

Court File No. 32-158796

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE PROPOSAL OF
CANADIAN INDUSTRIAL DISTRIBUTORS INC.,
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF ONTARIO,
WITH A HEAD OFFICE IN THE CITY OF BRAMPTON,
IN THE PROVINCE OF ONTARIO**

**FIRST REPORT OF THE PROPOSAL TRUSTEE
March 16, 2015**

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Introduction and Purpose

1. Canadian Industrial Distributors Inc. ("CID" or the "Debtor" or the "Company") is in the business of the sale and distribution of construction related products, such as pneumatic tools, fasteners, parts and accessories.
2. On February 24, 2015, CID filed a Notice of Intention to Make a Proposal (the "NOI") under the *Bankruptcy and Insolvency Act* (Canada) (the "BIA"). The Fuller Landau Group Inc. was named as the Proposal Trustee (the "Proposal Trustee"). A copy of the Certificate of Filing of a Notice of Intention to Make a Proposal dated February 24, 2015 issued by the Office of the Superintendent of Bankruptcy (the "OSB") is attached hereto to as Appendix "A".
3. CID's management initiated the NOI for the following reasons:
 - the Company had previously been involved in lengthy negotiations to sell its assets to Senco Brands, Inc. ("Senco"). Senco is a U.S. based corporation and a significant supplier to CID. As discussed below, the Company believes that these proposal proceedings, and, in particular, the proposed Sale Process will help facilitate these discussions;
 - in anticipation of making a deal with Senco, management deferred several important business decisions to "right-size" the business. As such, management now needs the time and opportunity to implement cost cutting measures; and
 - the Company is prepared to continue the operations under a restructured business. However, its shareholder is becoming fatigued and would prefer a sale of the business if a reasonable purchase price can be achieved. The NOI would provide a structure for a limited sale process to explore a possible sale of the business.
4. This is the First Report of the Proposal Trustee (the "First Report"). The purpose of this First Report is to:
 - a) provide this Court with information regarding:
 - (i) the activities of the Proposal Trustee;
 - (ii) the role of BDO Canada LLP and BDO Canada Limited (collectively, "BDO") as financial advisor to CID to assist in the restructuring and possible sale of the business; and
 - (iii) the proposed Sale Process (as described herein); and

- b) provide this Court with the Proposal Trustee's position regarding the Company's request for an order to:
- (i) approve the Sale Process;
 - (ii) authorize the Company and BDO to carry out the Sale Process and take such incidental steps as they consider necessary or desirable in the circumstances to complete the Sale Process;
 - (iii) approve a \$150,000 first-ranking priority charge over all the Company's assets, undertakings, and property (the "Property") in favour of the Proposal Trustee, the Proposal Trustee's legal counsel, Aird & Berlis LLP ("A&B"), and BDO (collectively, the "Professional Group") to secure payment of their professional fees and disbursements (the "Administration Charge");
 - (iv) approve a \$50,000 charge over all the Property in favour of the directors and officers of CID from certain potential liabilities (the "D&O Charge"), which D&O Charge would be subordinate in priority to only the Administration Charge and any and all existing encumbrances in favour of HSBC Bank of Canada ("HSBC"), the Company's senior secured creditor;
 - (v) approve an extension of the stay of proceedings of 45 days and the time by which to file a proposal from March 26, 2015 to May 10, 2015; and
 - (vi) approve the First Report and the conduct and activities of the Proposal Trustee described herein.
5. This First Report is to be read in conjunction with the affidavit of Larry Johns sworn on March 16, 2015.
6. In preparing this First Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records and discussions with its representatives. The Proposal Trustee has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this First Report is based on assumptions formulated by the Company's representatives regarding future events; actual results achieved may vary from this information and these variations may be material.

