



## NOTICE AND STATEMENT OF THE RECEIVER

(Pursuant to subsection 245(1) and 246(1)  
of the *Bankruptcy and Insolvency Act*)

### IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF

**538626 B.C. Ltd.**

of the City of Vancouver in the Province of British Columbia

The Receiver gives notice and declares that:

1. On June 11, 2012, pursuant to an order (the "**Receivership Order**") of the Ontario Superior Court of Justice (Commercial List) (the "**Court**"), PricewaterhouseCoopers Inc. ("**PwC**") was appointed receiver (the "**Receiver**"), without security, of all of the assets, undertakings and properties (the "**Property**") of 538626 B.C. Ltd. ("**Kraus BC**" or the "**Company**"), Kraus Canada Inc. ("**KCI**"), Kraus Inc. ("**Kraus**") and Strudex Fibres Limited ("**Strudex**" and collectively with Kraus BC, Kraus, and KCI the "**Companies**") acquired for, or used in relation to the business carried on by the Companies, pursuant to section 243 (1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the "**BIA**"), as amended.
2. The Receivership Order was granted pursuant to an application made by Pinnacle Capital Resources Limited, in its capacity as general partner of Red Ash Capital Partners II Limited Partnership ("**Red Ash**"), pursuant to its security agreements with the Company, including an assignment dated May 7, 2012 of various security agreements.
3. Also, on June 11, 2012, the Court issued an order (the "**Sale Order**") approving an asset purchase agreement (the "**APA**") between the Receiver and Kraus Brands LP dated as of June 11, 2012, for the sale of substantially all of the Property of the Companies (the "**Transaction**").
4. The Transaction closed on June 11, 2012. The gross consideration of the Transaction has not yet been allocated by the Purchaser amongst the individual Companies but is estimated to be in excess of \$83 million, consisting of:
  - (i) the assumption of certain portions of the Operating Companies' secured debt owed to Red Ash, in the amount of approximately \$80.2 million (the "**Assumed Secured Debt**");
  - (ii) payment of certain priority claims ranking in priority to the Assumed Secured Debt, pursuant to sections 81.3, 81.4, 81.5 and 81.6 of the BIA, estimated at approximately \$24,500; and

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*PricewaterhouseCoopers Inc.*

*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2  
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- (iii) the assumption of certain Assumed Liabilities, as defined in the APA, estimated to be approximately \$2.8 million, to include certain trade credit advanced by suppliers in respect of goods and services ordered and delivered after May 28, 2012 unless reduced for goods returned or offered for return to the applicable supplier, and assumed outstanding wages and vacation pay of certain transferred employees.
5. On June 11, 2012, the Receiver took possession of the Company's Property, only to the extent necessary to complete the Transaction, as follows:

<b>Assets</b>		<b>Estimated Book Value as at December 31, 2011</b>	
Cash	\$		29
Long Term Investments			6,784
<b>TOTAL</b>	<b>\$</b>		<b>6,813</b>

Note:

(1) The above amounts are based on book values as at December 31, 2011 as more recent financials were not available. These amounts have not been reviewed or audited and do not necessarily represent the sale or liquidation value of the Company's assets.

6. The following information relates to the receivership:
- (a) Address of the head office of the Company:
- Robson Court  
1000-840 Howe Street  
Vancouver BC V6Z 2M1
- (b) Principal line of business:
- Holding company.
- (c) Location of business:
- Robson Court  
1000-840 Howe Street  
Vancouver BC V6Z 2M1
- (d) Amounts owed as of June 11, 2012, by the Company to each creditor who holds security on the Property described above, pursuant to the Company's books and records and a search of the Personal Property Security Registration System (Ontario), is as follows:

Red Ash Capital Partners II Limited Partnership	\$128,622,000
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- (e) The list of other creditors of the Company and the amount owed to each creditor is set out in Schedule "A", which totals:

Unsecured Creditors	\$557,223
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- (f) The intended plan of action of the Receiver during the receivership proceedings, to the extent that such a plan has been determined, is to complete all outstanding matters relating to the Transaction and to take such further action as determined by the Court.

- (g) Contact person for Receiver:

PricewaterhouseCoopers Inc.  
Receiver of 538626 B.C. Ltd.  
PwC Tower  
18 York Street  
Suite 2600  
Toronto ON M5J 0B2

Attention:	Sara de Verneuil
Telephone:	(416) 863-1133 x14374
Facsimile:	(416) 814-3219

7. Further information regarding the receivership proceedings and materials relating to the proceedings may be obtained from the Receiver's website at [www.pwc.com/car-krauscarpets](http://www.pwc.com/car-krauscarpets).

DATED at Toronto, this 20<sup>th</sup> day of June, 2012.

**PricewaterhouseCoopers Inc.  
in its capacity as Receiver of 538626 B.C. Ltd.  
and not in its personal capacity**

A handwritten signature in black ink, appearing to read "T. Weaver".

Tracey Weaver  
Vice President



IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
538626 B.C. Ltd.  
*Creditor Listing*

<b>Secured Creditor</b>	<b>Amount Owed</b>
Red Ash Partners II Limited Partnership	128,622,000.00
 <b>Unsecured Creditor</b>	
3851168 Canada Inc. (formerly known as Kraus Canada Inc.)	557,223.00
 <b>Total</b>	 <u>129,179,223.00</u>

