Court File No. 31-1543925
Estate No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

MOTION RECORD
(Returnable October 25th, 2011)

October 19, 2011

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ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE PROPOSAL OF
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Court File No. 31-1543925
Estate No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE PROPOSAL OF
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A PARTNERSHIP CONTINUED PURSUANT TO
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NOTICE OF MOTION

TAKE NOTICE that ENCORE SALES ("**Encore**") will make a motion to a Judge of the Commercial List on Tuesday, the 25th day of October, 2011, at 10:00 o'clock in the forenoon or as soon after that time as the motion can be heard at 330 University Avenue, Toronto, Ontario.

THE MOTION will be heard orally.

THE MOTION is for:

1. An Order, *inter alia*:

   (a) If necessary, an Order abridging and validating the time for service of this Notice of Motion and Motion Record (collectively, the "**Materials**") so that the motion is properly returnable today, and that all parties requiring service of the Materials have been duly served and further service of the Materials upon interested parties is dispensed with and the service of the Materials is hereby validated in all respects;

(b) an Order extending the time for the Debtor to file its proposal to its creditors to December 12th, 2011 (the "**Extension**");

(c) Approving the sale of certain assets relating to the "Baby" product line (the "**Baby Line Purchased Assets**") to Deejay Jewellery Inc. (the "**Baby Line Purchaser**");

(d) Approving the sale of certain assets relating to the "Candy" product line (the "**Candy Line Purchased Assets**");

(e) Vesting all right, title and interest in and to the Baby Line Purchased Assets absolutely and forever, free and clear of and from any and all right, title and interest, if any, of Encore and of any security interest, charge, estates, licences, trusts, deemed trusts (whether contractual, statutory or otherwise), benefits, pledges, mortgages, hypothecations, indentures, loan agreements, instruments, leases, assignments, rights of distress, set-off claims (whether legal, equitable or contractual), judgements, executions, options, adverse claims, levies, agreements (including title retention agreements and personal property agreements, taxes, claims, charges, encumbrances, or any other rights, rights of use, claims, whether contractual, statutory, by operation of law or otherwise, whether secured, unsecured or otherwise, and whether created by or pursuant to orders made in these proceedings;

(f) Vesting all right, title and interest in and to the Candy Line Purchased Assets absolutely and forever, free and clear of and from any and all right, title and interest, if any, of Encore and of any security interest, charge, estates, licences, trusts, deemed trusts (whether contractual, statutory or otherwise), benefits,

pledges, mortgages, hypothecations, indentures, loan agreements, instruments, leases, assignments, rights of distress, set-off claims (whether legal, equitable or contractual), judgements, executions, options, adverse claims, levies, agreements (including title retention agreements and personal property agreements, taxes, claims, charges, encumbrances, or any other rights, rights of use, claims, whether contractual, statutory, by operation of law or otherwise, whether secured, unsecured or otherwise, and whether created by or pursuant to orders made in these proceedings;

(g) Sealing the Agreement of Purchase and Sale for the Baby Line Purchased Assets contained at Exhibit "F" of the Bloomberg Affidavit and Appendix "A" to the Report of RSM Richter Corporate Finance Inc. ("**Richters**") dated October 19, 2011 until the sale of the Purchased Assets has closed;

(h) Sealing the Agreement of Purchase and Sale for the Candy Line Purchased Assets attached to the Supplementary Affidavit; and

(i) Such further and other relief as this Honourable Court may permit.

THE GROUNDS FOR THE MOTION ARE:

(a) On September 27, 2011 Encore filed a Notice of Intention to Make a Proposal (the "**NOI**") to its creditors under the provisions of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**");

(b) Prior to the NOI, Encore together with Richters, conducted a sales process for Encore's property assets and undertaking (the "**Sales Process**");

(c) On October 5th, 2011 Encore received an approval and vesting order for the sale of certain assets to CTG Brands Inc. as described in the Bloomberg affidavit;

(d) Since that date, Encore has continued in the ordinary course of business while continuing to work with the Proposal trustee in restructuring its affairs and pursuing the sale of assets;

(e) As part of the sales process undertaken, Encore, Richters and the Proposal Trustee received an offer from the Baby Line Purchaser to purchase the Baby Line Purchased Assets, and believe that the Baby Line Purchaser's offer is the most reasonable under the circumstances;

(f) Encore, Richters and the Proposal Trustee expect to receive an offer for the Candy Line Purchased Assets, and expect that the offer will be the most reasonable under the circumstances;

(g) Encore has entered into an agreement for the sale Baby Line Purchased Assets (the "**Baby Line Agreement**");

(h) Closing the Baby Line Agreement is contingent on obtaining an Order of this Court approving the sale of the Baby Line Purchased Assets and vesting title in same to the Purchaser;

(i) Encore anticipates entering into an agreement for the sale of the Candy Line Purchased Assets (the "**Candy Line Agreement**");

(j) Encore continues to act in good faith and with due diligence;

(k) Encore continues to operate as a going concern as it investigates all of its restructuring options;

(l) Far from materially prejudicing creditors, the sale of non-core assets while maintaining operations increases funds available to creditors while allowing Encore to operate during the lucrative holiday season;

(m) Sections 50.04(9) and 65.13 of the *Bankruptcy and Insolvency Act*; and

(n) Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

(a) The affidavit of Howard Bloomberg sworn on the 19th day of October, 2011;

(b) The Second Report of the Proposal Trustee;

(c) such further and other material as counsel may advise and this Honourable Court permit

October 19, 2011

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TO: SERVICE LIST

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ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding Commenced at **Toronto**

NOTICE OF MOTION

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Court File No. 31-1543925
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ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE PROPOSAL OF
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IN THE PROVINCE OF ONTARIO

AFFIDAVIT OF HOWARD BLOOMBERG

I, **Howard Bloomberg**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am a co founder of Encore Sales ("**Encore**"), and as such have knowledge of the matters to which I hereinafter depose.

2. Where the information in this affidavit is based upon information and belief, I have indicated the source of my information and belief and do verily believe it to be true.

3. To the extent that any of the information set out in this affidavit is based on my review of documents, I verily believe the information in such documents to be true.

BACKGROUND

4. Encore operates as a partnership of two companies; 1326281 Ontario Limited and 1326282 Ontario Limited (the "**Partners**"). For over 45 years Encore has supplied Canadian

and United States retailers with high volume everyday and seasonal products. Encore lists many prominent North American retailers among its customers.

5. Encore operates out of two leased premises located in Concord, Ontario.

6. As of July 31, 2011, Encore employed approximately 170 individuals comprising of approximately 95 hourly employees and 75 salary employees all of which are based in Canada. Encore's hourly warehouse employees are members of Local 9197 of the United Steel Workers Union (the "**USWA**"). In addition, Encore engages approximately 30 commission based sales agents (20 in Canada, 10 in the United States).

7. Over the past three years Encore has experienced a decline in sales largely attributable to the global economic downturn. The deterioration of Encore's financial position is further explained in my affidavit sworn September 28, 2011 (the "**First Affidavit**"). A copy of the First Affidavit (without exhibits) is attached hereto and marked as **Exhibit "A"**.

8. As a result of its deteriorating financial position, on September 27, 2011 Encore filed a Notice of Intention to Make a Proposal (the "**NOI**") pursuant to the *Bankruptcy and Insolvency Act*. The NOI named A. Farber & Partners Inc. ("**Farbers**") as trustee (the "**Proposal Trustee**").

9. Encore has two lenders with general security over its assets: Callidus Capital Corporation ("**Callidus**") who, as of September 23, 2011, was owed approximately $15.27 million; and the Related Creditors (as defined in the First Affidavit) who, as of September 23, 2011, were owed approximately $7.895 million. The Proposal Trustee has obtained an opinion confirming

(subject to the usual assumptions and qualifications) that both the Callidus security and the Related Creditors' security is valid and enforceable in accordance with its terms. A copy of the First Report of the Proposal Trustee (the "**First Report**") dated September 30, 2011 (without appendices) is attached hereto and marked as **Exhibit "B"**.

10. As described in the First Report, the balance of the secured creditors appear to have security over specific assets.

OPERATIONS SINCE FILING THE NOI

11. Encore continues to operate as a going concern and Callidus continues to support Encore's financial requirements on a discretionary basis.

12. Encore continues to have dialogue with its stakeholders including its employees, the USWA, customers and suppliers.

13. Several weeks prior to filing the NOI, Encore retained RSM Richter Corporate Finance Inc. ("**Richters**") to market and ultimately sell some, or all, of Encore's property and assets as a going concern (the "**Sales Process**"). The Sales Process provided potential bidders with the option of an "en bloc" purchase of Encore's assets or the purchase of one or more of Encore's product line(s). Full particulars of the Sales Process are contained in the First Affidavit.

14. While the Sales Process has not resulted in a purchaser of Encore's entire business, CTG Brands Inc. ("**CTG**") agreed to purchase three of Encore's product lines, namely the "Everyday

Stationary" line, the "Signature Kitchen" line and the "Pet" line together with all related inventory, goodwill and intellectual property (the "**CTG Purchased Assets**").

15. On September 19, 2011 Encore and CTG entered into an asset purchase agreement (the "**CTG Agreement**"). By Order dated October 5, 2011 the Court approved the CTG Agreement and vested title in the CTG Purchased Assets to CTG (the "**CTG Approval and Vesting Order**"). A copy of the CTG Approval and Vesting Order is attached hereto and marked as **Exhibit "C"**.