Background

7. The Company's business can be traced back to Ontario in 1945 as a distributor of construction related products.
8. Over the years, the Company's business has grown. CID now has seven distribution centres located in Vancouver, Calgary, Winnipeg, Toronto, Montreal, Moncton and Dartmouth.
9. CID currently employs 32 employees at its facilities across Canada. Prior to the filing of the NOI, CID's management terminated seven employees; however, six of the terminated employees were hired back under personal services contracts to assist in winding down certain locations.
10. The Company has incurred declining profitability for years, and recently the significant decline in the Canadian Dollar ("CDN") against the U.S. Dollar ("USD") has compounded these financial difficulties. The Company purchases approximately 60% of its supplies in USD and sells its products in CDN. The Company has tried to pass on to its customers some of the higher costs through price increases, but the full amount of the currency devaluation has not been mitigated, which has 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 the dealer channel of its business and, as a result, the dealer business has fallen significantly in the last couple of years.
11. As part of its restructuring measures, CID has issued notices to disclaim or resiliate leases to three landlords for locations in Delta, British Columbia; Winnipeg, Manitoba; and Moncton, New Brunswick. CID will continue operations from its remaining locations.
12. HSBC is CID's operating lender. HSBC is owed approximately \$2.70 million under a demand operating loan.
13. HSBC's security for CID's indebtedness includes, amongst other things:
 - a) a general security agreement over all CID's assets; and
 - b) a limited guarantee from Team CID Inc. ("Team CID"), which is CID's sole shareholder.
14. CID is continuing with its existing credit arrangement with HSBC as its primary lender. HSBC continues to support the business. CID is currently negotiating a temporary bulge with HSBC (the "HSBC Bulge").

15. Team CID has also provided funding totalling \$2.30 million to CID. This funding is secured by, amongst other things, a general security agreement over all CID's assets and ranks subordinate to HSBC's secured interests in CID.

Initial Activities of the Proposal Trustee

Notification to Creditors

16. In accordance with its obligations under the BIA, the Proposal Trustee issued a notice by mail on February 27, 2015 to all CID's known creditors regarding the filing of the NOI.
17. In addition, the Proposal Trustee has posted certain documents and other information about the proceedings on its website at www.fullerllp.com (under active insolvency engagements).

Monitoring Receipts and Disbursements

18. The Proposal Trustee has arranged a reporting and monitoring process to be able to compare actual cash flow results to the forecasts and is reviewing regular reports from management.

Cash-flow Projections

19. The Company's cash-flow projections and related assumptions for the 12-week period ending May 15, 2015, together with management's report on the cash-flow projections (as required under subsection 50.4(2)(c) of the BIA) is attached hereto as Appendix "B". These projections reflect the injection of the HSBC Bulge.
20. Management was assisted in the preparation of the cash-flow projections by BDO.
21. Based on the Proposal Trustee's review of the cash-flow projections, there are no material assumptions which seem unreasonable in the present circumstances. The Proposal Trustee's report for the Company on the cash-flow projections (as required under subsection 50.4(2)(b) of the BIA) is attached hereto as Appendix "C".
22. The Company's cash-flow projections reflect management's assumption that the Company will stay current with post-filing obligations for trade purchases and other ordinary business expenditures, even in the event that the HSBC Bulge does not materialize. However, the Company is not expected to generate sufficient cash-flow during the restructuring period to pay professional costs as they are incurred. As a result, the Company seeks a charge over its assets to support its ongoing and accruing obligations to its restructuring professionals, as discussed below.

Approval of Disclaimer of Agreements

23. The Company also issued a notice to disclaim or resiliate an agreement to three parties:
 - a) Pemberton Leasing Services Ltd., with respect to a lease for security system equipment located at the premises in Vancouver, British Columbia;
 - b) Howard Carter Lease Ltd., with respect to three vehicle lease agreements covering a 2013 Dodge Ram 1500STL, a 2013 Volkswagen Golf TDI and a 2013 Nissan Rogue; and
 - c) Roynat Inc., with respect to a lease for a 2005 Toyota forklift.
24. The Proposal Trustee approved the above disclaimers on the basis that:
 - a) as three property leases were disclaimed by the Company, there was no further need for equipment or vehicles associated with these three leased premises; and
 - b) the disclaimers would not likely cause significant financial hardship to the parties to the above agreements.

