

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

BETWEEN:

**251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**MOTION RECORD**  
(Motion Returnable August 12, 2011)

August 5, 2011

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**TAB 1**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

BETWEEN:

**251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**NOTICE OF MOTION**

IRA SMITH TRUSTEE & RECEIVER INC. ("**Smith**"), acting in his capacity as Receiver (the "**Receiver**") without security, of all of the assets, undertakings and properties of Brushstrokes Fine Art Inc. (the "**Debtor**"), will make a motion to a judge of the Commercial List on August 12, 2011 at 10:00 a.m., at 330 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally

THE MOTION IS FOR:

1. an Order, substantially in the form of the draft Order attached as Schedule "A" hereto (the "**Stalking Horse and Bid Procedures Order**");
  - (a) approving the actions and activities of the Receiver since June 6, 2011 as described more particularly in the Receiver's First Report to the Court dated August 5, 2011 (the "**First Report**");

- (b) authorizing the Receiver to enter into an agreement (the "**Purchase Agreement**"), substantially in the form of the agreement attached as **Appendix "B"** to the First Report (the "**Stalking Horse APA**" or the "**Stalking Horse Bid**"); to sell all or substantially all of the assets, property and undertakings of the Company (the "**Purchased Assets**") to 2251263 Ontario Inc. (the "**Purchaser**"),
- (c) approving the bidding procedures described in the First Report and attached as **Appendix "C"** thereto (the "**Bid Procedures**") and the sales and auction process described in the First Report (collectively, the "**Stalking Horse Process**") and authorizing and directing the Receiver to conduct the Stalking Horse Process;
- (d) in the event that the Receiver concludes a sale of all, or substantially all, of the Purchased Assets to a Successful Bidder (as defined in the Bid Procedures) other than the Stalking Horse Bidder, approving and authorizing the Receiver to pay the Breakup Fee (as defined in the Bid Procedures) to the Stalking Horse Bidder forthwith following the closing of such sale approved by the Court in accordance with the provisions of the Stalking Horse Bid;
- (e) approving the accounting for the receipts and disbursements of the Receiver from June 6, 2011 to July 31, 2011;
- (f) approving an increase in the Receiver's borrowing authority, as described in paragraphs 20 through 23 inclusive of the Order of this Court made June 6, 2011 appointing the Receiver (the "**Receivership Order**"), from \$500,000 to \$1.0 million; and
- (g) approving the fees, disbursements and other costs incurred to date by the Receiver and its legal counsel.
- (h) such further and other orders as counsel may request and this Honourable Court may permit.



THE GROUNDS FOR THE MOTION ARE:

- (i) Smith was appointed Receiver of the Debtor pursuant to the Receivership Order made June 6, 2011 under the *Courts of Justice Act* and the *Bankruptcy and Insolvency Act*;
- (j) these proceedings are premised on continuing the Debtor's business as a going concern in order to be able to permit Smith to implement the Stalking Horse Process in an effort to obtain the maximum realization for the Debtor's assets;
- (k) the Stalking Horse Bidder has completed its due diligence and is prepared to enter in the Stalking Horse APA with the Receiver, subject to this Court's authorization and approval,
- (l) the Stalking Horse Bid is subject to higher or better offers replacing it;
- (m) the Stalking Horse Process provides for an orderly and efficient auction process whereby any offer superior to the Stalking Horse APA will be made to come forward within the prescribed time limits;
- (n) execution of the auction pursuant to the Stalking Horse Process will be supervised and monitored by Smith in its capacity as judicial receiver previously appointed in these proceedings by the Honourable Court;
- (o) the facts set out in the First Report; and
- (p) such further grounds as counsel may advise and this Court may permit.

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

- (i) the First Report of the Receiver, to be filed separately;
- (ii) the Affidavit of Ira Smith sworn August 4, 2011;

- (iii) the Affidavit of Ken Rosenberg sworn August 4, 2011; and
- (iv) such further and other materials as counsel may advise and this Honourable Court may permit.

August 5, 2011

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**SCHEDULE "A"**

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

THE HONOURABLE \_\_\_\_\_ )  
 ) FRIDAY, THE 12<sup>TH</sup> DAY  
 )  
JUSTICE \_\_\_\_\_ ) OF AUGUST, 2011

B E T W E E N :

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**STALKING HORSE AND BID PROCEDURES ORDER**

WHEREAS Ira Smith Trustee & Receiver Inc. was appointed receiver (the "**Receiver**") of the undertaking, property and assets of Brushstrokes Fine Art Inc. (the "**Company**") pursuant to an order of this Court made June 6, 2011 (the "**Appointment Order**");

NOW THEREFORE the Receiver brings this motion for an order authorizing the Receiver to enter into the stalking horse asset purchase agreement and to carry out the related bid procedures, approving the activities of the Receiver as set out in the First Report to the Court of the Receiver dated August 5, 2011 (the "**First Report**"), approving an increase in the Receiver's borrowing authority from \$500,000 to \$1 million, approving the Receiver's receipts and disbursements and approving the fees and disbursements of the Receiver and its counsel was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the First Report and the Affidavits of Ira Smith sworn August 5, 2011 and Ken Rosenberg sworn August 4, 2011 (together, the "**Fee Affidavits**"), and on hearing the submissions of counsel for the Receiver, the Company, the Applicant [**insert names of other parties appearing**], no one appearing for any other person on the service list, although properly served:

### **SERVICE**

1. THIS COURT ORDERS that the time for service of the Notice of Motion and Motion Record in respect of this motion is hereby abridged and that further service is dispensed with.

### **STALKING HORSE PROCESS**

2. THIS COURT ORDERS that the Receiver is hereby authorized and approved to enter into an agreement (the "**Purchase Agreement**") to sell all or substantially all of the assets, property and undertakings of the Company (the "**Purchased Assets**") to 2251263 Ontario Inc. (the "**Purchaser**") ("**Transaction**"), substantially in the form of the agreement attached as Appendix "B" to the First Report (the "**Stalking Horse APA**" or the "**Stalking Horse Bid**"), and subject to the terms of this Order, such agreement is hereby approved and accepted for the purpose of conducting the Stalking Horse Process (as defined below).

3. THIS COURT ORDERS that the bidding procedures described in the First Report (and attached thereto as Appendix "C") and attached hereto as Schedule "A" (the "**Bid Procedures**") and the sales and auction process described therein (collectively, the "**Stalking Horse Process**") be and are hereby approved and the Receiver is hereby authorized and directed to conduct the Stalking Horse Process.

4. THIS COURT ORDERS that, in the event that the Receiver concludes a sale of all or substantially all of the Purchased Assets to a Successful Bidder (as defined in the Bid Procedures) other than the Stalking Horse Bidder, the Receiver be and is hereby authorized and directed to pay the Breakup Fee (as defined in the Bid Procedures) to the Stalking Horse Bidder forthwith following the closing of such sale approved by the Court in accordance with the provisions of the Stalking Horse Bid.

5. THIS COURT ORDERS that, in connection with the Stalking Horse Process and pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose personal information of identifiable individuals to prospective bidders for the Purchased Assets and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete a sale of such assets. Each prospective bidder to whom any such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the assets and related business, and if it does not complete a purchase thereof, shall return all such information to the Receiver or in the alternative destroy all such information and certify such destruction to the Receiver.

**ACTIVITIES OF THE RECEIVER**

6. THIS COURT ORDERS that the activities of the Receiver disclosed in the First Report be and are hereby approved.

7. THIS COURT ORDERS that the Receipts and Disbursements of the Receiver from June 6, 2011 until July 31, 2011, as set out and described in **Appendix U** to the First Report, be and are hereby approved.

THIS COURT ORDERS that the fees and the disbursements of the Receiver and its legal counsel from June 6, 2011 until July 31, 2011, as disclosed in the Fee Affidavits, be and are hereby approved and taxed in the amounts reflected therein.

**RECEIVER'S BORROWING AUTHORITY**

8. THIS COURT ORDERS that the authority granted to the Receiver pursuant to paragraph 20 of the Appointment Order to borrow monies by way of a revolving credit or otherwise, shall be hereby increased from \$500,000 to \$1 million.

9. THIS COURT ORDERS that in all respects and for certainty, the provisions governing the Receiver's borrowing authority including, without limitation, the Receiver's Borrowing Charge (as defined in the Appointment Order) and the priority of such borrowings, as fully set out in paragraphs 20 through 23 of the Appointment Order, shall apply to any and all additional amounts that may be borrowed by the Receiver up to the \$1 million borrowing limit.



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**GENERAL**

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.

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**Schedule "A"**

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**BID PROCEDURES**

Set forth below are the proposed bid procedures (the “**Bid Procedures**”) to be employed with respect to the sale of the assets and undertaking of Brushstrokes Fine Art Inc. (“**Brushstrokes**”) including its subsidiary and affiliate Brushstrokes Fine Art de Mexico, S. de R.L. de C.V. (the “**Purchased Assets**”). Such Purchased Assets are located at the Brushstrokes premises described as follows:

- (a) Canadian manufacturing premises located at 60 Leek Crescent, Richmond Hill, ON Canada;
- (b) Mexican manufacturing premises located at Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez, Chihuahua, Mexico; and
- (c) independent warehouse facilities located at 12273 Gateway Blvd. W., El Paso, TX USA.

The Purchased Assets being purchased and the terms and conditions upon which Ira Smith Trustee & Receiver Inc. (“**Smith**” and/or “**Receiver**”) contemplate consummating a sale as further described in the form of the Stalking Horse Agreement between the Receiver and 2251263 Ontario Inc. made as of August 5, 2011 (the “**APA**”).

