

IN THE MATTER OF THE BANKRUPTCY OF
CANADIAN INDUSTRIAL DISTRIBUTORS INC.
OF THE CITY OF BRAMPTON,
IN THE PROVINCE OF ONTARIO

TRUSTEE'S REPORT TO THE CREDITORS
ON PRELIMINARY ADMINISTRATION

I. BACKGROUND INFORMATION

The business of Canadian Industrial Distributors Inc. ("**CID**" or the "**Company**") can be traced back to Ontario in 1945 as a distributor of construction related products.

The Company's head office was located at leased premises at 175 Sun Pac Boulevard, Unit 2A, Brampton, Ontario (the "**Head Office**"). The Company operated from six additional distribution centres located in Vancouver, Calgary, Winnipeg, Montreal, Moncton and Dartmouth.

CID had incurred declining profitability for years and the significant decline in the Canadian Dollar ("**CDN**") against the U.S. Dollar ("**USD**") compounded those financial difficulties. CID purchased approximately 60% of its supplies in USD and sold all its products in CDN.

The Company had attempted to pass on to its customers some of the cost increase through price increases, but the full amount of the currency devaluation had not been mitigated, which resulted in significantly lower gross margins. Due to cash flow restrictions, the Company was also not able to offer a full line of products to its dealer channel and, as a result, the dealer business had fallen significantly over the last couple of years.

On February 24, 2015, the Company filed with the Official Receiver a Notice of Intention to Make a Proposal, pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act* ("**BIA**"), R.S.C. 1985, c. B-3 (the "**Notice**"). The Fuller Landau Group Inc. ("**Fuller**") consented to act as trustee under the Notice (in such capacity, the "**Proposal Trustee**").

On March 23, 2015, the Company obtained a 45 day extension of the time permitted to file a Proposal under the BIA (the "**First Extension**"). Concurrently, the Company also sought and obtained approval to carry out a court approved sale process for a going-concern sale of the Company's business and assets (the "**Sale Process**").

On May 11, 2015, the Company obtained an approval and vesting order, approving the sale transaction contemplated by an asset purchase agreement dated April 28, 2015 between CID, as

vendor, and CID Bissett Fasteners Limited (“**CBFL**”) and Lance Bissett Limited, as purchasers (the “**APA**”). The APA contemplated a closing date of May 25, 2015 (the “**Closing Date**”).

Additionally, on May 11, 2015, the Company obtained an additional 45 day extension of the time permitted to file a Proposal under the BIA (the “**Second Extension**”). The Second Extension obtained expired on June 25, 2015. The purpose of the Second Extension was to provide CID with time to close the APA and to provide time to consider and formulate a proposal to its creditors.

The Company did not file a Proposal or request a further extension of time to file a Proposal prior to the expiry of the Second Extension, and as a result, on June 26, 2015, the Company was deemed to have filed an assignment in bankruptcy. Fuller was named as bankruptcy trustee (the “**Trustee**”) subject to creditor ratification at the First Meeting of Creditors.

On June 30, 2015, the Notice of First Meeting of Creditors, a list of Creditors, and a Proof of Claim form, along with a proxy, were sent to all known Creditors of the Company. The Notice of Bankruptcy was published in the July 6, 2015 national edition of the Globe & Mail.

II. ASSETS

The Company’s Statement of Affairs (the “**SOA**”) discloses the following assets:

Note Payable

Estimated Net Book Value - \$400,000 at June 26, 2015

The APA included, as part of the purchase price, a \$400,000 interest-free promissory note issued by CBFL to CID, payable in two installments of \$200,000 each, with the first installment being due and payable within 60 days of the first anniversary of the Closing Date (as defined in the APA), and the second installment being due and payable within 60 days of the second anniversary of the Closing Date (the “**Promissory Note**”). The amount of the Promissory Note is subject to certain reductions, as set out in the APA.

III. SECURED CREDITORS

As at June 26, 2015, the Company was indebted to Team CID in the amount of \$2,305,300 under a valid first ranking security interest in the assets of CID (the “**Collateral**”).

IV. CONSERVATORY AND PROTECTIVE MEASURES

As the Company’s assets were sold pursuant to the court approved APA, and the proceeds of sale distributed to HSBC, at the time the Company’s first secured creditor, and certain other priority creditors, there are no remaining assets other than the Promissory Note. The first Promissory Note installment is due on July, 25, 2016 and is secured in favour of Team CID as first ranking

secured creditor. Team CID in its capacity as first ranking secured creditor is in possession of the Promissory Note. The Trustee understands that Team CID will be taking steps to realize on the Promissory Note pursuant to its security.

The Trustee has not taken possession of the Company's books and records as they were included as a purchased asset pursuant to the APA and are in the possession of CBFL. Pursuant to the APA, the Trustee is entitled to access to the books and records as requested.

V. REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Trustee will perform a preference review and review its findings with the Estate inspectors.

VI. CREDITORS' CLAIMS

The known creditor claims as at the Date of Bankruptcy, according to the Company's Statement of Affairs, compared to the Proofs of Claim received by the Trustee as at 4:00 p.m. on July 14, 2015 are summarized as follows:

	Creditor Claims Per Statement of Affairs	Creditor Claims Filed to Date
	\$	\$
Secured	400,000.00	404,721.81
Preferred	45.00	6,575.36
Unsecured	<u>3,367,344.08</u>	<u>2,743,408.81</u>
	<u>3,767,389.08</u>	<u>3,154,705.98</u>

The Proposal Trustee has received an independent legal opinion from Aird & Berlis LLP ("A&B") on the validity and enforceability of the general security agreement granted by the Company to Team CID (the "Team CID Security").

A&B has confirmed that, subject to certain standard assumptions and qualifications, the Team CID Security is valid and enforceable against a Trustee in Bankruptcy.

VII. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

The SOA reflects a shortfall to Team CID as secured creditor, and therefore, no funds will be available for a distribution to the Company's preferred or unsecured creditors.

VIII. LEGAL PROCEEDINGS

The Company has received certain statements of claim from former employees of CID in respect of unpaid amounts related to their employment. These actions were stayed upon the filing of the NOI and remain stayed as a result of the bankruptcy of CID.

IX. REMUNERATION OF THE TRUSTEE AND OTHER MATTERS

The Trustee has received a deposit of \$14,298.95 for the fees and expenses of the Trustee, including legal fees, in respect of steps or actions taken by the Trustee to perform its statutory duties.

Dated at Toronto, Ontario, this 14th day of July, 2015

The Fuller Landau Group Inc.

Trustee Re: The Estate of Canadian Industrial Distributors Inc.



Per:

Adam Erlich