Proposed Sale Process

25. Since the filing of the NOI, CID's management, with the professional assistance of BDO, has been in discussions with Senco as well as certain other strategic parties for the sale of CID's assets and operations.
26. CID's management and BDO believe that it is highly likely that an offer will materialize from one or more of the parties with which they are currently having discussions.
27. Accordingly, CID's management, with the assistance of BDO, proposes to conduct a limited marketing and sale process (the "Sale Process") for the Company's assets and operations. The proposed Sale Process includes the following key provisions:
 - a) BDO would oversee and implement the Sale Process;
 - b) CID, with the assistance of BDO, has identified a number of strategic purchasers which may be interested in purchasing CID's shares or assets on a going concern basis;
 - c) CID has prepared a form of confidentiality agreement (the "CA") which would be provided to prospective purchasers;
 - d) prospective purchasers that sign a CA would be provided with financial information which will allow them to assess CID's financial and operating situation;

- e) prospective purchasers would have approximately three weeks to review the financial information and submit a non-binding letter of intent ("LOI");
 - f) upon the expiry of the initial three-week period, BDO and the Company, in consultation with the Proposal Trustee, would review all LOIs submitted and select the successful bid(s);
 - g) CID, with the assistance of BDO, would negotiate an asset purchase agreement (the "APA") or share purchase agreement ("SPA") with the successful bidder; and
 - h) in the event that an APA or SPA is negotiated, CID would seek Court approval of the APA or the SPA.
28. The closing of any sale of CID's assets and other interests would be conditional upon approval of this Court.
29. The timeline for the Sale Process would be as follows (subject to reasonable adjustment):
- | | |
|--|----------------------------|
| Access financial information and conduct due diligence..... | March 23 to April 15, 2015 |
| Deadline for submission of LOIs..... | April 15, 2015 |
| Deadline for negotiations with a bidder and the completion of an APA or SPA..... | April 24, 2015 |
| Transaction (sale) approval hearing at Court..... | May 8, 2015 |
| Closing of approved sale transaction..... | May 29, 2015 |
30. The Sale Process is designed to be completed by May 29, 2015.
31. The Sale Process would be executed and directly overseen by BDO. BDO has experience in conducting such processes and is qualified to do so in these circumstances.
32. The Proposal Trustee would monitor the progress of the Sale Process as considered necessary to fulfill its obligations to this Court and to ensure the fairness, transparency and integrity of the proposed process.
33. While the Proposal Trustee has not completed a valuation of CID's assets and operations, the Sale Process would expose the opportunity to a select number of parties in an attempt to maximize the proceeds of sale for the benefit of CID's creditors and to provide the best opportunity for CID to make a proposal to its unsecured creditors.
34. CID's reasons for conducting a limited marketing and sale process are as follows:

- a) CID's management had previously spent considerable time attempting to negotiate a sale of CID's business to Senco, and several parties have approached the Company and BDO to indicate their interest in CID's assets and operations;
 - b) the Company and Team CID, which is the Company's second-ranking secured creditor behind HSBC, believe that it is unlikely that an expanded sale process would result in an offer which fully pays the indebtedness owed to HSBC, Team CID and the cost of these proceedings. Accordingly, the Company and Team CID believe that there is no prejudice to the unsecured creditors in limiting the sale process; and
 - c) Team CID does not wish to fund the costs of an expanded sale process.
35. While the Proposal Trustee would prefer to see an expanded marketing and sale process, funding is not available to support such an expanded process due to the reasons, facts and circumstances set out above.
36. Accordingly, based on the reasons, facts and circumstances set out above, the Proposal Trustee supports this Court issuing an order authorizing the Company to proceed with the Sale Process with the assistance of BDO and under the monitoring of the Proposal Trustee.
37. In the event that an offer does not materialize, CID is prepared to follow through with a restructuring of its operations and the filing of a proposal to its creditors.

Extension of Stay of Proceedings

38. The Sale Process would run for approximately ten weeks.
39. Given the date on which the NOI was filed, CID is currently required to file a proposal by March 26, 2015.
40. The Company is therefore requesting an extension of the stay of proceedings for 45 days and the time by which to file a proposal from March 26, 2015 to May 10, 2015 on the following grounds:
- a) the Sale Process would not be completed before the current deadline for the filing of a proposal;
 - b) the Company seeks the extension to permit it to fully pursue the Sale Process and assess whether a sale or a proposal (or a combination of the two) would be most beneficial to the Company's creditors;