The Receiver will seek approval of the Superior Court of Justice of Ontario Commercial List (the “**Court**”) of the APA with 2251263 Ontario Inc. (the “**Stalking Horse Bidder**”) and the Bid Procedures set out herein, which includes a description of the sales and marketing process (the “**Stalking Horse and Bid Procedures Orders**”). The Stalking Horse Process is described more particularly in the First Report of the Receiver dated August 5, 2011.

**Marketing Process and Identifying Potential Bidders**

1. Upon Court approval of the Sale Process, the Receiver will immediately commence the following marketing process:
  - (a) a list of potential buyers has been identified by the Receiver for the current opportunity to acquire the assets introduced;
  - (b) advertisement(s) will be placed in the national edition of the Globe and Mail newspaper during the week immediately following Court approval of the Sale Process;
  - (c) notice(s) will be placed on the website of the Receiver.

**Due Diligence**

2. A confidential information memorandum (“**CIM**”) has been prepared and will be provided to all interested parties that sign a confidentiality agreement and who the

Receiver determines is likely, based on financial information submitted by the bidder, the availability of financing and other considerations deemed relevant by the Receiver, to be able to consummate a sale if selected as the Successful Bidder, as defined below (a "**Potential Bidder**");

3. A Potential Bidder will be provided access to a data room containing detailed information regarding the assets to enable them to perform their due diligence.
4. A Potential Bidder will be provided access to management, facilitated by the Receiver, to supplement their due diligence procedures, as necessary.
5. If a Qualified Bidder (as defined below) requests access to one or more of Brushstrokes' key customers, the Receiver will make all reasonable effort to facilitate such access prior to the Auction. For certainty, only Qualified Bidders may request such access. Each Bidder acknowledges and agrees that if it becomes a Qualified Bidder, the Receiver can disclose its name and the identity of its officers and directors to whichever key customers that Qualified Bidder wishes to meet.
6. Potential Bidders are cautioned not to rely upon any documentation or information provided by or on behalf of the Receiver. Any such documentation or other material provided with respect to the Assets was prepared solely for the convenience of Potential Bidders and is not warranted to be complete or accurate, has not been independently verified, and is not part of these Bid Procedures or the APA. Each Potential Bidder shall be deemed to have relied entirely on its own inspection and investigation in submitting its offer. Potential Bidders are required to obtain such third party consents as they consider necessary. Potential Bidders are to make such independent enquiries, as they deem necessary, concerning all Assets prior to submitting their Offer.

### **Bid Deadline**

7. A Potential Bidder that desires to make a bid (a "**Bidder**") shall deliver its bid to the Receiver not later than noon (Eastern Time) on August 22, 2011 (the "**Bid Deadline**").

### **Bid Requirements**

8. All bids must include:
  - (a) An offer to pay a cash purchase price greater than the aggregate consideration offered by the Stalking Horse Bidder pursuant to the APA, plus the amount of the breakup fee of 2.5% of the Purchase Price stipulated in the Stalking Horse Agreement (the "**Breakup Fee**");
  - (b) An executed copy of a purchase agreement in the form of the APA, together with a blackline copy of the APA reflecting any changes made to the APA, shall be submitted to the Receiver and shall be binding and irrevocable until either (i) such

time as the Receiver rejects a Bidder's Bid in accordance with paragraph 14 herein; (ii) at the conclusion of the Auction, if held, each respective Qualified Bidder does not become the Successful Bidder; or (iii) the Court does not approve the Successful Bidder's Accepted Bid;

- (c) A certified cheque, bank draft or wire transfer drawn on a Canadian Schedule "1" Chartered Bank (an "**Acceptable Institution**") or by bankers draft from an Acceptable Institution in the amount of \$140,000 payable to the Receiver in trust. This amount will either (i) be applied to satisfy the purchase price of a Successful Bidder, the balance of which purchase price shall be due on closing; (ii) be returned to the Bidder if its bid is not successful at the Auction (subject to the other provisions of these Bid Procedures) or approved by the Court, or (iii) be forfeited to the Receiver in the event that the Successful Bidder breaches its obligations pursuant to the APA or an Accepted Bid (as defined herein);
- (d) A representation of the Bidder and written evidence of available cash and/or a commitment for financing to evidence the Bidder's ability to consummate the proposed transaction as the Receiver may reasonably request;
- (e) A copy of a resolution or similar document demonstrating authority to make an irrevocable bid, and to execute the transaction contemplated by the offering bid for the Purchased Assets;
- (f) A disclosure of the identity of each entity that will be bidding for the Purchased Assets or otherwise participating with such bid and the complete terms of any such participation;
- (g) A disclosure of the identity of each of the Officers and Directors or Partners, as the case may be, of each entity bidding for the Purchased Assets or otherwise participating with such bid;
- (h) An acknowledgement by such Bidder that if its bid becomes a Qualified Bid and the bidder becomes a Qualified Bidder (as such terms are hereinafter defined) that such Qualified Bidder's continued participation in this Stalking Horse Process is on a non-exclusive basis;
- (i) A description of the Bidder's current operations, including an indication of similarities between its current operations and that of the Vendor;
- (j) A listing of the Bidder's existing relationships with any of Brushstroke's current customers, including an indication of whether it has preferred supplier status with any of the customers; and
- (k) A representation as to the Bidder's plans to either engage current management and senior management or provide its own management team if the bid is accepted.

- (l) A statement of the email address at which the Bidder wishes to receive any notices sent pursuant to these procedures.

### **Qualified Bids**

9. A bid received from a Bidder that meets the above requirements will be considered a "Qualified Bid" and each Bidder that submits a Qualified Bid will be considered a "Qualified Bidder".
10. The APA shall be deemed to be a Qualified Bid and the Stalking Horse Bidder shall be deemed to be a Qualified Bidder for all purposes and requirements pursuant to the Sale Procedures, notwithstanding the requirements that other potential Bidders must satisfy to be considered a Qualified Bidder.
11. Qualified Bids will be valued and assessed by the Receiver in its sole commercial discretion based upon any and all factors that the Receiver may deem pertinent.
12. The Receiver, in its business judgement, reserves the right to reject any bid if such bid:
  - a) is on terms that are more burdensome or conditional than the terms of the APA;
  - b) requires any indemnification of such Bidder;
  - c) excludes assets or contracts, or leases of the Vendor;
  - d) is not received by the Bid Deadline;
  - e) includes non-cash consideration;
  - f) is subject to any due diligence, financing condition or other contingencies (including representations, warranties, covenants, and timing requirements) of any kind or any other conditions precedent on such party's obligation to acquire the Purchased Assets other than as may be specifically included in the APA; or
  - g) includes any other considerations that the Receiver may deem relevant to the bid.
13. Any bid rejected pursuant to Paragraph 12 above, shall not be deemed to be a Qualified Bid.
14. The Receiver will advise all Bidders by email whether or not they are a Qualified Bidder by 5:00 p.m. on August 23, 2011 or by such further date as the Receiver may determine in its sole discretion, but in any event not less than 48 hours before the start of the Auction (the "Notification Date").

### **The Auction and Auction Procedures**

15. If the Receiver determines that it has received more than one Qualified Bid (in addition to the APA), it will invite Qualified Bidders to participate in an Auction, as described in more detail below (the "**Auction**"). If the Receiver does not receive any Qualified Bids other than the APA, it will not hold an Auction, in which case the APA will be deemed the Successful Bid (as this term is defined below) and the Stalking Horse Bidder will be named the Successful Bidder (as this term is defined below).
16. By 5:00 p.m. on August 24, 2011, each Qualified Bidder must inform the Receiver, by email, whether it intends to participate in the Auction.
17. The Receiver will promptly thereafter inform, in writing, each Qualified Bidder who has expressed its intent to participate in the Auction of the identity of all other Qualified Bidders that have expressed their intention to participate in the Auction and will provide copies of all other Qualified Bids to such Qualified Bidders.
18. Only the authorized representatives, professionals or agents of the Stalking Horse Bidder and each other Qualified Bidder identified in advance to the Receiver, shall be eligible to participate at the Auction.
19. The Auction, if any, shall be conducted by the Receiver, commencing on August 26, 2011 at 10:00 a.m. (Eastern Time) at the offices of Paliare Roland Rosenberg Rothstein LLP, 250 University Avenue, Suite 500, Toronto, Ontario.
20. At the Auction, the bidding will start at the aggregate consideration for the Purchased Assets and terms proposed in the offer that the Receiver selects as the highest and best offer prior to the Auction and will continue in cash increments of at least \$250,000.
21. The Receiver, in its sole discretion, may adjourn the auction at any time to permit the Qualified Bidders and the Stalking Horse Bidder, the opportunity to consider improved bids.
22. During the Auction, Qualified Bidders and the Stalking Horse Bidder may submit revised bids that otherwise comply with the rules of this bidding and Auction process (a "**Revised Bid**").
23. If no Qualified Bidder submits a Revised Bid after a period of 15 minutes following the Receiver's acceptance of a Revised Bid and the Receiver in its sole discretion chooses not to adjourn the Auction further, the Auction will be concluded whereupon the Receiver shall enter into a binding agreement of purchase and sale with the Qualified Bidder or the Stalking Horse Bidder (the "**Accepted Bid**") that submitted the leading bid

as determined by the Receiver in its sole discretion (the "**Successful Bidder**"). The bid process shall end at the conclusion of the Auction.

