



Deloitte Restructuring Inc.

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CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01-LONGUEUIL
COURT No.: 505-11-014180-165
ESTATE No.: 41-2153028

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE
BANKRUPTCY OF:**

**BLUE MOUNTAIN WALLCOVERINGS GROUP
INC.**, a legal person, duly incorporated according to law,
having a place of business at 1405 Graham-Bell, Suite 101
and 102, Boucherville, Quebec, J4B 6A1

Bankrupt

– and –

DELOITTE RESTRUCTURING INC.
(Ronald Gagnon, LLB, CIRP, LIT, designated responsible
person) having its place of business at 1190 avenue des
Canadiens-de-Montréal, Suite 500, Montreal, Quebec,
H3B 0M7.

Trustee

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

The *Bankruptcy and Insolvency Act*, a federal act in Canada (the “**Act**”), provides for a first meeting of creditors to discuss the creditors’ collective interest in the administration of the Bankrupt’s estate.

A) Background

Blue Mountain Wallcoverings Group Inc. (“**BMW**”) is a legal person incorporated by articles of incorporation under the *Canada Business Corporations Act* on January 28, 2004 as 4170687 Canada Inc., which was subsequently changed to Blue Mountain Wallcoverings Group Inc. by articles of amendment dated February 19, 2004.

Until recently, BMW was a designer, manufacturer, and distributor of residential wall covering products, including sidewalls, borders and other niche oriented product lines. BMW’s major customers were large home centres, mass market retailers, specialty chains, independent dealers and decorator/designers.

BMW maintained a vinyl manufacturing facility in Sherbrooke (Léger Street), a wallcovering manufacturing facility in Sherbrooke (Woodward Street), and a distribution facility in Boucherville.

Financial statements

For reference purposes, below is BMW's income statement for the eleven-month period ended July 31, 2016 as well as BMW's income statements for the years ended August 31, 2014 and 2015. In addition, you will find below BMW's balance sheets as of July 31, 2016, August 31, 2015, and August 31, 2014:

| Blue Mountain Wallcoverings Groupe Inc. | 2016 | 2015 | 2014 |
|-----------------------------------------|----------------------------|---------------------------|---------------------------|
| Income Statement (Note 1) (\$) | (11 months) (unaudited) | (unaudited) | (unaudited) |
| Sales | 2,515,386 | 4,045,056 | 8,459,137 |
| Cost of goods sold | 2,379,013 | 6,272,057 | 7,282,455 |
| | <u>136,373</u> | <u>(2,227,001)</u> | <u>1,176,682</u> |
| Expenses | | | |
| Administrative | 573,876 | 1,244,271 | 1,367,530 |
| Marketing and design | 317,414 | 517,247 | 1,007,374 |
| Shipping and handling | 749,780 | 890,751 | 1,476,370 |
| | <u>1,641,070</u> | <u>2,652,269</u> | <u>3,851,274</u> |
| Loss from operations | (1,504,697) | (4,879,270) | (2,674,592) |
| Other expenses and revenues | | | |
| Financing costs | 235,251 | 591,466 | (794,276) |
| Other expenses and (Other revenue) | - | (3,181,622) | - |
| | <u>235,251</u> | <u>(2,590,156)</u> | <u>(794,276)</u> |
| Loss before tax recovery | (1,739,948) | (2,289,114) | (1,880,316) |
| Tax recovery | - | - | (12,182) |
| Net loss | <u>(1,739,948)</u> | <u>(2,289,114)</u> | <u>(1,868,134)</u> |

Note 1:

The income statements above are as per BMW's books and records.

| | 2016 | | |
|-----------------------------------------------|--------------------|--------------------|--------------------|
| Blue Mountain Wallcoverings Groupe Inc. | (July 31, 2016) | 2015 | 2014 |
| Balance Sheet as of August 31st (Note 1) (\$) | (unaudited) | (unaudited) | (unaudited) |
| Assets | | | |
| Short-term assets | 1,652,404 | 2,304,842 | 5,540,155 |
| Property, plant, and equipment | 3,095,855 | 3,824,584 | 8,753,483 |
| | <u>4,748,259</u> | <u>6,129,426</u> | <u>14,293,638</u> |
| Liabilities | | | |
| Short-term liabilities | 5,129,413 | 5,464,764 | 10,129,506 |
| Long-term liabilities | 8,212,178 | 7,479,485 | 8,689,841 |
| | <u>13,341,591</u> | <u>12,944,249</u> | <u>18,819,347</u> |
| Shareholders' equity | | | |
| Share capital | 31,854,369 | 31,892,928 | 31,892,928 |
| Other surplus | 11,692,499 | 11,692,500 | 11,692,500 |
| Deficit | (52,140,200) | (50,400,251) | (48,111,137) |
| | <u>(8,593,332)</u> | <u>(6,814,823)</u> | <u>(4,525,709)</u> |
| | <u>4,748,259</u> | <u>6,129,426</u> | <u>14,293,638</u> |

Note 1:

The balance sheets above are as per BMW's books and records.

Causes of insolvency

As indicated in the above financial statements, BMW has cumulated deficits totaling \$5.9M for the period from September 1, 2013 to July 31, 2016. The accumulated deficits and the increased pressure on BMW's liquidities caused by those deficits forced BMW to make a voluntary assignment in bankruptcy on August 8, 2016 and Deloitte Restructuring Inc. was appointed Trustee in relation to the estate of BMW.

