Employees - \$56,000 (security interest over the Company's inventories and accounts receivable 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;
- Canadian Imperial Bank of Commerce - ~\$792,000 (security on inventories, accounts receivable and fixed assets);
- Rona Inc. - ~\$765,208 (specific first ranking security on the Company's holdings in the public shares of Rona); and
- Location de Camions Eureka - ~\$34,000 (security on a specific truck).

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 thereby increasing the total of the Unsecured Creditors.

ii) Unsecured Creditors (\$525,620)

The amount is based on the Company's books and records and consequently claims received from unsecured creditors may differ from the amounts reflected in the Statement of Affairs. In addition, as mentioned above, this amount excludes the shortfall (unsecured portion) to be suffered by the Company's secured creditors upon realization of the assets comprising their security.

iii) Property of Others

The Trustee has not yet received any property claims.



B) Assets

i) Inventory - \$500,000

The Company's inventories are pledged in favour of the CIBC and are comprised of construction materials, hardware goods and miscellaneous household items. It is unknown at this point how much will be realized from the Company's inventory, however it is more than likely that the proceeds of disposition will be significantly lower than the value reflected on the Statement of Affairs.

ii) Accounts Receivable - \$120,000

The Company's accounts receivable are pledged in favour of CIBC and are being collected by Richter, with the assistance of certain of the Company's former employees. The Company's accounts receivable are mainly comprised of a large number of relatively small balances due from its clients, namely construction contractors and property owners. It is unknown at this point how much will be collected from those receivables.

iii) Fixed Assets - \$40,000

The Company's furniture and office equipment are pledged in favour of the CIBC and are comprised of store furnishings, security equipment, hardware store equipment, office equipment, furniture and one pick-up truck. The actual amount realized may differ from the amount presented on the Statement of Affairs.

iv) Vehicle - \$34,000

The Company's vehicle is a "cube" truck that is financed by Location de Camions Eureka. The actual amount realized may differ from the amount presented on the Statement of Affairs.

V. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE ESTATE

A) Security and Protective Measures

Since January 31, 2013, the Trustee, with the assistance of its security agent, SIS Services Inc., has undertaken various security and protective measures:

- Changing locks and notifying the alarm company;
- Opening trust bank account;
- Safeguarding the available books and records;
- Adding the Trustee's name to the insurance policies covering the assets of the Company;
and
- Performing an inventory of the Company's assets.
- The Trustee has also obtained a legal opinion on the security of CIBC confirming its rank and validity. The Trustee has not obtained a legal opinion on the security of Rona nor Location de Camions Eureka, as it is in the interest of CIBC to have its attorneys do so as any residual otherwise emanating therefrom would accrue to the benefit of CIBC.

B) Reviewable Transactions

The Trustee will perform a cursory review of the Company's books and records to identify any preferences or other reviewable transactions on the instructions of the Inspectors of the Bankrupt Estate. Following its review, the Trustee will report its findings to the Inspectors.

VI. PROJECTED DIVIDEND

As the Company's secured lenders are highly likely to suffer a shortfall on their advances, the Trustee does not foresee any distribution of a dividend to the ordinary unsecured creditors.

DATED at MONTREAL this 6th day of February 2013.

Richter Advisory Group Inc.
Trustee



Carl Adjami, CPA, CA, CIRP
Administrator of the Estate