

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-050204-169
ESTATE NO.: 41-2089293

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

Plastic Decorators Inc.
a legal person duly constituted, having its
registered office at 10550 Secant Street
Montreal QC H1J 1S3

Debtor

- and -

Richter Advisory Group Inc.

Trustee

**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION
OF THE DEBTOR AND ON THE PROPOSAL
(Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*)**

Pursuant to Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*, and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Debtor and on the Proposal.

We caution the reader that we have neither conducted an audit nor a verification of the books and records of the Debtor. Consequently, we cannot render an opinion as to the accuracy of the information contained therein. The information discussed herein emanates from the books and records of the Debtor as well as from our discussions with the Management of the Debtor.

I. INTRODUCTION

In 2015, management of Plastic Decorators Inc. (hereinafter "Plastic", the "Debtor" or the "Company") initiated a process to seek the interest of potential investors. On July 21, 2015, a group of investors (the "Purchaser") submitted a letter of interest ("LOI") to acquire all the outstanding shares of the Debtor (the "Transaction"). The Transaction will only be finalized if and after the Proposal is accepted by the creditors and ratified by the Court.

In this context, on February 18, 2016, the Debtor filed a Proposal in accordance with the *Bankruptcy and Insolvency Act* (hereinafter referred to as the “Act” or “BIA”). We have enclosed herewith the Proposal made by the Debtor to its creditors, a proof of claim form, a voting form, a proxy, and a notice indicating the place and time of the Meeting of Creditors to address the Proposal.

The following summarizes the relevant information and key elements that may assist the creditors in evaluating the Debtor's affairs and the Proposal.

Take notice that, if the Proposal is accepted by the creditors at the meeting to be held on March 18, 2016, an application will be made to the Québec Superior Court, judicial district of Montréal, 1 Notre-Dame Street E., Room 16.12, Montréal, QC, H2Y 1B6 on April 11, 2016, at 8:45 AM to approve the proposal of the Debtor.

II. OVERVIEW OF THE COMPANY

Plastic, in business since 1961, is a bottle decorator. Using the processes of screen printing, label application, hot stamping, pad printing (or a combination of the processes), Plastic applies artwork bottles supplied to them by their clients.

In 2008, Serico-Impro Inc. (“Serico”), a company operating in the same place was acquired by Plastic's parent company and was moved into the same premises in February 2009.

III. CAUSES OF INSOLVENCY AND RECENT DEVELOPMENTS

After moving to larger premises in 2012, the Company incurred financial losses due to an unforeseen sales decline. A number of clients, still reeling from the economic downturn in 2010 and 2011, either moved production overseas or shut down production of certain lines, causing a significant decline in sales in 2014 and 2015. During that period, the Company lost two major customers who moved their production to Asia, and a third customer who converted their bottle decorating to application of labels. At the same time, moving expenses, coupled with the burden of ongoing debt repayment put the company in a very difficult financial position.

Furthermore, the Company's SR&ED claim for fiscal 2014 was refused by Canada Revenue Agency (CRA) and Revenue Quebec. In addition, a GST/PST audit by Revenue Quebec in the early fall of 2015 concluded with a refund assessment. The financial difficulties coupled with fiscal authorities' assessments prevent the Company to maintain normal operations in a satisfactory manner.

IV. TRANSACTION

The Purchaser (Mr. Martin Tessier, Mr. Mario Tremblay and Mr. Luc Poirier) submitted a letter of interest to the Debtor on July 21, 2015. Pursuant to the LOI, the Purchaser shall acquire all the outstanding shares of the Debtor.

As per the LOI, the Purchaser shall pay \$125,000 to the Debtor and Serico in order to fund the proposal to its unsecured creditors if accepted.

V. FINANCIAL INFORMATION

The following financial data was extracted either from the books and records of the Debtor, the unaudited financial statements or from discussions held with Management. This information is submitted solely to assist the reader in assessing the current financial position of the Debtor.

The Trustee makes no representation or warranty as to the accuracy of said financial information.