- c) the extension would increase the likelihood of a feasible sale transaction or a proposal; and
 - d) the continuation of the Company's operations would aid management's efforts in marketing CID's assets and operations on a going-concern basis.
41. For the period ending March 6, 2015, the cash-flow actual results were above budget for cash inflows and below budget for cash outflows. The net result was that the Company had approximately \$295,000 more cash available than originally forecasted. The cash inflows were slightly better than planned. Cash disbursements have been lower than originally expected, which are mostly timing variances for payment of inventory.
 42. The Company's cash-flow projections indicate that the Company has sufficient cash-flow to meet its financial obligations (even without the HSBC Bulge), with the exception of professional fees, during the proposed extension period.
 43. The Proposal Trustee supports the Company's request to extend the stay of proceedings by 45 days and the time by which to file a proposal from March 26, 2015 to May 10, 2015. The Proposal Trustee does so for the following reasons:
 - a) thus far, CID has continued operations in the normal course and, in the opinion of the Proposal Trustee, has complied with the requirements of the BIA;
 - b) CID has acted, and continues to act, in good faith and with due diligence;
 - c) in the opinion of the Proposal Trustee, no creditor would be materially prejudiced if the extension is granted; and
 - d) the extension is supported by HSBC and Team CID, the Company's senior secured creditors.

The Administration Charge and the D&O Charge

THE ADMINISTRATION CHARGE

44. Based on management's latest cash-flow projections, CID will not generate sufficient cash-flow during the restructuring period to pay professional costs as they are incurred. The Professional Group therefore seeks the protection of the \$150,000 Administration Charge against the Property to secure payment of professional fees and disbursements incurred in these proposal proceedings, including with respect to the fees and disbursements of the Professional Group incurred in the preparation and filing of the NOI. The Administration Charge would form a first-ranking charge in priority to all other charges and encumbrances.

45. As set out in the affidavit of Larry Johns, the Company believes the Administration Charge is essential to a successful restructuring and a fair and transparent Sale Process.
46. In terms of the provision of professional services, a summary of essential services to be provided includes:
- a) administrating and monitoring of these proposal proceedings, including preparing reports to creditors, the Official Receiver and this Court as may be required by the BIA, and reviewing the Company's cash-flows and related financial disclosure;
 - b) implementing the Sale Process over a ten-week period, including assisting prospective purchasers with the due diligence process, reviewing bids and negotiating and drafting agreement(s);
 - c) preparing, drafting and filing all court materials, including the motion to approve any proposed sale of the Company's assets; and
 - d) assisting the Company in the preparation of its financial reporting as may be required under the BIA and/or by HSBC, including preparing weekly cash-flow reporting.
47. Because of their institutional knowledge of the Company's business and their specialized experience in proposal proceedings generally, the services to be provided by the Professional Group are critical to the success of the Company's restructuring. Further, the Professional Group has and will work cooperatively to ensure that there is no unwarranted duplication of work completed.
48. The Proposal Trustee is of the view that the Administration Charge is appropriate in these circumstances because:
- a) the proposed services are essential to both a successful restructuring and the conduct of a Court-approved Sale Process;
 - b) it is necessary for the Company to pay the reasonable fees and disbursements of the Professional Group;
 - c) the Company's cash-flow projections demonstrate that it will be unable to satisfy the reasonable fees and disbursements of the Professional Group as they are incurred;
 - d) the Professional Group is not willing to assume the risk of extending further credit to the Company in respect of these proposal proceedings. It is unlikely that the Professional Group will continue to participate in these proposal proceedings unless its reasonable fees and disbursements are secured by way of the proposed Administration Charge; and

- e) the quantum of the proposed Administration Charge is reasonable given the nature and scope of the services to be provided, the expected duration of the Sale Process and the inability of the Company to fund professional charges from free cash-flow.
49. Section 64.2 of the BIA provides the Court with jurisdiction to grant a super-priority charge such as the administration charge requested herein where notice is given to secured creditors. In this regard, the Proposal Trustee is advised by A&B that all other creditors having registrations against the Company under the *Personal Property Security Act* (Ontario) will be served with the Company's motion record. Further, BDO advises that it has consulted with HSBC on the proposed Administration Charge and that HSBC does not object to the Administration Charge. The Proposal Trustee is advised by the Company that Team CID also does not object to the Administration Charge.
50. Fees and disbursements of the Professional Group payable pursuant to the Administration Charge (collectively, the "Professional Accounts") would be passed from time to time by the Professional Group, and for this purpose the Professional Accounts would be referred to a Judge of this Court.

