

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

Court No. 31-2459849

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
SATIN FINISH HARDWOOD FLOORING, LIMITED
OF THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO**

**THIRD REPORT TO THE COURT
SUBMITTED BY MNP LTD.**

MAY 1, 2019

I. INTRODUCTION

1. This report (the “**Third Report**”) is filed by MNP Ltd. in its capacity as proposal trustee (“**Proposal Trustee**”) under the Notice of Intention to Make a Proposal (the “**NOI**”) filed by Satin Finish Hardwood Flooring, Limited. (“**Satin**” or the “**Company**”) on January 2, 2019, pursuant to Section 50.4 (1) of the *Bankruptcy and Insolvency Act* (the “**BIA**”). In addition, the Proposal Trustee has prepared a confidential supplement to the Third Report detailing the status of the Sale Process (defined below), which the Company and the Proposal Trustee are seeking to be sealed in the Court file.
2. On January 23, 2019, the Court issued an Order (the “**First Extension Order**”) and Endorsement that, *inter alia*:
 - a. extended the time for filing a proposal to and including March 18, 2019; and
 - b. approved the marketing and sale process as more particularly described in the First Report, dated January 18, 2019 (the “**First Report**”) and Exhibit “E” attached thereto (the “**Sale Process**”).

A copy of the First Extension Order issued on January 23, 2019 is attached as **Appendix “A”**.

3. On March 15, 2019, the Court issued an Order (the “**Second Extension Order**”) that, *inter alia*:
 - a. Extended the time for filing a proposal to and including May 2, 2019;
 - b. Extended the timeline for the Sale Process by two (2) weeks; and
 - c. Authorized the Proposal Trustee and its counsel to receive, subject to certain limitations, interim draws toward payment of their professional fees and disbursements out of monies received from the Company.

A copy of the Second Extension Order issued on March 15, 2019 is attached as **Appendix “B”**, respectively.

II. RESTRICTIONS

4. In preparing this Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the Zimmerman Affidavit (as defined in the First Report), the Company’s books and records, discussions with employees and management of the Company and information from other third-party sources (collectively, the “**Information**”). Except as described in this Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards of the Chartered Professional Accountants of Canada.
5. The Proposal Trustee also bases its report on the Company’s cash flow projections and underlying assumptions and notes that its review and commentary thereon were performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals’ Standards of Professional Practice No. 99-5 (Trustee’s Report on Cash Flow Statement). Certain of the information referred to in this report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, in accordance with standards set by Chartered Professional Accountants Canada, has not been performed. Future oriented financial information

referred to in this report was prepared based on estimates and assumptions provided by the Company's management. Readers are cautioned that, since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variations could be material.

III. PURPOSE OF THIS REPORT

6. The purpose of this Third Report is to, *inter alia*:
 - a. Update the Court with respect to:
 - i. the activities of the Company and the Proposal Trustee since the Second Report to the Court submitted by MNP Ltd. dated March 13, 2019 (the "**Second Report**", attached without exhibits as **Appendix "C"**);
 - ii. the Company's actual receipts and disbursements in comparison to its cash flow projections for the period January 12, 2019 to April 19, 2019 and updated and extended cash flow projections, and the Proposal Trustee's observations regarding same; and
 - iii. the results of the Sale Process, including the status of ongoing efforts to solicit expressions of interest.
 - b. Provide the Court with the Proposal Trustee's recommendations that the Court make an order, as requested by the Company, *inter alia*:
 - i. authorizing the sale of the Company's raw materials, unfinished product (the "**Work in Progress**") and certain inventory that has not met quality standards (the "**Off-Quality Inventory**") outside of the ordinary course of business for a sale price not to exceed \$710,000 (before HST) in the aggregate for the period ending June 14, 2019;
 - ii. sealing the confidential appendix described below until further order of the Court;

- iii. approving the extension of the Sale Process and permitting bids only by certain parties, as discussed below;
- iv. approving the extension of the time for the Company to file a proposal with the Official Receiver (the “**Stay Period**”) to and including June 14, 2019; and
- v. approving this Third Report, as well as the approval of the activities of the Proposal Trustee as set out herein.

IV. ACTIVITIES OF THE COMPANY

Scaling Back Operations

- 7. As reported in the First Report, out of its approximately 120 employees, Satin employs more than 90 members of the Union (as defined in the First Report). Prior to the NOI, Satin experienced a breakdown in negotiations of an expired unionized employee’s collective bargaining agreement. The unionized employees had been locked out from Satin as of December 7, 2018.
- 8. Satin resumed the manufacturing operations that were halted during the period of the labour lockout after a new collective bargaining agreement was ratified on January 18, 2019.
- 9. During the NOI process, Satin has reduced their sales team in an effort to reduce costs. Due to limited orders, Satin no longer requires the production of additional inventory and will complete all existing orders by the week ended May 3, 2019. Satin has therefore planned to shut down its production line effective as of the week ended May 3, 2019.