24. The Successful Bidder agrees to do all such things as may be required by the Receiver to obtain Court approval of the Accepted Bid.
25. If the Successful Bidder fails to consummate the transaction by August 31, 2011 (or such date that may otherwise be mutually agreed upon by the Receiver and the Successful Bidder), the Receiver shall be authorized but not required to deem that the Successful Bidder has breached its obligations pursuant to the Accepted Bid, has forfeited its deposit to the Receiver, and the Company and the Receiver are authorized to seek an alternative bidder for the Purchased Assets.
26. Except for the Stalking Horse Bidder with respect to the Breakup Fee, Potential Bidders, Bidders and/or Qualified Bidders shall not be allowed any breakup, termination or similar fee. For greater certainty, Potential Bidders, Bidders and/or Qualified Bidders/Successful Bidder shall be responsible for all of their own professional and other fees and costs relating to their investigation or closing of any transaction in this regard.
27. The Receiver shall have the right to adopt and implement such other rules for the Auction as may be necessary to promote the goals of this bid process generally.
28. The highest or any offer will not necessarily be accepted.

#### **Court Approval**

29. The sale of Purchased Assets is subject to an approval and vesting Order being issued by the Court.
30. In the case of an Agreement for the Receiver's interest in any lease of equipment, the Receiver shall assign (without covenants) all of its right, title and interest, if any, in such lease to the Purchaser on closing. The Receiver agrees to use all commercially reasonable efforts to obtain the requisite consent of the landlord or lessor, as the case may be, and/or the approval of the Court, to such assignment (if required by the lease) but in so doing shall not be required to incur any expense or liability (except as the Receiver in its absolute discretion may see fit).
31. Pursuant to the Stalking Horse and Bid Procedures Order, the Receiver shall report to the Court and provide its recommendations to the Court regarding the sale of the Purchased Assets no later than August 31, 2011, or as soon thereafter as the Court may allow.
32. The Receiver shall not be required to pay any commission or finder's fee with respect to any sale pursuant hereto.



**“As is, where is”**

33. The Purchased Assets are being sold on an “as is, where is” basis and no warranty, condition or representation, whether statutory, express or implied is being given by the Receiver as to the description, condition, state, cost, size, quality, fitness for purpose, merchantability, or in respect to any other matter or thing whatsoever concerning the Purchased Assets other than as set out herein. The Purchaser is deemed to have satisfied itself with regard to all of the foregoing and any matter or thing whatsoever in respect of the Purchased Assets.

**Miscellaneous**

34. The Purchased Assets shall be and remain at the risk of the Receiver as its interest may appear until closing. From and after closing, the Purchased Assets shall be at the Purchaser’s risk. Pending closing, the Receiver shall hold any insurance policies or proceeds thereof in trust for itself, the Purchaser and others as their respective interests may appear. In the event of substantial damage to or loss prior to closing of the Purchased Assets which are insured, the Purchaser may elect by notice in writing, 15 days after receiving notice from the Receiver, of such damage or loss, either to close the Agreement and receive the remaining Purchased Assets and the proceeds of the insurance, or may rescind the Agreement, have all moneys theretofore paid returned without interest, costs, deduction or compensation, but shall have no further or other right to damages, costs, specific performance or any other remedy.
35. The Purchaser shall pay on closing, in addition to the purchase price, all applicable federal, provincial and municipal taxes in connection with the sale.
36. The Purchaser shall, at its own cost and expense, be responsible for compliance with all municipal, provincial and federal laws insofar as they apply to the Purchased Assets and the use thereof by the Purchaser from and after closing.
37. All stipulations as to time are strictly of the essence.
38. Any tender of documents or money hereunder may be made upon the Receiver or its solicitor. Money may only be tendered by certified cheque, bank draft or wire transfer drawn on an Acceptable Institution.
39. The obligations of the Receiver to complete the Agreement shall be relieved if, on or before the closing of such sale, any asset which is the subject of the sale has been removed from the control of the Receiver by any means or process, or any such asset is redeemed, or if the completion of the sale is restrained or prohibited by an injunction or other order issued by a court of competent jurisdiction, whereupon the only obligation of the Receiver shall be to return the applicable deposit, without interest, deduction, costs or compensation.

**SUMMARY TIMELINE OF IMPORTANT DATES**

<b>Sales Procedure</b>	<b>Date</b>
<b>Court approval of Sales Process and Stalking Horse Bid</b>	August 12, 2011
<b>Potential bidders notified; release of Globe and Mail advertisement</b>	August 16, 2011
<b>Period for Due Diligence by Potential Bidders who have executed NDAs</b>	Until August 22, 2011 at noon
<b>Bids due</b>	August 22, 2011 at noon
<b>Notification sent to Bidders</b>	August 23, 2011
<b>Indication of intent to participate in the Auction by Qualified Bidders and identification of all representatives</b>	August 24, 2011
<b>Auction</b>	August 26, 2011
<b>Court motion to approval Successful Bid</b>	August 30, 2011
<b>Transaction close</b>	August 31, 2011

251263 ONTARIO INC.

Applicant

- and - BRUSHSTROKES FINE ART INC.

Respondent

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**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
Proceeding commenced at TORONTO

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**NOTICE OF MOTION**

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**PALIARE ROLAND ROSENBERG**  
**ROTHSTEIN LLP**

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Lawyers for the Receiver

**TAB 2**

**FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.  
IN ITS CAPACITY AS COURT-APPOINTED INTERIM RECEIVER AND RECEIVER  
OF BRUSHSTROKES FINE ART INC.**

**DATED AUGUST 5, 2011**

**A. INTRODUCTION**

1. Pursuant to the application to the Court by 2251263 Ontario Inc. (the “**Applicant**”), Ira Smith Trustee & Receiver Inc. (“**ISI**”) was appointed interim receiver and receiver (the “**Receiver**”) without security, of all of the assets, undertaking and property of Brushstrokes Fine Art Inc. (the “**Company**” or the “**Debtor**”) by Order of the Honourable Mr. Justice Morawetz dated June 6, 2011 pursuant to sections 47(1) and 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C 1985, c. B-3, as amended (the “**BIA**” or the “**Act**”), and section 101 of the *Courts of Justice Act*, R.S.O 1990, c. C.43, as amended (the “**CJA**”) (the “**Receivership Order**”). A copy of the Receivership Order is attached hereto as **Appendix “A”**.

**B. PURPOSE OF REPORT**

2. The purpose of this report (the “**First Report**”) is to report to this Honourable Court on the operations and financial position of the Debtor and support a motion by the Receiver to obtain an Order of the Court:

- i. approving the actions and activities of the Receiver since June 6, 2011, and authorizing the Receiver to enter into an agreement (the “**Purchase Agreement**”)

- to sell all or substantially all of the assets, property and undertakings of the Company (the “**Purchased Assets**”) to 2251263 Ontario Inc. (the “**Purchaser**”) (the “**Transaction**”), substantially in the form of the agreement attached hereto as **Appendix “B”** (the “**Stalking Horse APA**” or the “**Stalking Horse Bid**”);
- ii. approving the bidding procedures described in this report and attached as **Appendix “C”** (the “**Bid Procedures**”) and the sales and auction process described in this report (collectively, the “**Stalking Horse Process**”) and authorizing and directing the Receiver to conduct the Stalking Horse Process;
- iii. in the event that the Receiver concludes a sale of all, or substantially all, of the Purchased Assets to a Successful Bidder (as defined in the Bid Procedures) other than the Stalking Horse Bidder, approving and authorizing the Receiver to pay the Breakup Fee (as defined in the Bid Procedures) to the Stalking Horse Bidder forthwith following the closing of such sale approved by the Court in accordance with the provisions of the Stalking Horse Bid;
- iv. approving the accounting for the receipts and disbursements of the Receiver from June 6, 2011 to July 31, 2011;
- v. approving an increase in the Receiver’s borrowing authority described in paragraphs 20 through 23 inclusive of the Receivership Order from \$500,000 to \$1.0 million; and

- vi. approving the fees, disbursements and other costs incurred to date by the Receiver and its legal counsel, Paliare Roland Rosenberg Rothstein LLP (“Paliare”).

**C. DISCLAIMER**

3. The Receiver has relied upon the financial records and financial statements of the Debtor, as well as other information supplied by management and employees of the Debtor, its accountants, appraisers, valuers, and other advisors. The Receiver’s procedures did not constitute an audit or review engagement.

4. Therefore, the Receiver is unable to and does not express an opinion on any financial statements, or elements of accounts referred to in this First Report, or any of the attached Appendices or Exhibits forming part of this First Report. The Receiver’s procedures and enquiries did not include verification work or constitute an audit in accordance with generally accepted auditing standards. In the event any of the information relied upon by the Receiver was inaccurate or incomplete, the results of the Receiver’s analysis could be materially affected. The Receiver reserves the right to review all calculations included or referred to in this First Report and, if it considers it necessary, to revise its calculations or conclusions in light of new information as such information becomes available.

**D. BACKGROUND AND OVERVIEW**

5. The Company manufactures and sells artwork reproductions and custom portraits using proprietary technologies, wherein it manufactures oil painting reproductions of either high end



paintings or in converting photographs to oil painting reproductions. The Company operates primarily from its Canadian manufacturing facility located in leased premises described as 60 Leek Crescent, Richmond Hill, ON (the “**RH Leased Premises**”). The Company also has an investment in its affiliate Mexican corporation, Brushstrokes Fine Art de Mexico, S. de R.L. de C.V. (“**Brushstrokes Mexico**”). As further described in this First Report, Brushstrokes Mexico operates its manufacturing facility from leased premises described as Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez, Chihuahua, Mexico. In order for Brushstrokes Mexico to receive supplies and to ship finished product, the Company also utilizes the warehousing and logistic services provided by Transporte Maquiladora Internacional S.A. de C.V. (“**TransMaq**”) located at 12273 Gateway Blvd. W., El Paso, TX USA.