A) Statement of Earnings (Deficit)

Plastic Decorators Inc. Statement of Earnings			
	F2016 Unaudited (9 months ended Jan. 31, 2016)	F2015 Unaudited (April 30, 2015)	F2014 Unaudited (April 30, 2014)
Total sales	\$ 1,181,873	\$ 1,324,180	\$ 1,421,703
Operating expenses			
Factory salaries	286,285	389,532	345,653
Supervisor salaries and commissions	169,484	193,489	191,171
Office salaries and commissions	99,030	123,588	113,512
Management salaries	22,918	28,423	23,011
Vacation expense	55,452	72,088	-
Salaries benefits (DAS and group insurance)	69,430	109,706	103,962
Personnel Agencies	174,780	92,370	181,269
Supplies	78,580	87,099	85,747
Utilities	41,850	49,261	40,366
Rent and property taxes	79,363	105,250	76,529
Repairs and maintenance	45,066	53,684	52,457
Insurance	21,524	32,045	30,607
Interest and bank charges	36,554	42,021	26,938
Professional fees	3,000	5,000	31,426
Depreciation and amortization	-	-	20,167
Other expenses	56,808	74,473	78,552
	<u>1,240,124</u>	<u>1,458,029</u>	<u>1,401,367</u>
Earnings Before Taxes	(58,251)	(133,849)	20,336
Taxes	-	-	-
Net Earnings (Deficit)	\$ (58,251)	\$ (133,849)	\$ 20,336

As shown in the above table, for the 9-month period ended January 31, 2016 (the latest information available), the Debtor reported revenues of \$1,181,873 and a net loss of \$58,251.

B) Historical Balance Sheet

Plastic Decorators Inc.			
Balance sheets			
Prepared by Management - UNAUDITED			
	As at Jan. 31	As at April 30	As at April 30
	2016	2015	2014
Assets			
Accounts receivable	\$ 174,046	\$ 169,200	\$ 171,453
Other receivable	73,511	73,878	332
Inventory	28,876	28,875	28,876
Prepays and deposits	17,312	18,693	18,529
	293,744	290,646	219,190
Loan to related parties	1,299,613	1,299,249	1,255,355
Fixed assets	48,018	48,018	48,018
	\$ 1,641,375	\$ 1,637,913	\$ 1,522,563
Liabilities			
Line of credit - Scotia	\$ 111,620	\$ 133,551	\$ 111,446
Accounts payable	328,486	289,142	274,500
Rent payable	41,597	43,083	-
Accrued liabilities	15,963	19,946	17,132
Sales taxes payable	146,091	72,291	70,137
Vacations payable	58,332	72,509	65,861
Salaries payable	12,076	-	-
DAS payable	70,696	45,295	39,264
	784,862	675,817	578,340
Loan - BDC	58,275	73,260	84,915
Loan - Capital lease	7,358	15,601	25,662
	850,494	764,678	688,917
Shareholder's Equity			
Capital stock	164,962	164,962	2,962
Retained earnings	625,918	708,273	830,684
	\$ 1,641,375	\$ 1,637,913	\$ 1,522,563

C) Debtor's Statement of Affairs - Assets

Based on the Debtor's and Serico's Statement of Affairs as of February 18, 2016, and certain additional information provided by Management, the Debtor's and Serico's assets can be summarized as follows:

Plastic Decorators Inc. and Serico-Impro Inc.			
Assets			
	<u>Plastic</u>	<u>Serico</u>	<u>Total</u>
Cash in Bank	\$ -	\$ -	\$ -
Accounts Receivables - Collectible			
Accounts Receivables - Total	174,046	1,844	175,890
Accounts Receivables - Bad	(2,056)	-	(2,056)
Accounts Receivables - Doubtful	<u>(34,500)</u>	<u>(1,844)</u>	<u>(36,344)</u>
Equipment (estimate)	24,000	16,500	40,500
Inventory (estimate)	<u>5,775</u>	<u>2,900</u>	<u>8,675</u>
	<u>\$167,265</u>	<u>\$ 19,400</u>	<u>\$186,665</u>

Management's estimated gross realization amount is prior to consideration of the payment of post-filing obligations as well as professional fees.