THE D&O CHARGE

51. To ensure the ongoing stability of the Company during these proposal proceedings and to maximize the potential of a successful Sale Process and restructuring, CID requires the continued participation of its directors and officers. CID's directors and officers have specialized expertise and relationships with suppliers, employees and other stakeholders, as well as knowledge gained throughout the lengthy years of service to CID that cannot be replicated or replaced.
52. CID's directors and officers have indicated that their respective ongoing involvement is conditional upon the granting of an order under the BIA which grants the D&O Charge as security for CID's indemnification for possible liabilities which may be incurred by CID's directors and officers, which D&O Charge would rank in priority behind both the Administration Charge and HSBC's security interest in CID.
53. The D&O Charge is required in order to provide a level of protection to CID's directors and officers with respect to the possible liabilities imposed on them acting in such capacities.
54. The Proposal Trustee believes that the Company's request in the form of the D&O Charge is fair and reasonable and advances the integral need of CID to have fully functional, experienced and qualified advisors, directors and officers.

Conclusion and Recommendation

55. Based on the above, the Proposal Trustee respectfully recommends that the Court grant an order providing the relief described in section 4(b) of this Report.

All of which is respectfully submitted this 16th day of March, 2015.

THE FULLER LANDAU GROUP INC.
in its capacity as Trustee under the Notice of
Intention to Make a Proposal filed by
Canadian Industrial Distributors Inc.
and not in its personal capacity
Per:

A handwritten signature in black ink, appearing to read "David Filice", written in a cursive style.

David Filice, CPA, CA, CIRP
Senior Vice President

Tab A



Industry Canada

Industrie Canada

Office of the Superintendent
of Bankruptcy Canada

Bureau du surintendant
des faillites Canada

District of ONTARIO

Division No. 09 - Mississauga

Court No. 32-158796

Estate No. 32-158796

In the Matter of the Notice of Intention
to make a proposal of:

CANADIAN INDUSTRIAL DISTRIBUTORS INC
Insolvent Person

THE FULLER LANDAU GROUP INC.
Trustee

Date of the Notice of Intention: February 24, 2015

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4(1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act.

Pursuant to subsection 69(1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.



ROSE CAPOFERRI

Official Receiver

Federal Building - Hamilton, 55 Bay Street N, 9th Floor, Hamilton, ONTARIO, L8R
3P7, 877/376-9902

Canada

Tab B

**CANADIAN INDUSTRIAL DISTRIBUTORS INC.
STATEMENT OF PROJECTED CASH-FLOW**

Week ending	27-Feb-15	6-Mar-15	13-Mar-15	20-Mar-15	27-Mar-15	3-Apr-15	10-Apr-15
RECEIPTS							
Sales/accounts receivable collections	248,681	331,128	352,394	310,850	347,456	320,242	315,858
DISBURSEMENTS							
Auto rentals	5,245	3,641	1,246	2,835	5,250	3,645	1,251
Administrative, general, and professional fees	29,773	29,773	29,773	29,773	29,773	29,039	27,866
Inventory purchases	214,700	169,500	169,500	169,500	169,500	169,500	169,500
Interest on secured loans	0	15,476	0	0	0	14,933	0
Payroll costs	61,875	0	123,625	0	54,692	0	71,698
Relocation expenses	0	0	5,650	11,300	16,950	0	0
Sales tax remittances	0	0	0	0	0	13,000	0
Warehouse and office rent	0	59,890	0	0	0	48,590	0
	311,593	278,280	329,794	213,408	276,165	278,707	270,315
INCREASE (DECREASE) IN CASH	(62,912)	52,848	22,600	97,442	71,291	41,535	45,543
Cash (bank indebtedness), beginning	(2,620,371)	(2,683,283)	(2,630,435)	(2,607,835)	(2,510,393)	(2,439,103)	(2,397,568)
Cash (bank indebtedness), ending	(2,683,283)	(2,630,435)	(2,607,835)	(2,510,393)	(2,439,103)	(2,397,568)	(2,352,025)

CANADIAN INDUSTRIAL DISTRIBUTORS INC.

Per:


Larry Johns
Authorized signing officer

THE FULLER LANDAU GROUP INC.