6. The Company was incorporated on February 5, 2003. The Receiver’s understanding is that Messrs. Harold Wine and Mitchell Wine are the Directors of the Company<sup>1</sup>. The Receiver, through its counsel, obtained a corporate search for Brushstrokes which search lists John Hasting as a director of the Company, in addition to Messrs. Harold Wine and Mitchell Wine. Although Mr. Hasting appears on the corporate search, the Receiver’s understanding (from conversations with Company employees) is that Mr. Hasting is no longer involved in any capacity with the Company.

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<sup>1</sup> See page 3, paragraph 10 of the Affidavit of Mitchell Wine sworn May 26, 2011 in connection with these receivership proceedings.



7. The Receiver’s understanding is that the Company was established in 2003 when it acquired the assets, properties and undertakings of Atelier America Inc.

8. As at the date of the Receivership Order, although the Company had several lines of business, there was one significant customer, Ikea Supply AG (“Ikea”)<sup>2</sup>. As further described below in this First Report, the Receiver communicated quickly with Ikea upon its appointment. Since that time, the Receiver has been required to expend a significant amount of time and funds in attempting to repair the fractured Ikea relationship it inherited and to maintain business relations with Ikea, all with a view of maximizing the value of the assets of the Company. The Receiver has received the full support of the Applicant, both in this effort and in general.

9. On June 9, 2011, the Receiver issued to all (then) known creditors its Notice and Statement of the Receiver in accordance with Sections 245(1) and 246(1) of the BIA (the “Receiver’s Notice”). Attached as **Appendix “D”** is a copy of the Receiver’s Notice.

10. The Receiver also established a page on its website devoted to these receivership proceedings where information regarding the receivership administration is posted, including all public documents. Attached as **Appendix “E”** is a printout of such webpage.

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<sup>2</sup> See page 4, paragraph 17 of the Affidavit of Mitchell Wine sworn May 26, 2011.

**E. GREENFIELD FINANCIAL GROUP INC., FORMERLY KNOWN AS GREENFIELD COMMERCIAL CREDIT INC. (“Greenfield”)**

11. The Receiver’s understanding is that the Company entered into an asset-based loan agreement with Greenfield in November 2006 and that such loan is primarily secured by way of a General Security Agreement. The Receiver also understands that there are guarantors of the Company’s indebtedness who are not the subject of these receivership proceedings.

12. The Receiver’s search of the Ontario Personal Property Security Registration System with a file currency of June 6, 2011 (“PPSA”) indicates that Greenfield made a registration against the Company dated November 10, 2006. The Receiver’s review of the PPSA search discloses a registration dated July 26, 2010 indicating an assignment of the security from Greenfield to the Applicant. The Receiver’s further understanding is that Greenfield continues to act as agent for the Applicant in the administration of the funds advanced by Greenfield to the Company. (Also see discussion in Section H of this First Report – “Secured Parties and Other Liabilities”).

13. The Affidavit of Paul Luksha sworn May 24, 2011 in connection with these receivership proceedings (the “**Luksha Affidavit**”) indicates that the balance outstanding to the Applicant at that time was CDN\$4,035,500 and US\$616,333<sup>3</sup> with interest and costs accruing in accordance with the asset-based loan agreement. The Receiver is in the process of obtaining the security

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<sup>3</sup> See page 4, paragraph 8 of the Paul Luksha Affidavit.

documents of the Applicant in order to obtain an opinion on the validity and enforceability of the Applicant's security. An opinion may be required from Mexican legal counsel given the Receiver's understanding that certain of the Company's assets are located in Mexico.

14. The Receiver intends to obtain the necessary legal opinion(s) on the Applicant's security and will advise this Honourable Court of the results of such opinion(s) prior to seeking any final Order for the approval of the sale of any of the Company's assets, properties and undertakings and the distribution of any proceeds of sale.

15. Greenfield has made funding available to the Receiver in order for the Receiver to carry on the business of the Company in receivership. The Receiver has borrowed the maximum of the current authorized borrowing authority of \$500,000 as stipulated in paragraph 20 of the Receivership Order as follows:

**[REST OF THIS PAGE LEFT INTENTIONALLY BLANK]**

<u>Certificate #</u>	<u>Date</u>	<u>Amount</u>	<u>Note</u>	<u>Remaining</u> <u>\$</u>
				500,000
1	June-09-11	70,000		430,000
2	June-10-11	37,000		393,000
3	June-20-11	183,260	1	209,740
4	July-14-11	24,000	1	185,740
5	July-21-11	122,863	1	62,877
6	July-28-11	62,877	1	-

**Note 1:** Greenfield advanced US funds which were converted for calculation purposes at the Bank of Canada's noon spot US\$ exchange rate on the day of each respective advance.

16. With the approval of Greenfield, the funds borrowed have been used solely for carrying on the Company's business as described in this First Report. To date, no interim draws have been taken on account of professional fees, as allowed for in the Receivership Order.

## F. BOOKS AND RECORDS

17. For reasons described in more detail below, the Receiver determined that the Company's books and records were not accurate. Attached as **Appendix "F"** is a copy of the Company's internal unaudited financial statements for the ten (10) months ended April 30, 2011. The Company's fiscal year end is June 30. The internal unaudited income statement for the ten (10) months ended April 30, 2011 indicates a loss in the amount of \$687,104.

18. The Receiver concluded that very little reliance can be placed on the Company's internal accounting records. However, while the Receiver cannot substantiate that a loss of \$687,104 is accurate, the Receiver is satisfied that losses were incurred in the current fiscal year. Attached as **Appendix "G"** is a copy of the Company's unaudited financial statements for the fiscal year ending June 30, 2009. These financial statements indicate a net loss for that fiscal year in the amount of \$1,651,183 and an accumulated deficit of \$29,199,810. Of note is that these unaudited financial statements, prepared by the Company's then chartered accounting firm, carry a qualification regarding the viability of the Company as a going-concern.

19. The Receiver has not located similar financial statements for the fiscal year ended June 30, 2010, however internal unaudited financial statements have been located. The Receiver is not placing any reliance on these internal unaudited financial statements, for reasons described below. However, it was clear that that the Company was unable to meet its liabilities as they

came due and lost the confidence of Greenfield, resulting in the Receiver's appointment. The Receiver has to date not found any information to suggest that the Company generated, or would have been able to generate, a profit in the 2011 fiscal year if the receivership appointment did not take place.

## G. ASSETS

20. Most of the Receiver's review of the Company's books and records has been related to the balance sheet, as the Receiver needed to understand the nature and extent of the assets, properties and undertakings that it took possession and control of and, to a lesser extent, the liabilities of the Company. In order to avoid prejudicing its efforts to sell the Company's assets, the Receiver will comment on the value of the assets in a supplementary report which it will ask to have sealed.

21. The Receiver has analyzed the internal unaudited balance sheet as at April 30, 2011 and the values contained in the Company's books and records as at the date of the appointment of the Receiver, and makes the following comments:

- i. *Accounts receivable* - The accounts receivable balance in the Company's books and records is \$793,883. The accounts receivable appear to be overstated and the Receiver estimates a book value of \$493,819, representing a negative variance of 37.8%. Attached as **Appendix "H"** is the Receiver's memo to file regarding the accounts receivable analysis performed and the reasons for this conclusion. The

Receiver is working with the appropriate Brushstrokes employees in the analysis and collection of the accounts receivable.

- ii. **Inventory** - To date, the Receiver has inspected the inventory located at both the RH Leased Premises and TransMaq. The inventory carried on the Company's books and records is \$3,992,919 as at April 30, 2011. This balance includes the amount of \$1,338,912.76 in a general ledger account called "00-16030 Inventory Adjustment".

Attached as **Appendix "I"** is the Receiver's memo regarding its inspection and count of inventory located at TransMaq. For reasons described therein, the Receiver is not ascribing any estimated net book value to the inventory located at TransMaq. For reasons further discussed herein, the Receiver is not ascribing any value for the Brushstrokes Mexico inventory as there is limited value to this raw material inventory until after it is converted into finished goods and shipped. At the time of the Receiver's appointment, the Receiver's assessment is that the Brushstrokes Mexico production is solely to satisfy Ikea's requirements.

With respect to the RH Leased Premises inventory, the Receiver's assessment is that the inventory has an original cost of \$1,375,985 as at the date of the Receiver's appointment. The Receiver retained Canam-Appraiz Inc. ("**Canam**") to perform test counts of inventory located at the RH Leased Premises and compare those amounts to the inventory contained in the Company's books and

records. Attached as **Appendix "J"** is Canam's letter dated June 14, 2011 confirming that overall, from 76 random samples of finished goods and raw materials inventories, 50 samples were incorrectly stated in the Company's books and records representing a 65.79% overall margin of error.

Canam's test counts were physical counts only and were not done for costing purposes. Nevertheless, the Canam test counts allowed the Receiver to conclude that it could not rely on the books and records for at least the inventory count and costing. Accordingly, utilizing the Company's employees most knowledgeable in the physical inventory and its costing, the Receiver conducted a full inventory count and costing of the inventory located on the RH Leased Premises.

The results of that count and costing indicated an estimated original cost of \$1,375,985. This represents a negative variance of 65.5% from the book value contained in the Company's books and records, which is consistent with Canam's test count findings. This leads the Receiver to its conclusion that the inventory value as contained in the Company's books and records was overstated. The Receiver's review to date indicates that the Company faced challenges in being able to report on its inventory position to Greenfield and did not submit any such reporting during the fiscal 2011 year. This is consistent with the Receiver's belief that the inventory records were inaccurate and could not be relied upon.



iii. ***Production and office equipment and vehicle*** – The Receiver retained Canam to perform a physical count of the production and office equipment located on the RH Leased Premises. There are no such assets located at TransMaq and, as described herein, the Receiver has not to date performed a count of the assets located at the Brushstrokes Mexico facility.