16. By separate Order granted on October 5, 2011 the Court provided certain ancillary relief (the "**Ancillary Relief Order**"). As part of the Ancillary Relief Order, the Proposal Trustee was directed to continue with the Sales Process and authorized to retain Richters where required. A copy of the Ancillary Relief Order is attached hereto and marked as **Exhibit "D"**.

17. As part of the Sales Process, Encore, in conjunction with the Proposal Trustee and Richters, has been negotiating two separate transactions regarding the "Baby" product line and the "Candy" product line respectively. The "Baby" product line has resulted in an executed purchase agreement and is referenced below. Negotiations with respect to the "Candy" product line transaction are ongoing.

18. Encore believes that the "Baby" product line transaction is commercially reasonable and still permits Encore to consider various alternatives related to its core business.

19. Finally, Encore, with the assistance of the Proposal Trustee has prepared and submitted a cash flow (the "**Cash Flow**") pursuant to section 50.4(2) of the *Bankruptcy and Insolvency Act*

(the "**BIA**") for the week ending November 25, 2011. A copy of the Cash Flow is attached hereto and marked as **Exhibit "E"**.

THE DEEJAY AGREEMENT

20. As part of the Sales Process various parties were given an opportunity to complete due diligence. Deejay Jewellery Inc. ("**Deejay**") was one of the parties that completed due diligence but did not submit an expression of interest prior to the deadline of August 29, 2011.

21. Negotiations between Encore and Deejay continued with respect to the "Baby" line. As a result of the negotiations the parties entered into an asset purchase agreement dated October 18, 2011 (the "**Deejay Agreement**"). The Deejay Agreement contemplates a sale of Encore's right, title and interest, if any, in and to the assets related to the "Baby" line including, inventory, goodwill and intellectual property. The purchase price provides for a $35,000 payment for goodwill together with the purchase of all corresponding inventory at Encore's cost. A copy of the Deejay Agreement will be provided to the court as confidential **Exhibit "F"** as the Deejay Agreement will be subject of a request for a sealing order.

22. As part of the Deejay Agreement Encore will cease taking any new orders relating to the "Baby" line and will fill existing orders using inventory that does not form part of the Purchased Assets (as defined in the Deejay Agreement).

23. Both Callidus and the Related Creditors consent to the Deejay Agreement. I am also advised that the Proposal Trustee will be serving a report recommending the Deejay Agreement

24. The Deejay Agreement is contingent on obtaining an approval and vesting order.

CANDY LINE

25. Encore is also pursuing a transaction relating to the "Candy" line. If a transaction comes to fruition it will be the subject of a supplemental affidavit.

EXTENSION OF STAY

26. Encore seeks a 45 day extension of the stay of proceedings pursuant to section 50.4(9) of the BIA. As evidenced by its maintaining of operations and continued pursuit of transactions relating to non-core businesses, Encore has acted in good faith and with due diligence since filing the NOI.

27. While Encore continues to pursue other potential transactions (including the possibility of a sale of its shares which could form part of a proposal to unsecured creditors), it continues to maintain its core seasonal business during the lucrative holiday season.

28. Encore also believes that providing a 45 day extension will not prejudice the stakeholders - in fact it will be a benefit to the stakeholders. Encore's continued operations will permit it to pursue all of its options while continuing to provide employment and sell product during the lucrative holiday season.

29. Callidus and the Related Creditors consent to the 45 day extension and I understand that the Proposal Trustee will also be recommending the extension.

CONCLUSIONS

30. Encore believes it has made great strides in restructuring its affairs by selling certain non-core assets while continuing to maintain operations and report to its stakeholders. The sale of the "Baby" line is consistent with Encore's focus on its core seasonal business.

31. Encore is still investigating all of its restructuring options, including a going concern sale of its remaining product lines. In the interim, Encore will continue to profit from continuing its seasonal business during the lucrative holiday season.

SWORN BEFORE ME at City of Toronto, in the Province of Ontario, this 19th day of October, 2011.

A commissioner etc.

HOWARD BLOOMBERG

Sheldon Edward Inkol, a Commissioner, etc., Province of Ontario, while a Student-at-Law. Expires April 6, 2014.

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Proceeding Commenced at **Toronto**

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Lawyers for Encore Sales

LSUC# 45725E

0000014

This is **Exhibit "A"** referred to

in the Affidavit of Howard Bloomberg

sworn before me, this

19th day of October, 2011

Sheldon Edward Inkol, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires April 6, 2014.

A Commissioner, etc.

Court File No. 31-1543925
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ONTARIO
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AFFIDAVIT OF HOWARD BLOOMBERG

I, **Howard Bloomberg**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am a co founder of Encore Sales, and as such have knowledge of the matters to which I hereinafter depose.

2. Where the information in this affidavit is based upon information and belief, I have indicated the source of my information and belief and do verily believe it to be true.

3. To the extent that any of the information set out in this affidavit is based on my review of documents, I verily believe the information in such documents to be true.

BACKGROUND

4. Encore Sales operates as a partnership ("**Encore**") of two companies; 1326281 Ontario Limited and 1326282 Ontario Limited (the "**Partners**"). For over 45 years Encore has supplied

Canadian and United States retailers with high volume everyday and seasonal products. Encore lists many prominent North American retailers among its customers.

5. Encore operates out of two leased premises located in Concord, Ontario.

6. As of July 31, 2011, Encore employed approximately 170 individuals comprising of approximately 95 hourly employees and 75 salary employees all of which are based in Canada. Encore hourly warehouse employees are members of Local 9197 of the United Steel Workers Union. In addition, Encore engages approximately 30 commission based sales agents (20 in Canada, 10 in the United States).

7. Over the past three years Encore has experienced a decline in sales largely attributable to the global economic downturn. In December 2009 Encore acquired UWG Global Inc. in hopes that the merging of operations would increase sales volumes and rationalize overhead. The UWG Global Inc. transaction did not have the desired result. As a result of these and other events Encore began to experience financial difficulties.

8. On August 3, 2011 Callidus Capital Corporation ("**Callidus**"), the first secured lender to Encore, made a formal demand for payment of Encore's indebtedness and served a notice of intention to enforce security pursuant to section 244 of the *Bankruptcy and Insolvency Act* (the "**Demand Letter**"). A copy of the Demand Letter is attached hereto and marked as **Exhibit "A"**.

9. Since the demand, Encore and Callidus have worked together with a view to restructuring Encore's affairs. On or about August 15, 2011, Callidus (with Encore's consent) appointed

Farber Financial Group (the "**Consultant**") as its consultant to monitor Encore's business and affairs. The Consultant continues to monitor the business and operations.

10. On September 27, 2011 Encore filed a notice of intention to file a proposal pursuant to the *Bankruptcy and Insolvency Act* (the "**NOI**"). A copy of the NOI is attached hereto and marked as **Exhibit "B"**.

11. Pursuant to the NOI A. Farber and Partners Inc. was appointed as trustee under the proposal (the "**Proposal Trustee**").

SECURED CREDITORS

(i) Callidus Capital Corporation

12. As noted above, Callidus is Encore's first secured lender. On or about August 14, 2009 Callidus obtained an assignment of the debt and security (the "**Assignment**") previously held by the Hong Kong Bank of Canada (as it was then).

13. As part of the Assignment, Callidus received a charge over all of Encore's present and after acquired property, assets and undertaking (the "**Callidus Security**").

14. On or about December 15, 2009 Encore and Callidus entered into a Loan Amending Agreement (the "**Amended Loan Agreement**"), the purpose of which was to provide Encore with funds to purchase certain assets from Meyers Norris Penny Limited in its capacity as receiver of UWG Global Inc.

15. The Amended Loan Agreement created four facilities as follows:

(a) Facility A - a demand revolving loan up to $13,000,000.

(b) Facility B - a demand, non-revolving over advance loan in the amount of up to $2,000,000.

(c) Facility C - a demand revolving loan of up to $1,500,000.

(d) Facility D - a non-revolving loan in an amount equal to the UWG Global Inc. purchase price less the Margined UWG Operating Assets Purchase Price. This facility is $3,180,000.

16. On or about June 10, 2010 Callidus provided Encore with a further over advance facility in an amount equal to 80% of the appraised value of a property municipally known as 1000-1008 Magnetic Drive, Toronto, Ontario (the "**Mortgaged Property**"). The Mortgaged Property is owned by Shel-Lorne Holdings Inc., an entity related to Encore.

17. As mentioned above, on August 3, 2011 Callidus issued the Demand Letter. In the Demand Letter Callidus states that Encore is indebted to Callidus for the following amounts as at August 2, 2011 (the "**Callidus Debt**"):

Facility	Loan Balance	Interest
Facility A	CDN $ (643,486.19) US $11,367,986.81[1]	CDN $ (623.52) US $ 13,098.65
Facility B	N/A	N/A
Facility C	US $ 357,764.21	US $ 529.29
Facility D	CDN $ 3,168,289.00	CDN $ 2,083.26
Over Advance	CDN $ 1,700,000.00	CDN $ 2,515.07
Total	$ 15,950,553.83	$ 17,602.75

[1] US dollars converted at par to Canadian dollars

18. I understand the counsel to the Proposal Trustee, Chaitons LLP, is providing an opinion on the validity of the Callidus Security.

Other Secured Creditors

19. In addition to Callidus there are four individuals (Lorne Bloomberg, Stephen Bloomberg, David Bloomberg and Jordan Bloomberg, collectively referred to as the "**Individual Creditors**") and three companies (Shel-Lorne Holdings Inc., Crinis Holdings (1990) Limited and Wolgo Holdings (1990) Limited, collectively referred to as the "**Corporate Creditors**") that are secured creditors of Encore. The loans advanced by the Individual Creditors and the Corporate Creditors (collectively, the "**Related Creditors**") are subordinate to the Callidus Debt. A summary of the debts owing to each Related Creditor is contained in the NOI attached as Exhibit "B" to this affidavit.