Per:


Adam Erlich
Authorized signing officer

This statement of projected cash-flow of Canadian Industrial Distributors Inc. has been prepared in accordance with section 50(6) of the Bankruptcy and Insolvency Act, and should be read in conjunction with the Trustee's Report on Cashflow Statement dated March 5, 2015.

**CANADIAN INDUSTRIAL DISTRIBUTORS INC.
STATEMENT OF PROJECTED CASH-FLOW**

Week ending	17-Apr-15	24-Apr-15	1-May-15	8-May-15	15-May-15	Total
RECEIPTS						
Sales/accounts receivable collections	252,329	252,329	284,195	308,264	261,233	3,584,959
DISBURSEMENTS						
Auto rentals	2,435	2,435	4,478	3,651	1,257	37,369
Administrative, general, and professional fees	27,866	27,866	27,866	27,866	27,866	345,101
Inventory purchases	169,500	169,500	169,500	169,500	169,500	2,079,200
Interest on secured loans	0	0	14,210	0	0	44,619
Payroll costs	28,000	37,948	0	71,698	28,000	477,536
Relocation expenses	0	0	0	0	0	33,900
Sales tax remittances	0	0	23,599	0	0	36,599
Warehouse and office rent	0	0	48,590	0	0	157,070
	227,801	237,749	288,243	272,715	226,623	3,211,394
INCREASE (DECREASE) IN CASH	24,528	14,580	(4,048)	35,549	34,610	373,565
Cash (bank indebtedness), beginning	(2,352,025)	(2,327,497)	(2,312,917)	(2,316,965)	(2,281,416)	(2,620,371)
Cash (bank indebtedness), ending	(2,327,497)	(2,312,917)	(2,316,965)	(2,281,416)	(2,246,806)	(2,246,806)

CANADIAN INDUSTRIAL DISTRIBUTORS INC.
Per:

Larry Johns
Authorized signing officer

THE FULLER LANDAU GROUP INC.
Per:

Adam Erlich
Authorized signing officer

This statement of projected cash-flow of Canadian Industrial Distributors Inc. has been prepared in accordance with section 50(6) of the Bankruptcy and Insolvency Act, and should be read in conjunction with the Trustee's Report on Cashflow Statement dated March 5, 2015.

SCHEDULE "A"

#32-158798

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

**Notes to the Statement of Projected Cash-flow
for the period February 23, 2015 to May 15, 2015**

1. Basis of presentation of the statement of projected cash-flow

On February 24, 2015, Canadian Industrial Distributors Inc. (the "Company") filed a Notice of Intention to Make a Proposal (the "Notice") pursuant to Part III of the Bankruptcy and Insolvency Act (the "Act"). The Act requires that within 10 days of filing the Notice, a statement of projected cash-flow be filed with the Official Receiver.

The statement of projected cash-flow has been prepared solely for the purpose of preparing and completing a proposal pursuant to Part III of the Act.

The statement of projected cash flow has been prepared for the period from February 23, 2015 to May 15, 2015 (the "Projection").

2. Hypothetical assumptions

Hypothetical assumptions as defined in Standards of Professional Practice No. 99-5 of the Canadian Association of Insolvency and Restructuring Professionals are assumptions that assume a set of economic conditions or courses of action that are not necessarily the most probable in the insolvent person's judgement, but are consistent with the purpose of the Projection.

3. Probable assumptions

Probable assumptions as defined in Standards of Professional Practice No. 99-5 of the Canadian Association of Insolvency and Restructuring Professionals are assumptions that the insolvent person believes reflect the most probable set of economic conditions and planned courses of action, are suitably supported, consistent with the plans of the insolvent person and provide a reasonable basis for the Projection.

The statement of projected cash-flow includes the following probable assumptions:

- a) Sales are management's estimates and are based on historical figures.
- b) The collection of accounts receivable is management's estimate and is based on historical customer payment patterns and discussions with customers.
- c) Purchases of inventory are anticipated to be paid on a cash-on-delivery basis. Management estimates that inventory purchases during the projection period

SCHEDULE "A"

Notes to the Statement of Projected Cash-flow
for the period February 23, 2015 to May 15, 2015

Page 2

will be lower than historical results as it intends to transfer inventory between locations to accommodate sales needs and better manage inventory levels.