Of the \$176K of receivables currently on the books, \$2K of receivables are considered uncollectible and \$36K are considered doubtful based on the age of the accounts. The Debtor estimates the recoverable accounts receivable balance at approximately \$137K.

Note that the loan to related parties (\$1.3M as at January 31, 2016) concerns funds that were used to finance the acquisition of Plastic and Serico. The Debtor estimates that this amount is unrecoverable.

D) Debtor's Statement of Affairs - Liabilities

The Debtor has provided us with a list of its creditors. Notices have been sent to the known creditors and, to date, we are unable to determine if the Debtor's records agree with those of its creditors. As Proofs of Claim are received, we shall record the specific amounts claimed by the creditors, and prior to paying any dividend, we shall perform a variance analysis (where applicable).

Liabilities indicated below are based on the books and records of the Debtor and Serico, the Statements of Affairs as of February 18, 2016 and Management's representations.

Plastic Decorators Inc. and Serico-Impro Inc.			
Liabilities			
	<u>Plastic</u>	<u>Serico</u>	<u>Total</u>
Secured Creditors			
Unrelated Creditors	\$ 118,978	\$ 48,778	\$ 167,756
Preferred Creditors	-	-	-
Unsecured Creditors			
Unrelated Creditors	<u>703,477</u>	<u>18,714</u>	<u>722,191</u>
	<u>\$ 822,455</u>	<u>\$ 67,492</u>	<u>\$ 889,948</u>

The secured liabilities are comprised of \$161K due to Scotia Bank and \$7K due on a capital lease. We caution that the liabilities amount may change as proofs of claim are received.

VI. PROPOSAL

A) Summary

The terms of the Proposal provide that a payment of \$125K less payment of Employee Claims and Preferred Claims to be remitted to the Trustee by the Debtor and by Serico within 90 days following the approval of the Proposal by the Court for distribution to Ordinary Creditors. For greater certainty, there will be only one common payment paid by the Debtor and by Serico for both the Proposal and the Serico Proposal.

Conditional upon the acceptance by the creditors of the Proposal and to the approval thereof by the Court by no later than the date of the Approval Hearing, the Related Creditors waive and renounce (i) to any right to prove in whole or in part any Ordinary Unsecured Claims they may have and (ii) to any dividend that is or could be payable to them under the Proposal.

B) Amounts to be paid as a priority

According to the terms of the Proposal, the following amounts must be paid in priority:

- Crown Claims shall be paid in full, within six months of the approval of the Proposal by the Court, or as may otherwise be arranged with the Crown;
- Amounts owing to employees (past and present) and that they would have been entitled to receive under Section 136(1)(d) of the Act if the Debtor had been declared bankrupt on the date of the approval of the Proposal, shall be paid in their entirety immediately after the approval of the Proposal;
- The Preferred Claims, as described in paragraphs 136(1)(a) to 136(1)(j) of the Act, being such claims directed by the Act to be paid in priority to all other claims in the distribution of the property of a bankrupt, excluding the Employee Claims. The Preferred claims, without interest or penalty, shall be paid in their entirety in priority to Unsecured Claims within thirty (30) days of the approval of the Proposal by the Court or as may be otherwise arranged with the Preferred Creditors.

C) Amounts to be disbursed to Ordinary Creditors

The amount available after payment of the above-mentioned amounts (“Net Amount”) shall be paid to the Trustee within 90 days of the Approval of the Proposal and shall be distributed to Ordinary Creditors as follows:

- Each of the Ordinary Creditors shall receive, in full and final payment of its Unsecured Claim, without interest or penalty:
 - a) Provided the creditor makes an election, the lesser of five hundred dollars (\$500) or the amount of its Unsecured Claim as set out in its proof of claim or an irrevocable and unconditional reduction of such Unsecured Claim to five hundred dollars (\$500);
 - b) A pro-rata share of the balance of the Net Amount after payment of the amount defined in a) above.