The Company owns one vehicle, a 2004 Chevrolet Venture LS. The vehicle was driven by an individual who was an employee of the Company as at the date of the Receivership Order. The Receiver terminated that individual’s employment with Brushstrokes on June 22, 2011 (also see further discussion below under Section “J” of this First Report titled “Operations”). The Receiver arranged for that former employee to surrender the vehicle at the RH Leased Premises where it is currently being stored and not in use, as the insurance coverage for this vehicle has since lapsed.

iv. ***Intellectual Property*** – The Receiver’s understanding is that the Company is the owner of six (6) patents registered in Canada and the United States. Certain patents had also been registered internationally but the information available to the Receiver indicates that any non-Canadian and US registrations were being allowed to lapse prior to the appointment of the Receiver. The Receiver has also not renewed one patent registered in Japan, after making inquiries of Brushstrokes staff familiar with the Company’s administration of its patents and trademarks

administration and conferring with Greenfield. Attached as **Appendix “K”** is a listing of the Company’s patents.

The Receiver’s understanding is that the Company also is the owner of three (3) trademarks registered in Canada and the United States being: (i) Brushstrokes; (ii) Brushstrokes Originals; and (iii) Artscapes.

To date, the Receiver has not commissioned a valuation of these patents and trademarks. Rather, the Receiver’s view is that the proposed Stalking Horse Process will allow the marketplace to value all of the available assets, properties and undertakings of the Company in a properly conducted sales process under the supervision of this Honourable Court. The Receiver’s view may be affected by the results of the Stalking Horse Process being recommended and will be the subject of further reporting at the appropriate time.

v. ***License agreement - 5700966 Manitoba Inc.*** – The Company, as Licensor, entered into a license agreement with 5700996 Manitoba Inc. as Licensee, as of October 9, 2008 (the “**License Agreement**”), granting the Licensee an exclusive perpetual worldwide license of the Licensor technology for use in connection with the Licensee’s products, all described therein. In accordance with the License Agreement, all royalty calculations owing to the Licensor are based on the Contract Year (as such term is defined in the License

Agreement), beginning on October 8 of each year. Attached as **Appendix "L"** is a copy of the License Agreement.

vi. *Shares in Brushstrokes Mexico* – The information available to the Receiver indicates that Brushstrokes Mexico was incorporated on April 8, 2009 and that it has two shareholders each owning one share. The two shareholders are the Company and Mr. M. Wine. Brushstrokes Mexico operates out of leased industrial premises located at Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez, Chihuahua, Mexico. Brushstrokes Mexico is the tenant and the premises lease term began March 1, 2010 and expires on October 31, 2014. The Company is a guarantor of Brushstrokes Mexico’s obligations under the lease. The Receiver has reviewed an unsigned guarantee document which provides for the Company’s guarantee obligations.

By resolution dated April 30, 2009, the shareholders of Brushstrokes Mexico authorized the appointment of Mr. P. Hofacre as Administrative Manager, with the power to act as the legal representative of Brushstrokes Mexico for all matters. At the date of the Receivership Order, Mr. Hofacre was acting as General Manager of Brushstrokes Mexico and has continued in that capacity during the receivership administration. Mr. Hofacre resides in El Paso, Texas and travels regularly between El Paso and Brushstrokes Mexico.

The Receiver's review indicates that Brushstrokes Mexico is a maquiladora corporation. The Receiver's understanding is that a maquiladora is a Mexican Corporation which operates under a maquila program approved for it by the Mexican Secretariat of Commerce and Industrial Development.

The Receiver further understands that a maquila program entitles the Company to:

- (i) up to 100% foreign investment participation in the capital and management of the Company without the need of any special authorization which would otherwise be required under Mexican law; and
- (ii) special customs treatment, allowing duty-free temporary import of machinery, equipment, parts and materials, and administrative equipment such as computers, and communications devices, subject only to guaranteeing that such goods will not remain in Mexico permanently.

As such, and as confirmed to the Receiver by the Mexican external accountant retained by Brushstrokes Mexico, Mr. A. Vega, the assets located on the premises leased by Brushstrokes Mexico are property of the Company on temporary loan to Brushstrokes Mexico. The Receiver understands that equipment was supplied and paid for by the Company for installation at the Brushstrokes Mexico leased premises for use in the maquila production process and the Receiver's review indicates that all inventory and labour required for Brushstrokes Mexico to carry on production is paid for by the Company. Since the date of the Receivership

Order, the Receiver has continued to rely on Mr. Hofacre regarding labour and supply requirements and has made funding available for continuing Brushstrokes Mexico production on a limited basis and to ensure that payments required to be made by a maquila corporation are kept current, as best as possible, in order to preserve the value of this asset. The Receiver's review indicates that as at the date of the Receivership Order, all payments required for labour or premises rent were not current.

Given the Receiver's current understanding that certain assets of the Company are located in Mexico, it may be necessary for the Receiver to obtain the opinion of Mexican counsel as to competing interests in those assets.

The Receiver is continuing to attempt to gain better information as to the nature and extent of the arrears and the Receiver's investigations are ongoing. As indicated above, the Receiver has not yet sent representatives to the Brushstrokes' leased premises in Mexico given, among other things, concerns with the safety of travel in the region.

The United States Department of State has issued the following travel warning:

**“Ciudad Juarez and Chihuahua:** The situation in the state of Chihuahua, specifically Ciudad Juarez, is of special concern. Ciudad Juarez has the highest murder rate in Mexico. Mexican authorities report that more than 3,100 people were killed in Ciudad Juarez in 2010. Three persons associated with the Consulate General were murdered in March, 2010. You should defer non-essential travel to Ciudad Juarez and to the Guadalupe Bravo area southeast of Ciudad Juarez. U.S. citizens should also defer non-essential travel to the northwest quarter of the state of Chihuahua. From the United States, these areas are often reached through the Columbus, NM, and Fabens and Fort

Hancock, TX, ports-of-entry. In both areas, U.S. citizens have been victims of narcotics-related violence. There have been incidents of narcotics-related violence in the vicinity of the Copper Canyon in Chihuahua.”<sup>4</sup>

The Canadian Government has issued the following travel warning:

“Canadians should avoid crossing Mexico’s northern border by land, as shootouts, attacks, and illegal roadblocks may occur at any time. Criminals especially target SUVs and full-size pickup trucks for theft and carjacking along highways of the states of Nuevo León, Tamaulipas, Baja California, Chihuahua, Coahuila, Durango, Sonora, and Sinaloa. Travellers are advised to reconsider their need to travel by land to or through these border states and should do so only if it is absolutely necessary, and after making appropriate arrangements to ensure their personal safety.”<sup>5</sup>

The Receiver continues to rely upon Mr. Hofacre in connection with Brushstrokes Mexico.

vii. *Miscellaneous receivables* – At the date of the Receivership Order, the Company had filed for a Harmonized Sales Tax (“HST”) recovery in the amount of \$46,450.73 which was assessed as filed. Canada Revenue Agency (“CRA”) had initially withheld payment which is standard CRA practice as a result of the receivership. CRA is currently reviewing its records to determine any unpaid amounts owing to CRA by the Company and any Company returns which are currently unfiled. CRA practice in insolvency proceedings is to offset any

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<sup>4</sup> U.S. Department of State Bureau of Consular Affairs travel warning dated April 22, 2011.

<sup>5</sup> Foreign Affairs and International Trade Canada travel warning for Mexico dated June 30, 2011.

amounts owing to CRA against such refunds and to not remit the net refund, if any, until all of the Company's filing obligations are brought current. The Receiver is aware of certain amounts owing to CRA, as further discussed in Section H of this First Report, and is attending to the filing of any outstanding returns. The Receiver will also ensure that future returns, including HST returns, are filed. As the majority of the Company's sales are to Ikea in the United States, the Receiver anticipates that the Company will always be in a net refund position with respect to HST.

Notwithstanding CRA's normal practice, on August 3, 2011, the amount of \$46,461.09 (including interest) was received on account of the HST refund.

Historically, the Company also carried on activities that qualified for a recovery under CRA's Scientific Research and Experimental Development Tax Incentive Program ("SRED"). The Receiver's review indicates that for fiscal year ended June 30, 2010, the Company filed for a SRED refund and received the amount of \$122,874. The Receiver is currently making arrangements with the Consultant who prepared and filed the Company's previous SRED claim, in order to prepare and file such further claim on behalf of the Receiver.

viii. The Company has incurred significant losses and therefore income tax loss carryforward balances may exist as an asset. The Receiver to date has not performed an analysis of the potential value of any such asset. The Receiver notes that of the various requirements in being able to control and realize upon such an asset, control of all of the outstanding common shares of the Company is essential.

#### H. SECURED PARTIES AND OTHER LIABILITIES

22. In addition to the PPSA registration by the Applicant (as assignee of the Greenfield registration dated November 10, 2006) described above, the Receiver's search indicates the following parties registered a security interest against the Company:

Registrant	Date of registration	Description
Transcontinental 2005 G.P.	April 17, 2007	Inventory, equipment, accounts, other, motor vehicle included
National Leasing Group Inc. Lease # 2432568	October 27, 2008	Equipment as described in lease #2432568 – computer equipment and software
1450714 Ontario Inc./Estate of Harvey Kalef	April 14, 2010	Inventory, equipment, accounts, other – General Security Agreement
Her Majesty the Queen in Right of Ontario represented by the Minister of Revenue	December 16, 2010	Inventory, equipment, accounts, other, motor vehicle included

23. Attached as **Appendix "M"** is a copy of the Receiver's PPSA search.



24. The Receiver's understanding is that the National Leasing Group Inc. registration is for the lease of specific computer and IT equipment utilized by the Company. The monthly gross lease payment is in the amount of \$904.70 and there is a buyout option available in September 2011 in the gross amount of \$3,489.78.