20. The balance of the secured creditors appear to have security over specific assets. Attached hereto is a search of the Personal Property Security Registration database for Encore and the Partners are attached hereto and marked as **Exhibit "C"**, **Exhibit "D"** and **Exhibit "E"** respectively.

UNSECURED CREDITORS

21. A list of Encore's unsecured creditors is attached to the NOI.

22. The majority of Encore's unsecured creditors are suppliers. It is my understanding that employee withholdings have been paid as they come due.

OPERATIONS SINCE NOI FILING

23. While the stay of proceedings occasioned by the NOI does not apply to Callidus, it has continued to support Encore's financial requirements on a discretionary basis. Likewise (and continuing with Encore's loan arrangements with Callidus), Encore's accounts receivable are paid into a designated "lock box" account.

24. Encore continues to operate as a going concern, subject to certain provisions contained in the CTG Agreement (as hereinafter defined).

SALE PROCESS

25. Prior to receiving the Demand Letter, Encore engaged RSM Richter Corporate Finance Inc. ("**Richters**") to a conduct a sale process for Encore's property, assets and undertaking (the "**Sales Process**"). The Sales Process provided the option for an "en bloc" purchase of Encore's assets or the opportunity to purchase specific product lines.

26. The Sales Process was commenced as part of a "dual track" restructuring where it would consider both a going concern sale of the entire business while continuing to pursue a restructuring of its business and affairs.

27. The specifics of the Sales Process are contained in a reporting letter provided by Richters on September 27, 2011 (the "**Reporting Letter**"). A copy of the Reporting Letter is attached hereto and marked as **Exhibit "F"**.

28. The Reporting Letter provides details on the Sales Process, results therefrom and a recommendation.

29. The Sales Process did not result in a purchaser of the entire Encore business as a going concern, however, there were offers for specific product lines. The only offer that Encore wishes to proceed with at this time is an offer from CTG Brands Inc. ("**CTG**"). Encore and Richter continue to investigate the potential sale of other product lines. Any transactions resulting from those negations will be presented to the court for approval.

30. Encore seeks an Order authorizing and directing the Proposal Trustee to continue the Sales Process for the remaining assets and requiring the Proposal Trustee to retain Richters, where appropriate, to assist in the ongoing Sales Process. I believe that Richters assistance in the Sales Process will be invaluable in assessing, marketing and completing any future transactions.

THE CTG AGREEMENT

31. As part of the Sales Process CTG submitted an offer for two significant product lines, namely the "Stationary" line and the "Signature Kitchen" line (the "**Original Offer**"). The Original Offer consisted of a fixed price for the goodwill associated with the two product lines together with a formula for calculating the purchase price for the inventory on hand and in transit on closing.

32. The Original Offer resulted in negotiations between Richter, Encore and CTG. The result of these negotiations was a revised offer from CTG which included a limited non-compete clause from certain Encore principals together with an offer for the "Pet" line (the "Pet" line together with the "Stationary" Line and the "Signature Kitchen" line are collectively the "**Product Lines**") of Encore's business (the "**Revised Offer**"). The particulars of both the Original Offer and the Revised Offer are contained in the Reporting Letter.

33. The Revised Offer formed the basis of an Asset Purchase Agreement between Encore and CTG dated September 19, 2011 (the "**APA**"). A copy of the APA will be provided to the court as confidential **Exhibit "G"** as the APA will be subject to a request for a sealing order.

34. Encore believes that closing the transaction contemplated by the APA (the "**CTG Transaction**") is in the best interest of all stakeholders as it maximizes recovery on inventory while providing a significant return on the goodwill associated with the Product Lines. It also provides for continuity of that segment of the business, which benefits customers and suppliers.

35. Richters' engagement on the Sales Process included a partial contingency fee arrangement. Upon completion of the CTG Transaction, $75,000 (plus HST) is payable to Richters. I believe that this amount is appropriate and should be paid to Richters.

PROFESSIONAL CHARGES

36. Encore is seeking an Order granting its counsel, Richters, the Proposal Trustee and the Proposal Trustee's counsel a priority charge in the amount of $500,000 over all of Encore's assets property and undertaking pursuant to section 64.2(1) of the *Bankruptcy and Insolvency Act*.

CONCLUSIONS

37. Encore believes that both the CTG Transaction and the process by which it was arrived at are fair and reasonable.

38. I am advised and do verily believe that, the Proposal Trustee, Callidus and the Related Creditors were consulted and advised throughout the Sales Process. Furthermore, I understand that each of these parties approve of the CTG Transaction.

SWORN BEFORE ME at City of Toronto, in the Province of Ontario, this 28th day of September, 2011.

A Commissioner etc.

Brittanny Kathleen Tinslay, a Commissioner, etc., Province of Ontario, while a Student-at-law, Expires March 1, 2013.

HOWARD BLOOMBERG

Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding Commenced at **Toronto**

AFFIDAVIT OF HOWARD BLOOMBERG

BLANEY McMURTRY LLP
Barristers and Solicitors
1500 - 2 Queen Street East
Toronto, ON M5C 3G5

Domenico Magisano
Tel: (416) 593-2996
Fax: (416) 593-2977

Lawyers for Encore Sales

LSUC# 45725E

020000025

This is **Exhibit "B"** referred to

in the Affidavit of Howard Bloomberg

sworn before me, this

19th day of October, 2011

Sheldon Edward Inkol, a Commissioner, etc.
Province of Ontario, while a Student-at-Law.
Expires April 6, 2014.

A Commissioner, etc.

District of Ontario
Division No. 09 - Toronto
Court File No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE PROPOSAL OF ENCORE SALES, A PARTNERSHIP FORMED UNDER THE LAWS OF THE PROVINCE OF ONTARIO BETWEEN 1326281 ONTARIO LIMITED AND 1326282 ONTARIO LIMITED, WITH A HEAD OFFICE IN TORONTO, IN THE PROVINCE OF ONTARIO

APPLICANT

FIRST REPORT OF THE PROPOSAL TRUSTEE

SEPTEMBER 30, 2011

1. On September 27 2011, Encore Sales ("**Encore**" or the "**Debtor**") filed a Notice of Intention to make a Proposal ("**NOI**") under Section 50.4 of the Bankruptcy and Insolvency Act (the "**BIA**"). A. Farber & Partners Inc. ("**Farber**") was named as Trustee in the NOI filed by Encore (the "**Proposal Trustee**"). Attached as **Appendix A** is a copy of the NOI.

2. Encore is a privately-owned distributor of general and seasonal merchandise to retailers throughout North America. Encore Sales is a partnership originally formed by Encore Sales Limited, 1326281 Ontario Limited and 1326282 Ontario Limited. Encore Sales Limited ceased being a partner in 2004.

3. Encore's operations are run out of a head office located at 333 North Rivermede Road, in Concord, Ontario which also houses a 180,000 square foot distribution warehouse which handles general merchandise. In addition, Encore also operates a 140,000 square foot seasonal distribution warehouse located within close proximity. Both facilities are leased.

4. Encore supplies Canadian and US retailers with high volume general (described hereinafter as "**Everyday**") and seasonal (described hereinafter as "**Seasonal**") merchandise. These Everyday and Seasonal products are sold to a diverse mix of approximately 1,500 retail customers.

5. As at July 31, 2011 Encore employed approximately 170 employees including approximately 95 hourly employees and 75 salaried employees. The hourly warehouse workers are members of Local 9197 of the United Steelworkers' Union. Encore also uses 30 commission based sales agents in Canada and the US.

6. Over the course of the last three years, Encore has experienced declining sales and margins, which are attributed in large part to the global economic downturn. In an effort to help increase sales volumes and cover overheads, the Debtor merged its operations with a competitor, UWG Global Inc., in 2009. However the hoped for synergies and increased volumes were not fully achieved.

7. Callidus Capital Corporation ("**Callidus**") is Encore's principal secured creditor pursuant to the terms of an Amended Loan Agreement dated December 15, 2009 (the "**Loan**

Agreement"). On August 3, 2011, Callidus made demand for payment of the outstanding indebtedness in the amount of approximately $16 million and delivered Notices of Intention to Enforce Security pursuant to section 244(1) of the BIA.

8. The Debtor, with the assistance of its financial advisor RSM Richter Corporate Finance Inc. ("**Richters**") reviewed various restructuring alternatives and determined that Richters be engaged to conduct a sale process for Encore's property, assets and undertakings (the "**Sales Process**") commencing early August 2011. The Sales Process was commenced as part of a dual track restructuring, wherein Encore would consider both a going concern sale while continuing to pursue a restructuring of its business and affairs. The Sales Process is described in Richters Report dated September 27, 2011 ("**Richters Report**) attached as Exhibit "F" to the Affidavit of Howard Bloomberg dated September 28, 2011 (described hereinafter as the "**Bloomberg Affidavit**"), filed in support of the motion returnable October 5, 2011.

9. The Sales Process, has culminated in Encore entering into an Asset Purchase Agreement with CTG Brands Inc. ("**CTG**") on September 19, 2011 (the "**CTG APA**") for the sale of the Everyday "Stationary", "Signature Kitchen" and "Pet" product lines and related inventory, goodwill and intellectual property ("**IP**"). It is contemplated by the Debtor that the Sales Process will be continued to identity a purchaser or purchasers of the remaining property, assets and undertakings of Encore.