D) Creditors' Committee

The Debtor consents to the creation of a committee which shall be comprised of, at most, five (5) individuals (the "Committee") designated by the creditors at the Meeting of Creditors. The Committee shall have the following powers:

- To advise the Trustee in connection with the actions under the Proposal, as the Trustee may from time to time request;
- To advise the Trustee concerning any dispute which may arise as to the validity of claims under the Proposal; and
- To authorize the deferment of any payment under the terms of the Proposal, either in whole or in part, and entirely at its discretion, providing that any such deferment is deemed by the Creditors' Committee to be in the interest of the Ordinary Unsecured Creditors and the Debtor.

VII. ESTIMATE AS TO DISTRIBUTION TO CREDITORS

In the event that the creditors reject the Proposal, the Debtor will automatically be bankrupt and the net proceeds from the liquidation of the assets (after the payment of the Trustee's fees and expenses) will be distributed to the creditors in the order provided for under the Act. The following information is to inform the creditors on the estimate as to the distribution to creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

A) Proposal

Based on the Claims reflected in the Debtor's and Serico's Statements of Affairs, the amount of the Proposal (\$125,000) would be distributed as follows:

Plastic Decorators Inc. and Serico-Impro Inc. Proposal			
Proposal Amount		\$	<u>125,000</u>
	Estimated Claims	Estimated Distribution	
Secured creditors (Note 1)	\$ -	\$ -	
Crown Claims (Note 1)	-	-	
Unsecured Creditors	722,191	<u>125,000</u>	17.3%
		\$	<u>125,000</u>
Note 1: Per the Transaction LOI, the Purchaser will assume the liabilities related to the Secured Creditors and the Crown Claims.			

B) Bankruptcy

In a bankruptcy scenario, it has been estimated that the net realization value of the assets would be \$136,665. Therefore, the estimated net proceeds would be distributed as follows:

Plastic Decorators Inc. and Serico-Impro Inc. Estimated Distribution - Bankruptcy Scenario			
Net Realization of Assets (estimated)			
Cash on hand		\$	-
Accounts Receivable			137,490
Inventory			8,675
Equipment			40,500
Professional Fees			<u>(50,000)</u>
		\$	<u>136,665</u>
	Estimated Claims	Estimated Distribution	
Crown Claims	\$ -	\$ -	0.0%
Secured Creditors	167,756	136,665	81.5%
Unsecured Creditors	<u>703,477</u>	<u>-</u>	0.0%
	\$	\$	
	<u>871,233</u>	<u>136,665</u>	

The estimated distribution under the Bankruptcy scenario shows that all the proceeds would be for the benefit of the Secured Creditors. Therefore, there would be no distribution to the unsecured creditors in a Bankruptcy scenario.

C) Other considerations

The following are additional elements to be considered:

- i. The Proposal provides for the payment of a dividend to Ordinary Creditors within ninety (90) days of the approval of the Proposal. In a bankruptcy, it is expected that there would be no distribution.
- ii. The Purchaser will continue operating the business and employees will remain employed. In addition, suppliers will also be able to continue their business relationship with the Debtor.
- iii. Sections 95 to 101 of the Act will not be applicable to the Proposal. The remedies pursuant to these provisions relate to the recovery of certain amounts under reviewable transactions, preferential treatments and asset disposals.

VIII. CONCLUSION & RECOMMENDATION

The funding of the Proposal is contingent on the Purchaser's ability to finalize the contemplated Transaction. To date, we have been informed that the Purchaser has secured the financing related to the Transaction.

The Trustee is of the opinion that if the Proposal is not approved by the creditors, it is unlikely that the Unsecured Creditors will realize any recovery of their debt in view of the significant prior ranking Crown and Secured Claims. It is estimated that the Proposal will provide recovery to the Unsecured Creditors of approximately 17%. **The Trustee therefore recommends to vote in favour of the Proposal.**

Dated at Montreal, Province of Quebec, this 4th day of March 2016.

Richter Advisory Group Inc.
(Trustee)



Stéphane De Broux, CPA, CA, CIRP