B) Trustee's preliminary evaluation of assets and liabilities

Below is a summary of the Statement of Affairs as of August 8, 2016, which includes the estimated net realization value of the assets of BMW, as determined by management, as well as the estimated deficit following the distribution of the estimated proceeds from the liquidation of the assets to the secured creditors:

| Blue Mountain Wallcoverings Groupe Inc. Statement of Affairs (CAD) As of August 8, 2016 (unaudited) | Estimated realization value (Note 1) |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------------|
| Assets | |
| Cash | 60,000 |
| Accounts receivable | 48,000 |
| Inventory | 80,000 |
| Equipment | 500,000 |
| Buildings | 3,808,300 |
| | 4,496,300 |
| Liabilities | |
| Secured creditor - on the buildings | 3,808,300 |
| Secured creditor - on the buildings (unsecured portion) | 116,700 |
| Secured creditor - on the other assets | 688,000 |
| Secured creditor - on the other assets (unsecured portion) | 1,312,000 |
| Unsecured creditors (Note 2) | 1,171,844 |
| | 7,096,844 |
| Deficit (before professional fees) | (2,600,544) |

Note 1:

Estimated realization value is before any costs related to the liquidation of the assets and to the administration of the bankrupt estate.

Note 2:

Creditors will have the onus to prove their claims and only those claims that are proven will constitute valid claims and will receive a distribution if funds are available.

The estimated values attributed to the various assets of BMW in the Statement of Affairs are discussed below:

- **Cash:** The net realization value of the cash balance is based on the cash balance received by the Trustee at the time of the bankruptcy.
- **Accounts receivable:** The net realization value of the accounts receivable was estimated based on the book value of the accounts receivable as of July 31, 2016.
- **Inventory:** The net realization value of the inventory was estimated based on discussions with representatives of BMW. However, the trustee will obtain a summary report from the external firm SIS Services Inc. once they finalize their inventory count and inspection of the assets. SIS Services Inc.'s summary report will more precisely determine the estimated liquidation value of BMW's inventory.

- **Equipment:** The net realization value of the equipment was estimated based on discussions with representatives of BMW. However, SIS Services Inc. is also currently performing a summary analysis for the benefit of the Trustee in order to more precisely determine the net realizable value of the equipment, net of any dismantling costs considering the nature of the equipment.
- **Buildings:** The net realization value of the buildings was estimated based on the municipal tax assessments. However, the Trustee is currently in the process of obtaining more precise appraisals of the liquidation value of the buildings from local real estate brokers.

Hood Brother Holdings Inc. (“**HBH**”) holds a first ranking security over BMW’s two buildings located in Sherbrooke. HBH’s claim amounts to approximately \$ 3,925,000. The National Bank of Canada (“**NBC**”) holds a first ranking security over all of BMW’s other assets. NBC’s claim amount to approximately \$ 2,000,000. As of the time of this report, the Trustee has not yet obtained an independent opinion on the validity of HBH and NBC’s securities over BMW’s assets. The Trustee however intends to obtain such independent opinion before any funds are distributed or any assets are remitted to the secured creditors.

C) Conservatory and protective measures

The Trustee implemented the following conservatory and protective measures:

- Opening of a trust bank account at the NBC;
- Freezing of BMW’s bank account;
- Changing of the locks at BMW’s three locations;
- Seizing and securing all of BMW’s tangible assets (i.e. mainly buildings, inventory, and equipment) and performing an inventory count of all of those assets;
- Publication of a notice to creditors in the *La Presse* newspaper;
- Ensuring proper insurance coverage of the BMW’s assets.

D) Information relating to provable claims

As of the time of the preparation of this report, considering the limited numbers of proofs of claim received to date, the Trustee is not able to determine if there will be a significant difference between the amount of claims declared by the Bankrupt and the amount of claims proven by the various creditors.

E) Legal proceedings, transfer at undervalue, and preference payments

The Trustee has not initiated any legal proceedings and has not identified any transfer at undervalue or preference payments to date.

F) Projected distribution and Trustee's comments on anticipated asset realization

As illustrated in the Statement of Affairs (summarized above), based on the information received from BMW's management, the Trustee estimates that the proceeds that will be realized from the liquidation of all of BMW's assets will likely not be sufficient to fully reimburse the secured creditors having first ranking securities over all of BMW's assets. Therefore, based on the information currently on hand, it is estimated that no funds will be available for the distribution of a dividend to the unsecured creditors of BMW following the realization of all of the Bankrupt's assets.

However, as mentioned in the previous sections of this report, before concluding on the value of the buildings and before determining the liquidation strategy, the trustee will obtain more precise estimates of the liquidation value of all of BMW's assets and more specifically of the buildings. The results will be communicated to the inspectors who will be appointed at the meeting of creditors. Should the net liquidation value of the buildings obtained by the real estate broker that could be retained by the Trustee be higher than the total amount due to HBH, a dividend could become available for distribution to the unsecured creditors of BMW.

G) Other matters

None.

DATED AT MONTREAL, Quebec, this 29th day of August, 2016.

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee of the Estate of
Blue Mountain Wallcoverings Group Inc.
and not in its personal capacity

Per:



Martin Franco, CPA, CA, CIRP, LIT
Senior Vice-President