10. Encore will bring a motion returnable October 5, 2011 for an order to, among other things:

    (a) Approve the CTG APA and grant a vesting order in favour of CTG with respect to the purchased assets described therein, upon closing of the transaction; and

    (b) Approve the continuation of the Sales Process by the Proposal Trustee with the assistance of Richters.

PURPOSES OF THIS REPORT

11. The purposes of this report are to:

    (a) Provide Farber's recommendations with respect to the CTG APA;

(b) Report on the contemplated extension of the Sales Process to complete the sale of remaining assets and business of Encore;

(c) Seek approval of a professionals charge; and

(d) Recommend payment to Richters of a $75,000 Sales Process performance fee.

DISCLAIMER

12. For the purposes of this report, Farber has relied upon the financial records of the Debtor, as well as other information supplied by management. Farber's procedures and enquiries did not constitute any audit or review engagement. Farber assumes no responsibility or liability for loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this report. Any use which any party, other than the Court, makes of this report, or any reliance on or a decision made based upon it, is the responsibility of such party.

BACKGROUND

13. Founded in 1964, Encore supplies Canadian and US retailers with high volume Everyday and Seasonal merchandise. Encore distributes over 7,000 product items listed in 40 different product categories over a diverse line of products including such categories as stationery, toys/crafts, hardware, housewares as well as seasonal products from Valentine's Day to Christmas. These Everyday and Seasonal products are sold to a diverse mix of approximately 1,500 retail customers. Revenues for the most recent fiscal year end (November 30, 2010) were $62.8 million. Year to date revenues for the eight months ended July 31, 2011 were $35.0 million.

14. Over the years, Encore has built an extensive supply chain to source product for both the Everyday and Seasonal categories. Part of Encore's business model has been to continuously introduce new products into the market, and secure exclusive supply of various brands that are recognized across Canada and the United States. These brands are often considered a low cost alternative to other popular name brands.

15. Unlike many of its competitors who tend to focus on one season or light coverage across a number of seasons, Encore has developed significant expertise with all Seasonal offerings from Valentine's Day to Christmas. Encore management has perfected the

highly time sensitive annual business cycle and has been successful in providing high perceived value goods to ensure high profitability and sell through rates for its customers.

16. As a result of reduced sales, the global recession in 2008/2009 and continuing poor conditions in the market place, Encore, after extensive review of its restructuring options, in consultation with Richters, decided in early August 2011 that it would exit the Everyday business to focus on its perceived strength in Seasonal product.

17. As a result of this change in direction, Encore commenced offering discounts in early August 2011 on its Everyday lines in order to make room for the Seasonal merchandise. Encore's goal at that time was to focus exclusively on the Seasonal business and items related to the Seasonal business until the sale of the remaining Everyday inventory was completed.

18. Coincident with the decision to exit the Everyday business lines, Encore, with the assistance of Richters, commenced the Sales Process to canvass the market for parties interested in purchasing the business either en-bloc or for specific product lines. That process has culminated in the CTG APA, which is for the purchase of the inventory, goodwill and IP of the Everyday "Stationary", "Signature Kitchen" and "Pet" product lines. These product lines represent approximately 25% of Encore's annual sales. Encore and Richters are continuing to consider offers for other segments of the business, including its Seasonal product lines business. The Sales Process is reported on more fully below.

ACTIVITIES OF THE PROPOSAL TRUSTEE

19. In advance of its appointment as Proposal Trustee, Farber was appointed consultant to Callidus in early August 2011, to monitor the ongoing financial position of Encore, as well as the Sales Process underway through August and September 2011.

20. Farber has also worked with Encore to prepare updated cash flow projections for the period through to the end of November 2011 and will be working with Encore to file the prescribed cash flow projections pursuant to the BIA. Following its appointment as Proposal Trustee, Farber has monitored the business and affairs of the Debtor and examined their property in accordance with the provisions of the BIA. The ongoing

monitoring activities will focus on the continued Sales Process and reviewing and tracking Encore's daily and weekly cash flow performance against forecast.

21. On September 30, 2011 the Proposal Trustee mailed to all known creditors of the Debtor an information package advising of the filing of the NOI.

THE DEBTOR'S ASSETS AND LIABILITIES

22. Summarized below are the significant assets and liabilities of Encore, based on a review of the Debtor's most recent borrowing base report to Callidus and the Debtor's financial statements.

ASSETS

23. As at September 23, 2011, Encore's principal assets comprised:

(a) Accounts receivable of approximately $11.05 million (net of bad debt provisions);

(b) Inventory of approximately $8.86 million, comprising Everyday inventory of $3.33 million; Seasonal inventory of $4.46 million and goods in transit of $1.07 million; and

(c) Fixed Assets with a net book value of $743,000.

LIABILITIES

Callidus

24. The Debtor is indebted to Callidus pursuant to the Loan Agreement dated December 15, 2011. The Debtor's indebtedness to Callidus is secured by, *inter alia*, general security agreements covering all of the Debtor's assets.

25. As at September 23, 2011 the Debtor's indebtedness to Callidus was approximately $15.27 million. Set out below is a table summarizing the break down of the total Loan at that date:

Callidus Capital Corporation Loan Schedule (in $000's)	
Facility A	10,045
Facility C	355
Overadvance	1,700
Facility D	3,169
Total	15,269

Related Party Loans

26. In addition to the Callidus loans, Encore has secured loans from certain related parties which are subordinated to the Callidus debt. These include loans from four individuals (Lorne Bloomberg, Stephen Bloomberg, David Bloomberg and Jordan Bloomberg) and three corporations (Shel-Lorne Holdings Inc., Crinis Holdings (1990) Limited, and Wolgo Holdings (1990) Limited (hereinafter referred to as "**Related Party Loans**). As at September 23, 2011 these Related Party Loans totalled approximately $7.895 million. The table below summarizes those loans:

Related Party Loans in $000's)	
David Bloomberg	300
Jordan Bloomberg	300
Lorne Bloomberg	205
Stephen Bloomberg	350
Shel-Lorne Holdings Inc.	1,345
Crinis Holdings (1990) Limited	2,575
Wolgo Holdings (1990) Limited	2,820
Total	7,895

27. All of these Related Party Loans are secured by general security agreements, which provide for charges over all of the Debtor's assets.

Security Opinion

28. Counsel for Farber, Chaitons LLP ("**Chaitons**"), has provided a legal opinion to Farber confirming that, subject to the usual assumptions and qualifications in opinions of this kind, as follows:

(a) Callidus holds valid and enforceable security against all present and future assets, property and undertaking of the Debtor and all proceeds thereof;

(b) the Related Parties hold valid and enforceable security against all present and future assets, property and undertaking of Debtor and all proceeds thereof; and

(c) the indebtedness and security held by the Related Parties is subordinated and postponed in favour of the indebtedness and security held by Callidus.

Attached hereto as **Appendix B** is a copy of the opinion letter from Chaitons.

Other Secured Creditors

29. According to searches conducted under the *Personal Property Security Act* (Ontario) (**"PPSA"**), other parties appear to have security over specific assets. The Bloomberg affidavit sets out the details of those parties and nature and extent of PPSA registrations.

Priority Payables

30. Farber has reviewed potential priority payables with the Debtors' management.

31. Wage and payroll related liabilities are reported as current. Payroll deductions at source are remitted by an external payroll service (ADP), coincident with the bi-weekly payrolls.

32. According to management, HST/GST liabilities effective September 23, 2011 stand at $611,443 while effective that same date, QST payable is at $76,217.

33. Farber is not aware of any other material priority payables currently outstanding.

Other Creditors

34. Based on the creditors listing provided by the Debtor to Farber effective September 23, 2011 the unsecured claims total approximately $7.1 million.

SALES PROCESS

35. Encore engaged Richters to conduct the Sales Process on behalf of Encore. The details of the Sales Process are set out the Richters Report which is appended to the Bloomberg Affidavit.

36. Since the commencement of the Sale Process, Richters has undertaken the following:

(a) In concert with Encore and Callidus, compiled a listing of prospective purchasers with 69 parties to be contacted including all major competitors;

(b) On August 3, 2011, distributed to prospective purchasers a solicitation letter detailing the sale and attaching a confidentiality agreement ("**CA**"). Thirty (30) parties signed the CA;

(c) Prepared a Confidential Information Memorandum ("**CIM**") and made it available to any prospective purchaser that executed the CA. Prospective purchasers that executed the CA had the opportunity to review information on an on-line "data room";

(d) Made follow up calls to all prospective purchasers on the distribution list to ensure that they received the solicitation letter and to respond to any questions they had;

(e) Facilitated site visits and meetings between Encore's management and prospective purchasers that executed the CA;

(f) In concert with legal counsel for Encore, drafted and circulated to prospective purchasers that executed a CA, a draft from of offer; and

(g) Required prospective purchasers to submit expressions of interest by August 29, 2011.

37. Ultimately, seven prospective purchasers submitted offers by August 29, 2011. No en bloc offer was made for the business.

38. After extensive negotiations between Encore (represented by Richters) and CTG, a revised offer was accepted, (hereinafter referred to a "**Revised Offer**") which provided for the sale of the significant Everyday "Stationery", "Signature Kitchen" and "Pet" product lines, which represents close to 25% of Encore's annual sales. In addition, the offer provides for a $300,000 payment for goodwill and requires the Encore shareholders to execute a non-compete agreement, which we understand they have agreed in principle to provide.

39. Richters recommended that Encore accept the CTG Revised Offer, as such offer was the highest and best offer for the estate as a whole, and is commercially reasonable.