Forbearance Agreement

- 10. As reported in the Second Report, Satin and CIBC (as defined in the First Report) entered into a forbearance agreement dated as of February 12, 2019 that provides for a forbearance period ending on the earlier of April 30, 2019 and the occurrence of a Termination Event as defined therein. In the forbearance agreement, CIBC has agreed to continue to provide

its credit facilities to Satin on the terms set out therein. An amendment to the forbearance agreement was made to accommodate the request for a further extension of time to file a proposal.

CRA Audit

11. On April 15, 2019, the Canada Revenue Agency (the “**CRA**”) completed an audit of Satin’s Harmonized Sales Tax (“**HST**”) returns for the period of January 1, 2018 to January 23, 2019 (the “**HST Audit**”).
12. The HST Audit has identified the possibility of CRA raising a pre-NOI re-assessment in the amount of approximately \$234,000.

Excess Inventory

13. Satin has accumulated Off-Quality Inventory that would not be sold to customers directly. During the proposed extension Satin intends to sell their Off-Quality Inventory to a third-party home renovation liquidation firm that they have historically sold their Off-Quality Inventory to.
14. In addition to the Off-Quality Inventory, Satin has an inventory of raw materials and Work in Progress that is surplus to their needs. Satin intends to sell a portion of the raw materials and Work in Progress at discounted rates during the proposed extension period.

15. Satin's sale of raw materials, Work in Progress and Off-Quality Inventory is expected to result in realizations above amounts that would otherwise be expected in a liquidation scenario. Based on the offers received from liquidators during the Sale Process, which offers were for all assets, it is the Proposal Trustee's opinion that the sale of the assets noted above out of the ordinary course of business would be more beneficial to the creditors than a sale or disposition in a bankruptcy scenario. The Trustee recommends that the sale price of these types of inventory be limited to \$710,000 (before HST) in the aggregate for the period ending June 14, 2019 to be consistent with the volume of sales contemplated by the Second Revised Cash Flow Projections (defined below).

V. CASH FLOW PROJECTIONS

16. On March 13, 2019, the Company filed with the Office of the Superintendent of Bankruptcy a revised cash flow and related assumptions for the period commencing January 2, 2019 and ending May 17, 2019 (the "**First Revised Cash Flow Projections**"). A copy of the First Revised Cash Flow Projections was appended to the Second Report.
17. To date, the Company has provided the Proposal Trustee with its full co-operation and unrestricted access to its premises, books and records.
18. The Proposal Trustee implemented procedures for monitoring the Company's receipts and disbursements and has kept in close contact with management to ensure that operations are continuing in the normal course of business and in accordance with the First Revised Cash Flow Projections.
19. A summary of the Company's actual receipts and disbursements for the period January 2, 2019 to April 19, 2019 is set out below, with a comparison to forecast:

Totals for January 2nd to April 19, 2019*(Forecast) (Actual) (Variance)***Receipts**

Total Receipts	3,928,226	4,191,509	263,283
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Disbursements

Payroll (incl. taxes)	(1,216,929)	(1,222,930)	(6,001)
Utilities and Maintenance (incl. rent)	(625,086)	(696,513)	(71,427)
Professional and Management Fees	(435,000)	(386,063)	48,937
Insurance	(76,764)	(109,928)	(33,164)
SGA & Costs	(310,426)	(220,764)	89,662
Material Purchases and Freight	(101,319)	(550,073)	(448,754)
Banking Charges and Interest	(70,306)	(152,032)	(81,726)
Contingency	(30,000)	-	30,000
Total Disbursements	(2,865,830)	(3,338,303)	(472,473)

Cash Generated

	1,062,396	853,206	(209,190)
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20. As exhibited above, cash generated as at April 19, 2019 is approximately \$209,000 lower than forecast. The Proposal Trustee offers the following commentary with respect to material unfavourable variances in the First Revised Cash Flow Projections:

- a. **Materials Purchases and Freight** – the unfavourable variance relates to: (i) the post-NOI purchase of hardwood and stain materials that were unanticipated by the Company; and (ii) freight charges and duties related to the post-NOI shipment of goods ordered and paid for by Satin prior to the NOI.
- b. **Utilities and Maintenance** – the unfavorable variance relates to: (i) timing of payments for utilities, as post-NOI agreements were made by Satin with providers to pre-pay on a quarterly basis, details of which were not known by Satin at the time of the forecasts; (ii) higher than forecasted expenditure in repairs and maintenance; and (iii) security costs related to the lockout period that was not forecasted.