- d) Payroll is based on current rates and reflects planned reductions in the workforce and salaries during March 2015 and forward.
- e) Management intends to close distribution centres located in Moncton, Vancouver, and Winnipeg during April 2015. The costs to close the locations and the expected savings from same are reflected in the projected cash-flow statement.
- f) Other overhead, administrative, building, delivery, vehicle loan and other costs are based on historical figures, and represent management's estimates of the minimal costs required to run the business.
- g) Management assumes that its existing lender, HSBC Bank Canada, will support the Company's restructuring efforts and will not terminate the Company's existing credit facilities during the initial restructuring period. The cash-flow projection assumes that HSBC Bank Canada will provide "bulge financing" of approximately \$60,000 as the Company's projected borrowings are projected to exceed HSBC Bank Canada's margin requirements by this amount during the projection period.

4. Stay Period

The Projection cannot be relied upon by creditors to determine if they will suffer any material prejudice to their respective positions during the stay period. In accordance with the Act, the Company filed the Notice on February 24, 2015.

Creditors must make their own independent investigations to satisfy themselves as to their respective positions during the stay period. During the stay period, the Company, remains in control of and is responsible for its operations, including the payment of any obligations for goods and services that it incurs. The Trustee is not in possession or control of any of the Company's assets and is not responsible for operations. Accordingly, the Trustee is not responsible for any obligations or liabilities incurred by the Company, either prior or subsequent to the filing of the Notice on February, 24, 2015.

IN THE MATTER OF THE PROPOSAL OF
CANADIAN INDUSTRIAL DISTRIBUTORS INC.
OF THE CITY OF BRAMPTON,
IN THE REGIONAL MUNICIPALITY OF PEEL,
IN THE PROVINCE OF ONTARIO.

REPORT ON CASH-FLOW STATEMENT
BY THE PERSON MAKING THE PROPOSAL

Canadian Industrial Distributors Inc. (the "Company") has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent person, as of the 5th day of March, 2015, consisting of the Statement of Projected Cash-Flow and Notes and Assumptions to the Statement of Projected Cash-Flow.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions have been disclosed in Notes 2 through 4.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The projection has been prepared solely for the purpose described in Note 1, using a set of probable and hypothetical assumptions set out in Notes 2 through 4. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Brampton, Ontario, this 5th day of March, 2015.

CANADIAN INDUSTRIAL DISTRIBUTORS INC.

Per:



Larry Johns
Authorized signing officer

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

Notes to the Statement of Projected Cash-flow
for the period February 23, 2015 to May 15, 2015

1. Basis of presentation of the statement of projected cash-flow

On February 24, 2015, Canadian Industrial Distributors Inc. (the "Company") filed a Notice of Intention to Make a Proposal (the "Notice") pursuant to Part III of the Bankruptcy and Insolvency Act (the "Act"). The Act requires that within 10 days of filing the Notice, a statement of projected cash-flow be filed with the Official Receiver.

The statement of projected cash-flow has been prepared solely for the purpose of preparing and completing a proposal pursuant to Part III of the Act.

The statement of projected cash flow has been prepared for the period from February 23, 2015 to May 15, 2015 (the "Projection").

2. Hypothetical assumptions

Hypothetical assumptions as defined in Standards of Professional Practice No. 99-5 of the Canadian Association of Insolvency and Restructuring Professionals are assumptions that assume a set of economic conditions or courses of action that are not necessarily the most probable in the insolvent person's judgement, but are consistent with the purpose of the Projection.

3. Probable assumptions

Probable assumptions as defined in Standards of Professional Practice No. 99-5 of the Canadian Association of Insolvency and Restructuring Professionals are assumptions that the insolvent person believes reflect the most probable set of economic conditions and planned courses of action, are suitably supported, consistent with the plans of the insolvent person and provide a reasonable basis for the Projection.

The statement of projected cash-flow includes the following probable assumptions:

- a) Sales are management's estimates and are based on historical figures.
- b) The collection of accounts receivable is management's estimate and is based on historical customer payment patterns and discussions with customers.
- c) Purchases of inventory are anticipated to be paid on a cash-on-delivery basis. Management estimates that inventory purchases during the projection period

SCHEDULE "A"

Notes to the Statement of Projected Cash-flow
for the period February 23, 2015 to May 15, 2015

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will be lower than historical results as it intends to transfer inventory between locations to accommodate sales needs and better manage inventory levels.