THE CTG APA

40. The CTG APA was negotiated and finalized on September 19, 2011. Encore's legal counsel will provide a copy of the CTG APA to the Court as a Confidential Exhibit. Key terms of the CTG APA are as follows:

- The Purchased Assets comprise inventory and goodwill for the "Stationery", "Signature" and "Pet" product lines. Inventory includes goods in transit;
- Inventory is to be valued based on a formula to be applied according to the aging of inventory. Both inventory on hand and goods in transit will be subject to a final count and valuation, with the CTG APA providing an adjustment mechanism for under/over adjustments;
- Payment for goodwill of $300,000;
- A deposit of $50,000;
- CTG will allow Encore to continue selling its open orders received prior to September 2, 2011, allowing Encore to continue earning gross margin on sales made;
- Title to be transferred by way of a vesting order; and
- Closing to occur immediately after Court approval.

RECOMMENDATION

41. In its capacity as Proposal Trustee, Farber believes that the transaction under the CTG APA is commercially reasonable in the circumstances and recommends approval of the transaction for the following reasons:

- The market has been extensively canvassed as set out in the Richter's Report.

- The purchase price is the highest and best offer received for these assets, is close to the overall book value and is significantly higher to what would be achieved in a bankruptcy liquidation (A copy of the Gordon Brothers Appraisal dated June 13, 2011 will be made available as a **Confidential Appendix 1** for the Court's review.)

- Throughout August and September 2011, Farber as prospective Proposal Trustee was kept apprised of the Sales Process.

- Callidus as senior secured creditor was consulted and advised throughout the Sales Process.

- Callidus supports the CTG APA transaction.

- The Related Party Secured Creditors, with subordinate ranking security support the transaction.

- Time is of the essence to complete the CTG APA transaction based on the CTG's timetable as well as to minimize holding and operating costs.

- The proceeds from the CTG APA will partially pay-down the Callidus loans.

- This transaction represents the sale of significant business lines in the Everyday business segment, which Encore had determined it would exit in August 2011. There remains scope for an en-bloc transaction to purchase the Seasonal Business segment and Encore's perceived strength, which preserves the prospect of a going concern sale and related employment.

CONTINUATION OF SALES PROCESS

42. Both Richter and Encore continue to negotiate with the parties interested in other product lines, including the strong Seasonal segment. All of these parties were identified as part of the Sales Process conducted through August 2011. However, more time is required to conduct further due diligence and negotiate terms and conditions of any offer. Farber has been monitoring the progress of these negotiations.

43. Callidus as the senior lender remains supportive of these efforts, during which time Encore will also focus on operating the business in the normal course, including servicing the Seasonal sales for Halloween and Christmas.

44. Callidus has requested and Encore supports that Farber, as Proposal Trustee, be authorized and directed to continue the Sales Process, and to use the services of Richters, where appropriate, to complete the Sales Process.

PERFORMANCE FEE

45. Pursuant to the Sales Process engagement terms negotiated with Encore, on the closing of one or more transactions, Richters was entitled to a partial contingency fee ("**Performance Fee**") of $75,000 (plus HST). The fee is payable once the CGT APA transaction closes. This Performance Fee is consented to by Encore, as well as Callidus, in its capacity as senior lender.

PROFESSIONALS CHARGE

46. In order to protect the fees and expenses of the Proposal Trustee, its counsel, Richters and Encore's legal counsel, the Proposal Trustee seeks a charge on the property and assets of the Debtors pursuant to s. 64.2(1) of the BIA, ranking in priority to claims of all secured and unsecured creditors, to secure payment of reasonable fees and expenses of the Proposal Trustee, its counsel, Richters and Encore's legal counsel, to a maximum of $500,000 (the "**Professionals Charge**").

RECOMMENDATIONS

47. For the reasons set out above, the Proposal Trustee respectfully recommends that this Honourable Court:

(a) Approve the Proposal Trustee's First Report and the activities described therein;

(b) Grant an Order approving the CTG APA;

(c) Authorize and direct the Proposal Trustee to continue the Sales Process with the assistance of Richters, where applicable;

(d) Grant an order approving the Professionals Charge; and

(e) Grant an order approving the Richter Performance Fee payment.

All of which is respectfully submitted this 30th day of September, 2011.

A. FARBER & PARTNERS INC., in its capacity as Trustee acting *in re* the proposal of Encore Sales

A. Farber & Partners Inc.

This is **Exhibit "C"** referred to

in the Affidavit of Howard Bloomberg

sworn before me, this

19th day of October, 2011

Sheldon Edward Inkol, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires April 6, 2014.

A Commissioner, etc.

Court File No. 31-1543925
Estate No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	WEDNESDAY, THE 5TH DAY
	)	
JUSTICE WILTON-SIEGEL	)	OF OCTOBER, 2011

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

APPROVAL AND VESTING ORDER

THIS MOTION, made by Encore Sales ("**Encore**"), for an order approving the sale transaction (the "**Transaction**") contemplated by an agreement of purchase and sale (the "**Sale Agreement**") between Encore and CTG Brands Inc. (the "**Purchaser**") dated September 19, 2011 and vesting in the Purchaser, Encore's right, title and interest in and to the Purchased Assets as defined in the affidavit of Howard Bloomberg sworn September 28, 2011 (the "**Bloomberg Affidavit**"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of A. Farber & Partners Inc. in its capacity as proposal trustee of Encore (the "**Proposal Trustee**"), and on reading the Bloomberg Affidavit and on hearing the submissions of counsel for Encore, the Proposal Trustee, the Purchaser, Callidus Capital Corporation ("**Callidus**") and all others present, no one appearing for any other person on the service list, although properly served as appears from the affidavit of Victoria Gifford sworn September 29, 2011 filed:

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved.

3. **THIS COURT ORDERS AND DECLARES** that execution of the Sale Agreement by Encore is hereby authorized and approved, with such minor amendments as Encore, the Purchaser and/or the Proposal Trustee may deem necessary. Encore is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets to the Purchaser.

4. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a certificate to the Purchaser substantially in the form attached as Schedule A hereto (the **"Certificate"**), all of Encore's right, title and interest in and to the Purchased Assets described in the Sale Agreement dated September 19, 2011 shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the **"Claims"**) including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by Order of this Honourable Court; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system; and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

5. **THIS COURT ORDERS** that $75,000.00 of the net purchase price (the **"Richters Fees"**) from the sale of the Purchased Assets be paid to RSM Richter Corporate Finance Inc. as partial payment of its fees and disbursements incurred in administering the Sales Process (as defined in the Bloomberg Affidavit).

6. **THIS COURT ORDERS** that the balance of the net proceeds from the sale of the Purchased Assets (net of the Richters Fees) shall be used to reduce the indebtedness owed to Callidus by Encore.

7. **THIS COURT ORDERS AND DIRECTS** the Proposal Trustee to file with the Court a copy of the Certificate, forthwith after delivery thereof.

8. **THIS COURT ORDERS** that, notwithstanding:

(a) the pendency of these proceedings;

(b) any applications for a receivership order and/or bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (or other applicable legislation) in respect of Encore and any receivership order and/or bankruptcy order issued pursuant to any such applications; and

(c) any assignment in bankruptcy made in respect of Encore;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy or receiver that may be appointed in respect of Encore and shall not be void or voidable by creditors of Encore, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

9. **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario).

10. **THIS COURT ORDERS** that Exhibit "G" of the Bloomberg Affidavit together with ~~Appendix D and~~ Appendix E of the Reporting Letter (as defined in the Bloomberg Affidavit) be extracted from the motion record, kept confidential, sealed and not form part of the public record in these proceedings until completion of the Transaction therein and filing of the Certificate for same.

11. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

_____

Schedule A

Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

CERTIFICATE

RECITALS

A. A. Farber & Partners Inc. was appointed as the proposal trustee of (the "**Proposal Trustee**") of Encore Sales ("**Encore**").

B. Pursuant to an Order of the Court dated [DATE], the Court approved the agreement of purchase and sale made as of September 19, 2011 (the "**Sale Agreement**") between Encore and CTG Brands Inc. (the "**Purchaser**") and provided for the vesting in the Purchaser of the Encore's right, title and interest in and to the Purchased Assets as defined in the affidavit of Howard Bloomberg sworn September 28, 2011, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Proposal Trustee to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in the Sale Agreement have been satisfied or waived by Encore and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Proposal Trustee.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE PROPOSAL TRUSTEE CERTIFIES the following:

1. The Purchaser has paid and Encore has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;

2. The conditions to Closing as set out in the Sale Agreement have been satisfied or waived by Encore and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Proposal Trustee.

4. This Certificate was delivered by the Proposal Trustee at [TIME] on [DATE].

A. Farber & Partners Inc., in its capacity as Proposal Trustee of the undertaking, property and assets of Encore Sales, and not in its personal capacity

Per: _____

Name:

Title:

Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding Commenced at **Toronto**

APPROVAL AND VESTING ORDER

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Fax: (416) 593-2977

Lawyers for Encore Sales

LSUC# 45725E

000047

This is **Exhibit "D"** referred to

in the Affidavit of Howard Bloomberg

sworn before me, this

19th day of October, 2011

Sheldon Edward Inkol, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires April 6, 2014.

A Commissioner, etc.