- c. **Banking Charges and Interest** - Bank charges are comprised primarily of interest costs related to the CIBC overdraft credit facility. The forecast did not correctly record interest costs and the variances related to the interest charges are of a permanent nature.

These unfavourable variances were partially offset by the following:

- d. **Total receipts** –Satin has collected receivables above the forecasted amount, which is of timing in nature.
- e. **Professional and Management Fees** – The \$49M favourable variance in payment of professional and management fees is timing in nature.

21. As of the date of the Third Report, the Company is current with respect to its obligations to employees and former employees, including the payment of all outstanding wages and vacation pay to employees, as well as source deduction remittances to Canada Revenue Agency.
22. In support of the Company's motion returnable May 1, 2019, the Company, with the assistance of the Proposal Trustee, prepared an updated weekly cash flow forecast for the period from April 20, 2019 to June 14, 2019 (the "**Second Revised Cash Flow Projections**"), a copy of which, together with the reports of management and the Proposal Trustee on said reports, are attached hereto as **Appendix "D"**. The Second Revised Cash Flow Projections have been prepared using the probable and hypothetical assumptions set out in the notes attached to the Second Revised Cash Flow.
23. The Proposal Trustee's review of the Second Revised Cash Flow Projections consisted of enquiries, analytical procedures and discussions related to information supplied to us. Since hypothetical assumptions need not be supported, the procedures with respect to those assumptions were limited to evaluating whether they were consistent with the purpose of the forecast. The Proposal Trustee has also reviewed the support for the probable assumptions and the preparation and presentation of the forecast.

24. 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 forecast;
 - b. as at the date of the Third Report, the probable assumptions used in developing the Second Revised Cash Flow Projections are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the forecast, given the hypothetical assumptions; and
 - c. the Second Revised Cash Flow Projections does not reflect the probable and hypothetical assumptions.

VI. SALE PROCESS

25. Details of the steps taken by Satin and the Proposal Trustee regarding the Sale Process are summarized in the Second Report.
26. Pursuant to the Second Extension Order, the Sale Process was extended by two (2) weeks. The revised deadline for submission of bids was April 8, 2019. Notice of the extension was sent via e-mail to all parties that had signed a confidentiality and non-disclosure agreement.
27. The Company is requesting that the Sale Process be extended by an additional approximately five (5) weeks, such that the proposed new timeline of the extended Sale Process, including milestone dates already passed, is as set out in the attached **Appendix "E"**, provided that only the parties contemplating going-concern offers referred to in **Confidential Appendix "F"** are permitted to submit offers by the extended bid deadline of May 15, 2019.
28. Further details of the activities regarding the Sale Process since the Second Report and order requested are set out in **Confidential Appendix "F"**.

VII. EXTENSION OF THE STAY PERIOD

29. The current Stay Period expires at midnight on May 2, 2019 and the Company seeks an extension of the Stay Period to and including June 14, 2019.
30. The Company requires the additional time to complete a transaction as detailed in Confidential Appendix “E”. Without the extension, the Company will likely not be able to preserve the possibility of completing a going concern transaction, to the detriment of its creditors.
31. As set out in the Second Revised Cash Flow Projections, it appears that the Company will have sufficient funds available to continue operating and meet its obligations through to the end of the requested extended Stay Period on June 14, 2019.
32. The Proposal Trustee supports the Company’s request for an extension and has also considered that:
 - a. Satin has acted, and continues to act, in good faith and with due diligence in its operations and dealings with its stakeholders;
 - b. that Satin is projected to have sufficient funds to pay post-filing services and supplies in the amounts contemplated in the Second Revised Cash Flow Projections;
 - c. that CIBC does not object to the extension and no other creditor is prejudiced by the requested extension;
 - d. that the proposed extension allows the Company to complete a sale transaction, which could generate Offers before the end of the requested extension period that could result in greater recoveries than in a liquidation within a bankruptcy scenario; and
 - e. if Offers are received, it is expected that the Company will then be in a position to consider formulating and presenting a viable proposal.

VIII. SEALING OF CONFIDENTIAL APPENDICES

33. The Confidential Appendix described above contains financially sensitive information that may prejudice the Company's and the Proposal Trustee's ability to solicit going concerns offers. The Company and Proposal Trustee therefore respectfully requests that the Court issue an order sealing the Confidential Report until further order of the Court.

IX. CONCLUSION AND RECOMMENDATION

34. Based on the foregoing as outlined in the body of this Second Report, the Proposal Trustee respectfully requests that this Court issue an order granting the relief detailed in paragraph 6b.

All of which is respectfully submitted on this 1st day of May, 2019.

MNP Ltd.

In its capacity as Trustee under
The Notice of Intention to Make a Proposal of
Satin Finish Hardwood Flooring, Limited
Per:



Sheldon Title