25. The registration of Her Majesty the Queen in Right of Ontario as represented by the Minister of Finance is for unpaid Employer Health Tax. The registration indicates an outstanding amount of \$38,250 but the Receiver's understanding is that there may be an additional amount in dispute as at the date of the Receivership Order. The Receiver's investigation is ongoing. The Receiver may determine it expedient to assign the Company into bankruptcy in accordance with Paragraphs 3(p) and 27 of the Receivership Order.

26. The Receiver's understanding is that the registration by Transcontinental 2005 G.P. relates to a debt recorded in the Company's books and records as Transcontinental Printing G.P. in the amount of \$348,016.87. The Receiver's investigation is ongoing.

27. The Receiver's review as at the date of the Receivership Order indicates that shareholder advances total \$22,371,645 and advances by other parties, including the former service agent operating a maquiladora corporation on behalf of the Company prior to the incorporation of Brushstrokes Mexico, total \$3,546,278. This latter amount includes indebtedness to Ikea in the amount of \$880,999 (the "Ikea debt"). Other than the Ikea debt, the advances appear to be unsecured claims with no right of offset.

28. The Receiver has been advised that at the date of the Receivership Order, remittance of payroll taxes and withholdings to CRA are in arrears by \$11,919.83. The Receiver believes this amount includes both the deemed trust component and the non-deemed trust component. On July 25, 2011 the Receiver was contacted by CRA as they wished to perform a payroll trust audit. The Receiver has encouraged such audit but as of the date of this report, CRA has not yet scheduled an audit.

29. The Receiver determined that as of the date of the Receivership Order, the Brushstrokes employees were working while being owed for three pay periods (this represents 6 weeks of arrears for salaried employees and up to 7 weeks of arrears for hourly employees). The gross payroll, inclusive of wages, expense reimbursement and vacation pay (for temporary hourly workers only) in arrears totals the amount of \$158,428.05, excluding the arrears of \$28,474.86 owing to self-employed contractors.

30. As described in Section J of this First Report, titled "Operations", the Receiver describes further how it has been dealing with the Brushstrokes employees. The Receiver has performed a preliminary review of the potential claims of the Brushstrokes former employees (and current employees who, ultimately, will become former Brushstrokes employees) under the *Wage Earner Protection Program Act* (S.C. 2005, c. 47, s. 1) ("WEPPA"). Since current employees are not eligible under WEPPA, in consultation with Service Canada and to preserve the rights of all terminated and non-terminated employees, the Receiver applied for and obtained an extension

to the 45-day period within which the Receiver has to register with and provide Wage Earner Protection Program (“WEPP”) information to Service Canada.

31. On July 18, 2011, Service Canada confirmed to the Receiver that it was granted a first extension and barring further extensions, the Receiver has until September 2, 2011 to register. As a result, the employees' rights are preserved.

32. On June 6, 2011, the Company had 29 active employees and 9 self-employed contractors. Prior to the date of the Receivership Order, the Company had placed 3 employees on lay off, gave working notice of termination to 2 employees (who are owed wage arrears for a portion of their working notice) and 1 employee resigned. The Receiver is currently finalizing its review of the quantum and eligibility for each employee under WEPP.

33. Under WEPP terminated employees are entitled to receive payment of the lesser of their actual claim for wage arrears or four times the current maximum weekly EI insurable earnings (currently \$3,400). The employees' claims are subrogated to Service Canada and a maximum of \$2,000 per employee is a super-priority claim.

34. The Receiver estimates that the maximum total WEPP obligation on account of ultimately 35 employees totals \$119,000, of which the amount of \$70,000 falls under the super-priority established by WEPPA. The Receiver cautions that this estimate is tentative and is subject to change. The Receiver was recently contacted by CRA to perform a payroll audit, which the Receiver encouraged. The results of that audit and any audit that the Ontario Ministry

of Labour may wish to undertake will assist in finalizing the claims of former Brushstrokes employees, including the WEPP claim.

## **I. THIRD PARTY PROPERTY AND REVINDICATION CLAIMS**

35. To date, four (4) parties have advised the Receiver that their personal property is located on the Brushstrokes RH Leased Premises and they wish to retrieve their property. The parties are: (i) Mr. M. Wine; (ii) WSP International Limited, a company whose Chairman is Mr. H. Wine, father of Mr. M. Wine; (iii) a former employee, Mr. M. Kalef; and (iv) Ms. A. Dunbar, an artist who is claiming one piece of original art hanging in the RH Leased Premises beside the reproduction of that original painting, in order to display the quality and accuracy of the Company's artwork reproductions. The Receiver is in the process of having all claimants prepare and file a sworn statement attesting to the property over which they are claiming ownership in the possession or control of the Receiver. The Receiver will collect such claims and assess them, especially in light of the Receiver's proposed call for offers to purchase the assets, properties and undertakings of the Company as further described in this First Report.

36. A portable oxygen tank leased by the Company and not required was returned to the lessor. Also, one supplier has filed a claim pursuant to Section 81.1 (1) of the Act where the total original purchase by the Company was in the amount of \$2,424.89 (HST included) for miscellaneous packaging and shipping supplies. The Receiver's determination is that a portion of the supplies being claimed meets the requirements of the Act for revindication. The Receiver

is currently communicating with the supplier regarding the Receiver's assessment including dealing with the inventory being claimed.

## **J. OPERATIONS**

### **Products**

37. Brushstrokes produces artwork by embossing images on polystyrene sheets that are laminated to canvas and stretched over wooden stretcher bars and framed. The images are then hand embellished by piece work artists using real paint, so that the product is then described as hand painted textured oil paintings on canvas. The Company advertises these products on its website – <http://www.brushstrokesart.com>.

38. The Company has three main business segments: (i) sales of catalogue images direct to consumers; (ii) wholesale sales to mass retailers, mainly Ikea; and (iii) the sale of portraits and custom art. The Company's catalogue can be found on its e-Commerce website - <http://www.brushstrokesdirect.com>, which is utilized for direct to consumer sales. The Receiver has maintained the operation of the websites.

### **Key Customer**

39. The fiscal year 2009 unaudited financial statements disclose that one major customer (Ikea) represented 56% of fiscal 2009 revenue. The Receiver's review of the Company's

internal unaudited financial information discloses that Ikea represented 55.6% and 65.8% of the Company's fiscal 2010 and 2011 (up to April 30, 2011) revenue, respectively. Maintaining Ikea as a customer is essential to preserving the remaining value of the Company in receivership.

40. The Luksha Affidavit discloses that Mr. Luksha was retained by the Applicant since February 14, 2011. Mr. Luksha has been attending at the RH Leased Premises four (4) times per week since then and has conducted a business analysis of the Company. The Applicant did not want the Receiver to lose the benefit of Mr. Luksha's knowledge of the Company's business operations. The Receiver concurred that it was important that this knowledge and familiarity with the Company's business operations not be lost. Further, the Applicant and Mr. Luksha had entered into a consulting arrangement which, at the date of the Receivership Order, the Receiver was not privy to and was not responsible for funding Mr. Luksha's remuneration. Accordingly, the Receiver concurred that Mr. Luksha act as Interim Chief Executive Officer of the Company in receivership, and the Receiver has not undertaken to fund Mr. Luksha's remuneration. This decision has proved to be more advantageous than originally envisioned since, as further described below, as a condition precedent to Ikea continuing to purchase from the Company in receivership, Ikea demanded assurances from the Receiver that Mr. Luksha would remain with the Company and that Ikea would deal with him with respect to day to day business.



**Employees**

41. As at the date of the Receivership Order, the Company had 29 active employees and 9 self-employed contractors at the RH Leased Premises. An additional 3 employees previously based out of the RH Leased Premises were on temporary lay-off.

42. The Receiver has faced numerous challenges with the Company's employees. The Receiver observed upon taking possession and control of the RH Leased Premises that Company employee morale was very low due to the pressures they had been working under. Further, the office staff did not seem accustomed to taking charge of their respective areas of responsibility and making recommendations for improvement. As well, the office staff generally had a great deal of difficulty providing files of key contracts and other documents required by the Receiver to properly understand the business and make decisions in the operation of the business and the receivership administration in general. This has provided significant challenges to the Receiver.

43. In order to attempt to combat the low employee morale and to assuage the normal fears of the Company employees arising from the receivership, on June 10, 2011, with the support of the Applicant and Greenfield, the Receiver borrowed sufficient funds from Greenfield and prepaid the Company's employee payroll for the two week period ending June 17, 2011. Certain assumptions and estimates had to be made by the Receiver concerning hourly and piece work employees, based on the fiscal 2011 payroll records.

44. The payment was made to the Company employees working at the RH Leased Premises as at the date of the Receivership Order by way of cheque. A Receiver's representative handed the cheque, together with a letter advising the basis upon which the payment was being made, to each respective employee and received a signed receipt in return. In this way, the Receiver was able to satisfy itself that only valid Company employees were listed on the Company's payroll. Attached as **Appendix "O"** is a copy of the Receiver's letter to the Company employees dated June 10, 2011.

45. The Receiver has been carefully monitoring the employee requirements and as of the date of this First Report, 19 employees remain. As the Company, by its Receiver, has terminated employees, the employees have been given a letter explaining the situation and their rights concerning WEPP. Attached hereto as **Appendix "N"** is a copy of the letter given to each terminated employee.