Court File No. 31-1643925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	WEDNESDAY, THE 5TH DAY
	)	
JUSTICE WILTON-SIEGEL	)	OF OCTOBER, 2011

IN THE MATTER OF THE PROPOSAL OF ENCORE SALES, A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO WITH A HEAD OFFICE IN THE CITY OF VAUGHAN, IN THE PROVINCE OF ONTARIO

ORDER

THIS MOTION, made by Encore Sales ("**Encore**") for an Order, *inter alia*,:

1. abridging the time for service of Encore's Notice of Motion so that the motion is properly returnable on October 5, 2011;

2. authorizing Encore to continue to obtain and borrow, repay and re-borrow, additional monies under the Loan Agreements (as defined below) between Encore and Callidus Capital Corporation ("**Callidus**") and directing Encore to pay and perform all of its indebtedness to Callidus under the Loan Agreements and in accordance with the Blocked Account Agreement (as defined below);

3. approving the Professionals Charge (as defined below);

4. authorizing and directing A. Farber & Partners Inc., in its capacity as proposal trustee of Encore (the "**Proposal Trustee**"), to continue the process commenced by Encore with the

assistance of RSM Richter Corporate Finance Inc. ("**Richter**") for the sale of Encore's business and assets (the "**Sale Process**");

5. authorizing the Proposal Trustee to retain Richter, where appropriate, to assist the Proposal Trustee with the Sale Process;

6. sealing the Confidential Appendix to the First Report of the Proposal Trustee;

was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the First Report of the Proposal Trustee (the "**Report**"), and on reading the affidavit of Howard Bloomberg sworn September 28, 2011 (the "Bloomberg Affidavit") and on hearing the submissions of counsel for Encore, the Proposal Trustee and Callidus, no one appearing for any other person on the service list, although properly served as appears from the affidavit of Victoria Gifford sworn September 29, 2011 filed:

SERVICE

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

LOAN AGREEMENTS

2. **THIS COURT ORDERS** that Encore is hereby authorized and empowered to continue to obtain and borrow, repay and re-borrow, additional monies under certain credit facilities granted to Encore by Callidus (the "**Loan Agreements**"), subject to and in accordance with a blocked account agreement between Encore, Callidus and Bank of Montreal dated August 11,

2009 (the "**Blocked Account Agreement**") on the terms and subject to the conditions set forth in the Loan Agreements and the Blocked Account Agreement or such other terms and conditions as Callidus and Encore shall agree.

3. **THIS COURT ORDERS** that Encore is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to Callidus under and pursuant to the Loan Agreements and in accordance with the Blocked Account Agreement when the same become due and are to be performed, notwithstanding any other provision of this Order, provided that Callidus shall reimburse Encore any monies received by Callidus which it may not have been entitled to pursuant to any liens, charges, security interests or other claims having priority over Callidus' security.

PROFESSIONALS CHARGE

4. **THIS COURT ORDERS** that the Proposal Trustee, counsel to the Proposal Trustee and Richter, for the work performed and services rendered at the request of the Proposal Trustee in connection with paragraph 6 of this Order, shall be paid their reasonable fees and disbursements in each case at their standard rates and charges, and that such parties and the Proposal Trustee's counsel shall be and hereby are entitled to a charge (the "**Professionals Charge**") to a maximum of $500,000 on the assets, undertakings and property of Encore acquired for, or used in relation to, the business carried on by Encore, including all proceeds thereof (the "**Property**") as security for such fees and disbursements both before and after the making of this Order in respect of these proceedings and that the Professionals Charge shall form a charge on the Property with the priority provided for in this Order, but subject to subsections 14.06(7), 81.4(4) and 81.6(2) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c B-3, as amended.

SALE OF ENCORE'S PROPERTY

5. **THIS COURT ORDERS** the Proposal Trustee is authorized and directed to continue the Sale Process.

6. **THIS COURT ORDERS** that the Proposal Trustee is authorized to retain Richter, where appropriate, to assist it in carrying out the Sale Process; and Appendix D to Exhibit F to the Bloomberg Affidavit

7. **THIS COURT ORDERS** that the Confidential Appendix to the Report shall be sealed until the sale of Encore's property is completed or until further order of this Court. AJ-S

IN THE MATTER OF THE PROPOSAL OF ENCORE SALES, A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO WITH A HEAD OFFICE IN THE CITY OF VAUGHAN, IN THE PROVINCE OF ONTARIO

Court File No. 31-1643925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceedings commenced at Toronto

ORDER

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Lawyers for the Proposal Trustee

000053

This is **Exhibit "E"** referred to

in the Affidavit of Howard Bloomberg

sworn before me, this

19th day of October, 2011

Sheldon Edward Inkol, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires April 6, 2014.

A Commissioner, etc.

Encore Sales Partnership
Weekly Cash Flow Projections - Week-Ending October 7 to November 25, 2011
October 6, 2011
(CAD)

	07-Oct-11	14-Oct-11	21-Oct-11	28-Oct-11	04-Nov-11	11-Nov-11	18-Nov-11	25-Nov-11
Receipts								
Collection of A/R and Future Sales	1,531,024	1,508,798	1,332,469	1,843,402	1,696,916	1,071,775	1,568,979	944,732
Other	140,252	138,216	122,063	168,868	455,449	98,182	143,729	86,544
Total Receipts	1,671,276	1,647,014	1,454,532	2,012,270	2,152,365	1,169,956	1,712,708	1,031,275
Disbursements								
Inventory Purchases	198,265	59,819	3,000	6,000	-	29,402	-	-
Occupancy and Warehouse costs	315,213	8,750	154,023	22,250	328,713	22,250	88,136	22,250
Delivery and Selling costs	231,304	273,956	254,664	117,246	223,270	229,956	96,195	44,232
Other Costs	148,408	78,567	123,509	30,164	124,854	61,617	82,941	19,372
Professional Fees	256,000	113,000	49,000	45,000	45,000	35,000	55,000	35,000
Total Disbursements	1,149,190	534,092	584,196	220,660	721,837	378,225	322,272	120,854
Cash Flow before Interest	522,085	1,112,922	870,337	1,791,610	1,430,528	791,731	1,390,436	910,421
Opening Callidus Facility A, C, Overadvance	(11,058,850)	(10,536,765)	(9,423,843)	(8,553,506)	(6,761,896)	(5,441,323)	(4,649,591)	(3,259,155)
Cash Flow before Interest	522,085	1,112,922	870,337	1,791,610	1,430,528	791,731	1,390,436	910,421
Accrued Interest	-	-	-	-	(109,955)	-	-	-
Closing Callidus Facility A, C, Overadvance	(10,536,765)	(9,423,843)	(8,553,506)	(6,761,896)	(5,441,323)	(4,649,591)	(3,259,155)	(2,348,734)

This Statement of Projected Cash Flow, prepared in accordance with s.s.50(6) and/or s.s.50.4(2) of the Bankruptcy and Insolvency Act, should be read in conjunction with the Trustee's report on the reasonableness of the cash flow statement.

A. Farber & Partners Inc.

Per: Paul Denton, CA CIRP

Encore Sales Partnership

Per: Howard Bloomberg

Estate No. 31-1543925

ENCORE SALES

NOTES TO AND ASSUMPTIONS UNDERLYING THE STATEMENT OF PROJECTED CASH FLOW FOR THE WEEK-ENDING OCTOBER 7, 2011 TO THE WEEK-ENDING NOVEMBER 25, 2011

NOTES

Note 1: The purpose of the statement of projected cash flow for the week-ending October 7, 2011 to the week-ending November 25, 2011 is to comply with the provisions of the *Bankruptcy and Insolvency Act*.

HYPOTHETICAL ASSUMPTIONS

An assumption that assumes a set of economic conditions or courses of action that are not necessarily the most probable in the insolvent person's judgment, but are consistent with the purpose of the cash-flow projection.

None.

PROBABLE ASSUMPTIONS

An assumption that the insolvent person believes reflects the most probable set of economic conditions and planned courses of action; they are suitably supported, consistent with the plans of the insolvent person and provide a reasonable basis for the cash-flow statement.

1. Sales projections are based on recent sales performance, customer orders in hand and management estimates.
2. Accounts receivable collections are based on recent historical performance and management's best estimates
3. Assumed that a transaction for the sale of certain Everyday business lines, as approved by the Court on October 5, 2011 closes on November 4, 2011. No other en bloc asset sales are assumed in these projections,.
4. It is assumed that the majority of the ongoing provision of goods and services will be paid on a COD basis.
5. Payroll costs are included in each department. Payroll is forecast as paid bi-weekly, one week in arrears
6. HST payments are the net HST/GST/QST payable post NOI filing
7. Interest on the secured creditor facilities (Callidus Capital Corporation) assumed at a blended rate of: (i) Facility A of 14% and (ii) Facility C at 18%. The projected Callidus Loan position in the first week is based on projected receipts and disbursements for that week, however there are timing differences between funding from Callidus to actual payment of expenses by Encore Sales.
8. Estimated professional fees include those of the Proposal Trustee, its legal counsel, RSM Richters LLP, legal counsel to Encore Sales Blaney, McMurtry LLP and legal counsel for Callidus Capital Corporation, Aird & Berlis LLP.

9. Foreign exchange rate assumed for projection purposes to be at the rate of 1 CAD$ = 1USD.

This Statement of Projected Cash Flow of Encore Sales prepared in accordance with s.s. 50.4(2) and/or s.s. 50 (6) of the Bankruptcy and Insolvency Act should be read in conjunction with the Trustee's report on the reasonableness of the cash flow statement.

DATED AT TORONTO this 6th day of October, 2011.