- d) Payroll is based on current rates and reflects planned reductions in the workforce and salaries during March 2015 and forward.
- e) Management intends to close distribution centres located in Moncton, Vancouver, and Winnipeg during April 2015. The costs to close the locations and the expected savings from same are reflected in the projected cash-flow statement.
- f) Other overhead, administrative, building, delivery, vehicle loan and other costs are based on historical figures, and represent management's estimates of the minimal costs required to run the business.
- g) Management assumes that its existing lender, HSBC Bank Canada, will support the Company's restructuring efforts and will not terminate the Company's existing credit facilities during the initial restructuring period. The cash-flow projection assumes that HSBC Bank Canada will provide "bulge financing" of approximately \$60,000 as the Company's projected borrowings are projected to exceed HSBC Bank Canada's margin requirements by this amount during the projection period.

4. Stay Period

The Projection cannot be relied upon by creditors to determine if they will suffer any material prejudice to their respective positions during the stay period. In accordance with the Act, the Company filed the Notice on February 24, 2015.

Creditors must make their own independent investigations to satisfy themselves as to their respective positions during the stay period. During the stay period, the Company, remains in control of and is responsible for its operations, including the payment of any obligations for goods and services that it incurs. The Trustee is not in possession or control of any of the Company's assets and is not responsible for operations. Accordingly, the Trustee is not responsible for any obligations or liabilities incurred by the Company, either prior or subsequent to the filing of the Notice on February, 24, 2015.

Tab C

District of: Ontario
Division No. 09 - Mississauga
Court No. 32-158796
Estate No. 32-158796

– FORM 29 –
Trustee's Report on Cash-Flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the Matter of the Proposal of
Canadian Industrial Distributors Inc.
of the City of Brampton,
in the Province of Ontario

The attached statement of projected cash flow of Canadian Industrial Distributors Inc., as of the 6th day of March 2015, consisting of weekly cash flow projections from February 23, 2015 to May 15, 2015, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by: ☒ the management and employees of the insolvent person or ☐ the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by: ☒ management or ☐ the insolvent person for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Toronto in the Province of Ontario, this 5th day of March 2015.

The Fuller Landau Group Inc. - Trustee

Per:



ADAM ERLICH

151 Bloor St. West, 12th Floor

Toronto ON M5S 1S4

Phone: (416) 645-6500 Fax: (416) 645-6501

District of: Ontario
Division No. 09 - Mississauga
Court No. 32-158796
Estate No. 32-158796

FORM 29 - Attachment
Trustee's Report on Cash-flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the Matter of the Proposal of
Canadian Industrial Distributors Inc.
of the City of Brampton,
in the Province of Ontario

Purpose:

Please refer to Schedule "A" Note 1.

Projection Notes:

Please refer to Schedule "A".

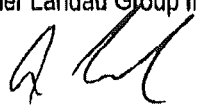
Assumptions:

Please refer to Schedule "A" Notes 2 and 3.

Dated at the City of Toronto in the Province of Ontario, this 5th day of March 2015.

The Fuller Landau Group Inc. - Trustee

Per:



ADAM ERLICH

151 Bloor St. West, 12th Floor

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**IN THE MATTER OF THE PROPOSAL OF
CANADIAN INDUSTRIAL DISTRIBUTORS INC.
OF THE CITY OF BRAMPTON
IN THE PROVINCE OF ONTARIO**

**Notes to the Statement of Projected Cash-flow
for the period February 23, 2015 to May 15, 2015**

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for the period February 23, 2015 to May 15, 2015

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IN THE MATTER OF THE PROPOSAL OF
CANADIAN INDUSTRIAL DISTRIBUTORS INC.,
A COMPANY INCORPORATED PURSUANT TO
THE LAWS OF ONTARIO, WITH A HEAD OFFICE
IN THE CITY OF BRAMPTON, IN THE PROVINCE
OF ONTARIO

Court File No. 32-158796

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

FIRST REPORT OF THE PROPOSAL TRUSTEE

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*Lawyers for The Fuller Landau Group Inc. in its capacity as the
Proposal Trustee of Canadian Industrial Distributors Inc.*