46. To date, the Receiver has been able to fund the Company's payroll on a gross basis. The Company's Canadian payroll is run through Ceridian Canada payroll service. Since the date of the Receivership Order, Ceridian Canada has remitted the employee deductions and employer share directly to CRA on behalf of the Company (including the remittances for the first payroll described above). Prior to that date, the Company made certain adjustments so that not all of the necessary remittances were made to CRA, resulting in the payroll arrears referred to earlier in this First Report.



## Key Challenges

47. Upon appointment, the Receiver noticed various challenges with continuing the operations of the Company in receivership. The main challenges faced by the Receiver can be summarized as follows:

- i. Trade Supply. Relations with all of the Company's major suppliers had deteriorated to almost an irreparable position. The Receiver, despite offering written guarantees of payment on purchase orders containing a Receiver's representative's authorized signature, has yet to obtain credit from suppliers for any significant amount. The reason cited unanimously by all suppliers was in relation to broken promises by previous management. The Receiver has refrained from agreeing to place any security deposits with any supplier so demanding, but has had to pay for all supplies (except hydro) on a COD basis. This has placed severe pressure on the cash flow of the Company in receivership and the Receiver's borrowings.
- ii. Health and Safety. Certain basic health and safety issues arose immediately upon appointment at the RH Leased Premises. The washrooms were unsanitary, as the cleaning service had not attended due to non-payment. The Receiver immediately retained the former cleaners to clean the RH Leased Premises so that the Brushstrokes employees would have sanitary washroom conditions.

iii. Dealings with Ikea. The Receiver recognized that it had to begin communications with Ikea immediately upon its appointment. Indeed, the attached revenue schedule for operations of the Company in receivership for the period from June 6 to July 31, 2011, indicates that Ikea represented 75.7% of total sales for the period. Accordingly, the Receiver made its first communication with Ikea by way of a conference call on June 7, 2011, the first day after the date of the Receivership Order. On the conference call were the Ikea representative, Ms. D. Isemeyer, Mr. Luksha and representatives of Greenfield. Ms. Isemeyer expressed in detail during the call that Ikea was of the view that the Company mistreated it and doubted that Ikea would deal with the Company in receivership.

Despite Ikea's initial reservations, communications continued between Ms. Isemeyer and the Receiver. Ms. Isemeyer eventually advised that Ikea was prepared to perform a quality review audit of the Brushstrokes Mexico production facility and, if the facility passed the quality review audit, Ikea would consider dealing with the Company in receivership. Ms. Isemeyer advised that she would be in El Paso, Texas on June 14 and 15, 2011, as part of Ikea performing its quality review audit of Brushstrokes Mexico. The Receiver used this opportunity for Mr. Luksha, and Mr. B. Smith, a representative of the Receiver, to attend in El Paso in order to count and assess the inventory located in the TransMaq facility and to speak with TransMaq representatives regarding the arrears owing by the Company and continued warehousing and logistics services if operations were going to continue for Ikea. Messrs. Luksha and Smith also used the opportunity to

meet with Ms. Isemeyer and her colleague in the evening of June 14 and the morning of June 15. Significant progress was made at those meetings in instilling confidence in Ms. Isemeyer that the Receiver had the support of the Applicant and Greenfield and the necessary funding to continue the business of the Company in receivership if Ikea was willing to come to agreement with the Receiver on the purchase of and payment for products manufactured by the Company in receivership.

Communications continued between the Receiver and Ikea for several weeks regarding how business could be transacted from both Ikea's and the Receiver's perspectives. Moreover, the results of Ikea's quality review audit were such that the Receiver was able to deal with the issues identified by Ikea to Ikea's satisfaction. On or about July 7, 2011, the Receiver believed that it had the basis of an understanding with Ikea on dealings between Ikea and the Company in receivership. By then, a draft Memorandum of Understanding ("MOU") had been agreed to between Ikea and the Company in receivership, subject to Ikea head office approval.

On July 28, 2011, after receiving approval from Ikea's head office, the MOU was acknowledged signed by Mr. Luksha on behalf of the Company and the Receiver is awaiting a signed copy from Ikea. The MOU is the basis for continuing the business of the Company in receivership, to produce products for Ikea. Attached hereto as **Appendix "S"** is a copy of the MOU.

The Receiver's understanding is that the Company, by the Receiver, has fulfilled all conditions precedent for Ikea to continue to purchase and to pay for such purchases. The Receiver, through Mr. Luksha, is in constant communication with Ms. Isemeyer, as Ikea had been withholding payment for purchases subsequent to the date of the Receivership Order. As indicated above, with the support of the Applicant, through Greenfield, significant funding has been invested since the date of the Receivership Order in order to continue the business of the Company in order to maintain the Ikea contract, thereby enhancing the value of the assets, properties and undertakings of the Company.

Notwithstanding the foregoing, Ikea has indicated that for various business reasons specific to Ikea, it is not prepared to continue to deal with the Company in receivership indefinitely. To the contrary, Ikea has advised that its fiscal year begins on September 1 and that it wishes the Receiver's sales process to be complete by then so that if a new vendor is approved by it, Ikea can have its own internal systems updated for the beginning of its fiscal year.

The Receiver has advised Ikea that although it understands the urgency for Ikea and its internal systems, the Receiver believes that such timing may be impractical. However, the Receiver is informed by Mr. Luksha that as recently as July 28, 2011, Ms. Isemeyer explicitly stated that Ikea wishes to see the purchaser from the Receiver's sales process in place and in control of the Company's business no later than September 1, 2011, the beginning of Ikea's fiscal year.

The Receiver has no assurance that Ikea will continue to deal with the Receiver in the event that Ikea’s timing demands are not met, and so the Receiver is mindful that Ikea’s requirements cannot be overlooked.

iv. Potential Cause of Action. During the negotiations between Ikea and the Receiver, Paliare received a letter from counsel to Mr. Wine advising that there may be a cause of action against Ikea that the Receiver must investigate. Attached hereto as **Appendix “P”** is a copy of the letter of Mr. S. J. O’Donnell of Lenczner Slaght Royce Smith Griffin LLP (“**Lenczner**”) to Mr. Starnino of Paliare, dated July 8, 2011, advising the Receiver of the basis for Mr. Wine’s advice that such claim exists.

As a result of this letter, the Receiver and Mr. Starnino met with Messrs. Wine and O’Donnell on July 15, 2011 to discuss the contents of the Lenczner letter, obtain additional information from Mr. Wine on this potential cause of action. A copy of the Receiver’s agenda for the meeting is attached hereto as **Appendix “Q”**. During the meeting, Mr. Wine provided the history of the Company’s dealings with Ikea. Mr. Wine requested an update on the current status of the discussions between the Receiver and Ikea. The Receiver advised of the status of discussions and the status of manufacturing at both the RH Leased Premises and Brushstrokes Mexico. Mr. Wine advised that the Receiver’s information was consistent with the “word on the street”.

Based on the information provided by Mr. Wine and the importance of preserving the Company’s and the Receiver’s relationship with Ikea, the Receiver concluded that it

would be imprudent to commence litigation with Ikea. Mr. J. Larry of Paliare confirmed in writing to Mr. O'Donnell that based on the meeting held on July 15, 2011, Mr. Wine understood the rationale for the Receiver not instituting the action against Ikea which Mr. Wine had recommended, given the prospect for a sale of all or part of the Company's business and the Receiver's desire to continue the Company's beneficial relationship with Ikea. Attached hereto as **Appendix "R"** is a copy of Mr. Larry's letter to Mr. O'Donnell dated July 22, 2011.

v. Royalties. Certain of the images produced by the Company are covered by royalty arrangements with the respective artists and other images do not have a royalty requirement. The Receiver determined that the Company's accounting system does not automatically calculate royalty obligations based on the Company's sales system. Rather, royalties payable are calculated manually. Upon the Receiver's appointment, the Receiver determined that the royalty calculations were not kept current and the Company cannot identify what royalties are currently owing. The Receiver is working with Company staff in reviewing all royalty agreements and will report further to this Honourable Court concerning outstanding royalty arrangements once more information is determined. The Receiver is also implementing a system to track any royalties payable as a result of sales made by the Company in receivership.

**The RH Leased Premises**

48. As a result of many of the challenges described in this First Report, the Receiver has been unable to remain current with the RH Leased Premises rent. The RH Leased Premises is a facility of approximately 40,786 square feet. The monthly gross rent is the amount of \$38,564.71. Prior to running out of borrowing authority, the Receiver paid the pro-rated June 2011 and one-third of the July 2011 occupation rent and kept the landlord, Orlando Corporation and Investors Trust Co. Ltd., as Trustee for Investors Real Property Fund, apprised throughout of the Receiver's intentions to bring the rent current once the Receiver obtained additional borrowing authority as part of its application to Court when submitting this First Report to Court.

49. The landlord retained McMillan Binch LLP who communicated with the Receiver about the outstanding rent. Notwithstanding the Receiver's assurances to pay the outstanding rent once it obtained increased borrowing authority, the landlord continued to press the Receiver for additional comfort that the rent would be paid. In this regard, McMillan Binch scheduled a 9:30 attendance in Court which took place on August 2, 2011. At that attendance, the date of August 12, 2011 was set for the hearing of this Receiver's motion as well as any relief that the landlord may be seeking. After the 9:30 attendance, the Receiver's counsel advised McMillan Binch LLP that the Receiver was willing to add a provision in the Order to expressly provide that the rent would be brought current after the Borrowing Authority was increased and that the Receiver would earmark a portion of the Borrowing Authority increase specifically to bring the RH

Leased Premises rent current. The Receiver is optimistic that this will satisfy the landlord's concerns.