A. FARBER & PARTNERS INC.
IN ITS CAPACITY AS TRUSTEE *IN RE*
THE PROPOSAL OF ENCORE SALES

Per: Paul Denton, CA, CIRP

ENCORE SALES

Per: Howard Bloomberg

Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP FORMED UNDER THE LAWS OF THE PROVINCE
OF ONTARIO WITH A HEAD OFFICE
IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

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

(Paragraphs 50(6)(c) of the Bankruptcy and Insolvency Act)

Encore Sales has developed the assumptions and prepared the attached Statement of Projected Cash Flow of the insolvent person, as of October 6, 2011, consisting of the Statement of Projected Cash Flow for the week-ending October 7, 2011 to November 25, 2011 and the Notes to and Assumptions Underlying 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 are disclosed in the Notes to and Assumptions Underlying the Statement of Projected Cash Flow.

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 the Notes to and Assumptions Underlying the Statement of Projected Cash Flow. Consequently, readers are cautioned that it may not be appropriate for other purposes.

DATED AT VAUGHAN this 6th day of October, 2011.

ENCORE SALES

Per: Howard Bloomberg

Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP FORMED UNDER THE LAWS OF THE PROVINCE
OF ONTARIO WITH A HEAD OFFICE
IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

TRUSTEE'S REPORT ON CASH-FLOW STATEMENT

(Paragraph 50(6)(b) of the Bankruptcy and Insolvency Act)

The attached Statement of Projected Cash Flow of Encore Sales as of October 6, 2011, consisting of the Statement of Projected Cash Flow for the week-ending October 7, 2011 to the week-ending November 25, 2011 and the Notes and Assumptions underlying the Statement of Projected Cash Flow, has been prepared by the insolvent person for the purpose described in Note 1, using the probable and hypothetical assumptions as set out in the Notes to and Assumptions Underlying the Statement of Projected Cash Flow.

The Trustee's review consisted of enquiries, analytical procedures and discussion related to information supplied to us by 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 for the probable assumptions and the 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.

The projection has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

DATED AT TORONTO this 6th day of October, 2011.

A. FARBER & PARTNERS INC.
IN ITS CAPACITY AS TRUSTEE *IN RE*
THE PROPOSAL OF ENCORE SALES

Per: Paul Denton, CA, CIRP

This is **Exhibit "F"** referred to

in the Affidavit of Howard Bloomberg

sworn before me, this

19th day of October, 2011

Sheldon Edward Inkol, a Commissioner, etc.
Province of Ontario, while a Student-at-Law.
Expires April 6, 2014.

A Commissioner, etc.

EXHIBIT "F"

ASSET PURCHASE AGREEMENT

NOT ATTACHED - TO BE SEALED

Court File No. 31-1543925
Estate No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	TUESDAY, THE 25TH DAY
	)	
JUSTICE WILTON-SIEGEL	)	OF OCTOBER, 2011

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

APPROVAL AND VESTING ORDER

THIS MOTION, made by Encore Sales ("**Encore**"), for an order approving the sale transaction (the "**Transaction**") contemplated by an agreement of purchase and sale (the "**Sale Agreement**") between Encore and Deejay Jewellery Inc. (the "**Purchaser**") dated October 18, 2011 and vesting in the Purchaser, Encore's right, title and interest in and to the Purchased Assets as defined in the affidavit of Howard Bloomberg sworn October 19th, 2011 (the "**Bloomberg Affidavit**"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of A. Farber & Partners Inc. in its capacity as proposal trustee of Encore (the "**Proposal Trustee**"), and on reading the Bloomberg Affidavit and on hearing the submissions of counsel for Encore, the Proposal Trustee, the Purchaser, Callidus Capital Corporation ("**Callidus**") and all others present, no one appearing for any other person on the service list, although properly served as appears from the affidavit of Victoria Gifford sworn October 20th, 2011 filed:

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved.

3. **THIS COURT ORDERS AND DECLARES** that execution of the Sale Agreement by Encore is hereby authorized and approved, with such minor amendments as Encore, the Purchaser and/or the Proposal Trustee may deem necessary. Encore is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets to the Purchaser.

4. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a certificate to the Purchaser substantially in the form attached as Schedule A hereto (the **"Certificate"**), all of Encore's right, title and interest in and to the Purchased Assets described in the Sale Agreement dated October 18, 2011 shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the **"Claims"**) including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by Order of this Honourable Court; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system; and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

5. **THIS COURT ORDERS** that the net proceeds from the sale of the Purchased Assets shall be used to reduce the indebtedness owed to Callidus by Encore.

6. **THIS COURT ORDERS AND DIRECTS** the Proposal Trustee to file with the Court a copy of the Certificate, forthwith after delivery thereof.

7. **THIS COURT ORDERS** that, notwithstanding:

(a) the pendency of these proceedings;

(b) any applications for a receivership order and/or bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (or other applicable legislation) in respect of Encore and any receivership order and/or bankruptcy order issued pursuant to any such applications; and

(c) any assignment in bankruptcy made in respect of Encore;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy or receiver that may be appointed in respect of Encore and shall not be void or voidable by creditors of Encore, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

8. **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario).

9. **THIS COURT ORDERS** that Exhibit "F" of the Bloomberg Affidavit and Appendix "A" to the Report of RSM Richter Corporate Finance Inc. dated October 19, 2011 be extracted from the motion record, kept confidential, sealed and not form part of the public record in these proceedings until completion of the Transaction therein and filing of the Certificate for same.

10. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

Schedule A

Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

CERTIFICATE

RECITALS

A. A. Farber & Partners Inc. was appointed as the proposal trustee of (the "**Proposal Trustee**") of Encore Sales ("**Encore**").

B. Pursuant to an Order of the Court dated [DATE], the Court approved the agreement of purchase and sale made as of October 18, 2011 (the "**Sale Agreement**") between Encore and Deejay Jewellery Inc. (the "**Purchaser**") and provided for the vesting in the Purchaser of the Encore's right, title and interest in and to the Purchased Assets as defined in the affidavit of Howard Bloomberg sworn October 19th, 2011, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Proposal Trustee to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in the Sale Agreement have been satisfied or waived by Encore and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Proposal Trustee.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE PROPOSAL TRUSTEE CERTIFIES the following:

1. The Purchaser has paid and Encore has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;

2. The conditions to Closing as set out in the Sale Agreement have been satisfied or waived by Encore and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the Proposal Trustee.

4. This Certificate was delivered by the Proposal Trustee at [TIME] on [DATE].

A. Farber & Partners Inc., in its capacity as Proposal Trustee of the undertaking, property and assets of Encore Sales, and not in its personal capacity

Per: _____

Name:

Title:

Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding Commenced at **Toronto**

APPROVAL AND VESTING ORDER

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Lawyers for Encore Sales

LSUC# 45725E

0000067

~~Revised: May 11, 2010~~

000068

Court File No. ~~———~~31-1543925
Estate No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE ~~———~~	)	~~WEEKDAY~~TUESDAY, THE #25TH
~~JUSTICE———~~MR.	)	DAY ~~OF MONTH, 20YR~~
JUSTICE WILTON-SIEGEL	)	OF OCTOBER, 2011

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

~~B E T W E E N:~~

~~**PLAINTIFF**~~

~~Plaintiff~~

~~and~~

~~**DEFENDANT**~~

~~Defendant~~

APPROVAL AND VESTING ORDER

THIS MOTION, made by ~~[RECEIVER'S NAME] in its capacity as the Court-appointed receiver (the "Receiver") of the undertaking~~Encore Sales (**"Encore"**), ~~property and assets of [DEBTOR] (the "Debtor")~~ for an order approving the sale transaction (the ~~"~~**"Transaction"**~~"~~) contemplated by an agreement of purchase and sale (the ~~"~~**"Sale Agreement"**~~"~~) between ~~the Receiver~~Encore and ~~[NAME OF PURCHASER]~~Deejay Jewellery Inc. (the ~~"~~**"Purchaser"**~~)~~ ~~dated [DATE] and appended to the Report of the Receiver dated [DATE] (the "Report"),~~") dated

October 18, 2011 and vesting in the Purchaser ~~the Debtor~~, Encore's right, title and interest in and to the ~~assets described in the Sale Agreement (the "~~Purchased Assets~~"~~ as defined in the affidavit of Howard Bloomberg sworn October 19th, 2011 (the "**Bloomberg Affidavit**"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of A. Farber & Partners Inc. in its capacity as proposal trustee of Encore (the "**Proposal Trustee**"), and on reading the Bloomberg Affidavit and on hearing the submissions of counsel for ~~the Receiver, [NAMES OF OTHER PARTIES APPEARING]~~Encore, the Proposal Trustee, the Purchaser, Callidus Capital Corporation ("**Callidus**") and all others present, no one appearing for any other person on the service list, although properly served as appears from the affidavit of ~~[NAME]~~Victoria Gifford sworn ~~[DATE]~~October 20th, 2011 filed~~[1]~~:

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved.

3. ~~1.~~ **THIS COURT ORDERS AND DECLARES** that ~~the Transaction is hereby approved,[2] and the~~ execution of the Sale Agreement by ~~the Receiver~~[3]Encore is hereby authorized and approved, with such minor amendments as ~~the Receiver~~Encore, the Purchaser and/or the Proposal Trustee may deem necessary. ~~The Receiver~~Encore is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets to the Purchaser.

~~[1] This model order assumes that the time for service does not need to be abridged. The motion seeking a vesting order should be served on all persons having an economic interest in the Purchased Assets, unless circumstances warrant a different approach. Counsel should consider attaching the affidavit of service to this Order.~~

~~[2] In some cases, notably where this Order may be relied upon for proceedings in the United States, a finding that the Transaction is commercially reasonable and in the best interests of the Debtor and its stakeholders may be necessary. Evidence should be filed to support such a finding, which finding may then be included in the Court's endorsement.~~

~~[3] In some cases, the Debtor will be the vendor under the Sale Agreement, or otherwise actively involved in the Transaction. In those cases, care should be taken to ensure that this Order authorizes either or both of the Debtor and the Receiver to execute and deliver documents, and take other steps.~~

4. ~~2.~~ **THIS COURT ORDERS AND DECLARES** that upon the delivery of a ~~Receiver's~~ certificate to the Purchaser substantially in the form attached as Schedule A hereto (the ~~"Receiver's "~~**Certificate**~~""~~), all of ~~the Debtor's~~Encore's right, title and interest in and to the Purchased Assets described in the Sale Agreement ~~[and listed on Schedule B hereto]~~[4]dated October 18, 2011 shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the ~~"~~"**Claims**~~"~~[5]~~"~~) including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by ~~the~~ Order of ~~the~~this Honourable ~~Justice [NAME] dated [DATE];~~Court; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system; ~~and (iii) those Claims listed on Schedule C hereto (all of which are collectively referred to as the "Encumbrances", which term shall not include the permitted encumbrances, easements and restrictive covenants listed on Schedule D)~~ and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

~~3. THIS COURT ORDERS that upon the registration in the Land Registry Office for the [Registry Division of {LOCATION} of a Transfer/Deed of Land in the form prescribed by the *Land Registration Reform Act* duly executed by the Receiver][Land Titles Division of {LOCATION} of an Application for Vesting Order in the form prescribed by the *Land Titles Act* and/or the *Land Registration Reform Act*][6], the Land Registrar is hereby directed to enter the Purchaser as the owner of the subject real property identified in Schedule B hereto (the "Real~~

~~[4] To allow this Order to be free-standing (and not require reference to the Court record and/or the Sale Agreement), it may be preferable that the Purchased Assets be specifically described in a Schedule.~~

~~[5] The "Claims" being vested out may, in some cases, include ownership claims, where ownership is disputed and the dispute is brought to the attention of the Court. Such ownership claims would, in that case, still continue as against the net proceeds from the sale of the claimed asset. Similarly, other rights, titles or interests could also be vested out, if the Court is advised what rights are being affected, and the appropriate persons are served. It is the Subcommittee's view that a non-specific vesting out of "rights, titles and interests" is vague and therefore undesirable.~~

~~[6] Elect the language appropriate to the land registry system (Registry vs. Land Titles).~~

~~Property") in fee simple, and is hereby directed to delete and expunge from title to the Real Property all of the Claims listed in Schedule C hereto.~~

5. ~~4.~~ **THIS COURT ORDERS** that ~~for the purposes of determining the nature and priority of Claims,~~ the net proceeds[7] from the sale of the Purchased Assets shall ~~stand in the place and stead of the Purchased Assets, and that from and after the delivery of the Receiver's Certificate all Claims and Encumbrances shall attach to the net proceeds from the sale of the Purchased Assets with the same priority as they had with respect to the Purchased Assets immediately prior to the sale[8], as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to the sale.~~ be used to reduce the indebtedness owed to Callidus by Encore.

6. ~~5.~~ **THIS COURT ORDERS AND DIRECTS** the ~~Receiver~~Proposal Trustee to file with the Court a copy of the ~~Receiver's~~ Certificate, forthwith after delivery thereof.

~~6. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Company's records pertaining to the Debtor's past and current employees, including personal information of those employees listed on Schedule "●" to the Sale Agreement. The Purchaser shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.~~

7. **THIS COURT ORDERS** that, notwithstanding:

(a) the pendency of these proceedings;

(b) any applications for a receivership order and/or bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (or other

~~[7] The Report should identify the disposition costs and any other costs which should be paid from the gross sale proceeds, to arrive at "net proceeds".~~

~~[8] This provision crystallizes the date as of which the Claims will be determined. If a sale occurs early in the insolvency process, or potentially secured claimants may not have had the time or the ability to register or perfect proper claims prior to the sale, this provision may not be appropriate, and should be amended to remove this crystallization concept.~~

applicable legislation) in respect of ~~the Debtor~~Encore and any receivership order and/or bankruptcy order issued pursuant to any such applications; and

(c) any assignment in bankruptcy made in respect of ~~the Debtor~~Encore;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy or receiver that may be appointed in respect of ~~the Debtor~~Encore and shall not be void or voidable by creditors of ~~the Debtor~~Encore, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

8. **THIS COURT ORDERS AND DECLARES** that the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario).

9. **THIS COURT ORDERS** that Exhibit "F" of the Bloomberg Affidavit and Appendix "A" to the Report of RSM Richter Corporate Finance Inc. dated October 19, 2011 be extracted from the motion record, kept confidential, sealed and not form part of the public record in these proceedings until completion of the Transaction therein and filing of the Certificate for same.

10. ~~9.~~ **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

Schedule A ~~– Form of Receiver's Certificate~~

Court File No. ~~———~~31-1543925
Estate No. 31-1543925

~~ONTARIO~~
~~SUPERIOR COURT OF JUSTICE~~
~~COMMERCIAL LIST~~

~~B E T W E E N:~~

~~PLAINTIFF~~

~~Plaintiff~~

~~– and –~~

~~DEFENDANT~~

~~Defendant~~

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

~~RECEIVER'S CERTIFICATE~~

RECITALS

A. ~~Pursuant to an Order of the Honourable [DATE OF JUDGE] of the Ontario Superior Court of Justice (the "Court") dated [DATE OF ORDER], [NAME OF RECEIVER]~~A. Farber & Partners Inc. was appointed as the ~~receiver~~proposal trustee of (the ~~"Receiver") of the undertaking, property and assets of [DEBTOR]~~"**Proposal Trustee**") of Encore Sales (~~the "Debtor~~"**Encore**").

B. Pursuant to an Order of the Court dated [~~DATE~~DATE], the Court approved the agreement of purchase and sale made as of ~~[DATE OF AGREEMENT]~~October 18, 2011 (the ~~"~~"**Sale Agreement**~~"~~") between ~~the Receiver [Debtor]~~Encore and ~~[NAME OF PURCHASER]~~Deejay Jewellery Inc. (the ~~"~~"**Purchaser**~~"~~") and provided for the vesting in the

Purchaser of the ~~Debtor~~Encore's right, title and interest in and to the Purchased Assets~~,~~ as defined in the affidavit of Howard Bloomberg sworn October 19th, 2011, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the ~~Receiver~~Proposal Trustee to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in ~~section ● of~~ the Sale Agreement have been satisfied or waived by ~~the Receiver~~Encore and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the ~~Receiver~~Proposal Trustee.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE ~~RECEIVER~~PROPOSAL TRUSTEE CERTIFIES the following:

1. The Purchaser has paid and ~~the Receiver~~Encore has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;

2. The conditions to Closing as set out in ~~section ● of~~ the Sale Agreement have been satisfied or waived by ~~the Receiver~~Encore and the Purchaser; and

3. The Transaction has been completed to the satisfaction of the ~~Receiver~~Proposal Trustee.

4. This Certificate was delivered by the ~~Receiver~~Proposal Trustee at [TIME] on ——— [DATE].

~~[NAME OF RECEIVER]~~A. Farber & Partners Inc., in its capacity as ~~Receiver~~Proposal Trustee of the undertaking, property and assets of ~~[DEBTOR]~~Encore Sales, and not in its personal capacity

Per: _____

Name:

Title:

Schedule B – Purchased Assets

Schedule C – Claims to be deleted and expunged from title to Real Property

Schedule D – Permitted Encumbrances, Easements and Restrictive Covenants related to the Real Property

(unaffected by the Vesting Order)

Document comparison by Workshare Compare on October 19, 2011 5:01:10 PM

Input:	
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Description	model_approval_and_vesting_order
Document 2 ID	file://I:\Users\LBRZEZIN\file\word\active\encore\callidus\pleadings\proposal\approval and vesting order baby line deejay.doc
Description	approval and vesting order baby line deejay
Rendering set	Standard

Legend:	
Insertion	
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Moved to	
Style change	
Format change	
~~Moved deletion~~	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	83
Deletions	173
Moved from	1
Moved to	1
Style change	0
Format changed	0
Total changes	258

Court File No. 31-1543925
Estate No. 31-1543925

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	TUESDAY, THE 25TH DAY
	)	
JUSTICE WILTON-SIEGEL	)	OF OCTOBER, 2011

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO
THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO

ORDER

THIS MOTION, made by Encore Sales ("**Encore**"), for an order abridging the time for service of this Notice of Motion and extending the time for Encore to file its proposal to December 12th, 2011, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Howard Bloomberg (the "**Bloomberg affidavit**") sworn October 19th, 2011, the second report of A. Farber and Partners Inc. in its capacity as Proposal Trustee and on hearing the submissions of counsel for Encore,

1. **THIS COURT ORDERS** that if necessary, the time for service of the Notice of Motion and the Motion Record is hereby abridged so that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT FURTHER ORDERS** that the date for filing the Debtor's proposal be and is hereby extended from October 27th, 2011 to the close of business on December 12th, 2011.

Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding Commenced at **Toronto**

ORDER

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Court File No. 31-1543925
Estate No. 31-1543925

IN THE MATTER OF THE PROPOSAL OF
ENCORE SALES
A PARTNERSHIP CONTINUED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO
WITH A HEAD OFFICE IN THE CITY OF VAUGHAN IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding Commenced at **Toronto**

MOTION RECORD

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