**Budgeting Efforts**

50. Due to the lack of a reliable internal accounting system, the Receiver has spent a significant amount of time working closely with the Company's controller, Mr. Luksha and other Company staff to attempt to develop a reliable cash flow budget. The Receiver has had ongoing and constant communications with representatives of Greenfield as to the Receiver's draft budgets and cash flow needs. Greenfield has funded the Receiver's requirements to date and continues to support the Receiver's efforts. Attached as **Appendix "T"** is a copy of the most recent draft cash-flow budget prepared by the Company's controller and reviewed by the Receiver. The Receiver has not yet accepted this budget as being correct in all respects and the Receiver cautions that it remains draft. As a result of this cash-flow budget, and other needs, the Receiver believes that it is prudent to increase the Receiver's borrowing authority from the existing amount of \$500,000 to the amount of \$1 million. With the additional funding afforded by the increased borrowing authority, the Receiver assures this Honourable Court that it will first bring the July and August RH Leased Premises rent current.

**Insurance**

51. The Receiver contacted Seymour Alper Inc. ("**Alper**"), the insurance broker who placed the insurance coverage for the Company. The Receiver determined that Alper placed coverage



with two insurers, CNA Continental Casualty Company (“CNA”) and GCAN Insurance Company (“GCAN”). CNA had issued a policy for inland transit and GCAN issued policies covering commercial liability, property, business interruption as well as secondary inland transit coverage.

52. Alper added the Receiver as a named insured to the GCAN and CNA policies. Alper advised that CNA did not want to accept the risks associated with a receivership and cancelled coverage effective July 14, 2011. The Receiver was able to increase the coverage provided by GCAN’s inland transit policy to replace the cancelled CNA coverage.

53. The Receiver also consulted with Firstbrook, Cassie & Anderson Ltd. (“Firstbrook”), the broker that handles the insolvency insurance program for ISI and many other trustees and receivers. Based on consultation with Firstbrook, the Receiver was satisfied that adding itself as a named insured to the GCAN policy provided adequate coverage. As the Company manufactures products for sale to the general public, Firstbrook advised that the Receiver should obtain long-tail liability coverage to protect the Receiver following its discharge. Firstbrook advised that the appropriate time to discuss such coverage will be when the Receiver is winding down the administration.

54. The premiums for the insurance policies are financed through CAFO with monthly instalments of \$1,234.69 due on the 14th of each month. The current coverage expires on March 14, 2012.

**K. SALE OF ASSETS-- PROPOSED STALKING HORSE PROCESS**

55. The Receiver's analysis indicates that the only way to attempt to obtain any meaningful value for the assets, properties and undertakings of the Company is to operate the business and attempt to sell it on a going-concern basis. Accordingly the Receiver has invested considerable resources in preserving the Company's relationship with Ikea. However, as described above, the Receiver inherited and continues to face numerous challenges in operating the business. As a result, the Receiver has had to borrow significantly for the purpose of operating the business. Currently the Receiver is borrowing at a rate of approximately \$300,000 to \$350,000 per month for the purpose of financing the receivership. The Applicant has thus far supported these efforts, but that cannot reasonably be expected to continue, and the Receiver is not aware of an alternate source of financing for the receivership. The insurance issue described above also militates in favour of an early sale of the Company's business.

56. Given the circumstances of the Company as described above, an obvious purchaser for the Company is the Applicant, and so, over the course of July, as the Ikea relationship stabilized, the Receiver had discussions with the Applicant, through Greenfield, regarding the Receiver's view that the assets, properties and undertakings should be sold on a going-concern basis and regarding the Applicant's interest in purchasing those assets.

57. With a view to maximizing realizations, the Receiver also encouraged the Applicant to permit any bid that it makes to act as a stalking-horse bid for the assets. The Receiver was of the view that a stalking horse process would enhance the stability of the Company's business vis a

vis relations with Ikea by ensuring the transition of the Company's business out of receivership, and would also provide an opportunity to expose the Company's assets to the market for the benefit of all stakeholders.

58. At the time of the preparation of this report, the Receiver has not yet received a formal bid for the property, assets and undertakings of the Company from the Applicant. However, based on discussions with the Applicant and its counsel, the Receiver expects to receive an offer substantially in the form of the Stalking Horse APA, which, should it be approved by this Honourable Court, will serve as the Asset Purchase Agreement that all proposed purchasers will be required to complete should they wish to make a bid on the Company's assets, properties and undertakings.

59. The main features of the Stalking Horse APA can be summarized as follows:

- i. The Purchased Assets. The Receiver anticipates that the Purchased Assets will include substantially all of the property, assets and undertakings of the Company. All of the Purchased Assets are being purchased on an "as is where is" basis.
- ii. The Purchase price: The Stalking Horse APA is essentially a credit bid, offering to pay the Receiver \$500,000 by way of set-off against the debt owing to the Applicant, and to relieve the Receiver of its obligation to repay the monies borrowed by it up to the date of closing, which currently total \$500,000 and which may approach \$1,000,000 by the closing date. Importantly, however, the bid includes a cash component of \$100,000.

The Receiver expects that this will be sufficient to pay statutory priorities, such as claims under WEPP, and source deduction arrears, and eliminates any uncertainty in regard to the Receiver's ability to pay those amounts.

iii. Closing. Importantly, the Stalking Horse APA is conditional upon closing by no later than August 31, 2011. This leaves time only for only the most abbreviated sales process. The Receiver has attempted to negotiate for a later Closing Date, to permit a more fulsome sales process to be undertaken. However, the Applicant is extremely concerned that postponing the Closing Date will jeopardize the Company's dealings with Ikea for the reasons explained above, and has insisted on an August 31st closing in order to satisfy Ikea's timeline. As discussed above, the Receiver cannot discount the Applicant's concern.

iv. Conditions. The conditions include those common in a Receiver's sale of this nature.

v. The Sales Process. The Receiver will run the sales process outlined in the proposed Bid Procedures (as defined in the Stalking Horse APA). If the Receiver determines that it has received more than one Qualified Bid (as defined in the Stalking Horse APA) (in addition to the Stalking Horse APA), it will invite Qualified Bidders (as defined in the Stalking Horse APA) to participate in an auction, as described in the Bid Procedures. If the Receiver does not receive any Qualified Bids other than the Stalking Horse APA, it will not hold an auction, in which case the Purchase Agreement will be

deemed the Successful Bid (as defined in the Stalking Horse APA) and the Applicant will be named the Successful Bidder (as defined in the Stalking Horse APA), and the Receiver will move before this court for an Approval and Vesting Order in the form attached to the Stalking Horse APA. If the Stalking Horse Bid or any Revised Stalking Horse Bid from the Applicant is not the Accepted Bid (as defined in the Stalking Horse APA) then the Receiver shall pay to the Applicant, an amount equal to 2.5% of the purchase price as a break fee.

60. In light of the difficult circumstances presented by this case, the Receiver recommends that this court authorize it to enter into the Stalking Horse APA. The Receiver makes this recommendation for the following reasons:

- (i) Although the Receiver would like more time to market the Company's assets, the Receiver is not in a position to discount concerns that additional time is not available to it and that the value of the Company's assets will be dissipated if Ikea's timeline is not met.
- (ii) As noted, the Stalking Horse APA is expected to ensure repayment of statutory priorities, and will provide stability and an orderly outcome to the receivership process for the benefit of all stakeholders.
- (iii) Although, at this time, the Receiver has not obtained an appraisal of the Company's intangible assets and notwithstanding the receiver's preference for a more fulsome sales

process, the amount of the debt owing to the Applicant relative to the value of the Company's tangible assets and the Receiver's own experience suggest to the Receiver that it is unlikely that such a process would materially improve outcomes for any stakeholder.

#### **L. RECEIVER'S STATEMENT OF RECEIPTS AND DISBURSEMENTS**

61. Attached as **Appendix "U"** is the Receiver's Statement of Receipts and Disbursements for the period June 6, to July 31, 2011, indicating funds on hand in the amount of \$• (the "**Statement of Receipts and Disbursements**").

#### **M. PROFESSIONAL FEES AND DISBURSEMENTS**

62. Attached as **Appendix "V"** is a copy of the Affidavit of Mr. Ira Smith in connection with the Receiver's fee and disbursements including the detailed statement of account for the period from June 6 to July 31, 2011 in the amount of \$178,142.91 (inclusive of disbursements but excluding HST). As indicated in the Affidavit (and the Statement of Receipts and Disbursements), to date, the amount of \$NIL has been advanced on account of the fee and disbursements.

63. Attached as **Appendix "W"** is a copy of the Affidavit of Kenneth Rosenberg in connection with Paliare's fee and disbursements including the detailed statement of account for the period from June 2 to July 31, 2011 in the amount of \$28,082.77 (inclusive of HST). As

indicated in the Affidavit (and the Statement of Receipts and Disbursements), to date, the amount of \$NIL has been advanced on account of the fee and disbursements.

## **N. CONCLUSION AND RECOMMENDATIONS**

64. For the reasons set out in this First Report, the Receiver respectfully requests that this Honourable Court approve:

- i. the actions and activities of the Receiver as described in this First Report since June 6, 2011, and authorize the Receiver to enter into the Stalking Horse APA to sell the Purchased Assets to the Purchaser, substantially in the form of the agreement attached hereto as Appendix "B";
- ii. the Bid Procedures described in this First Report and attached hereto as Appendix "C";
- iii. the Stalking Horse Process described in this First Report and authorize and direct the Receiver to conduct the Stalking Horse Process;
- iv. in the event that the Receiver concludes a sale of all, or substantially all, of the Purchased Assets to a Successful Bidder other than the Stalking Horse Bidder, the payment by the Receiver of the Breakup Fee to the Stalking Horse Bidder forthwith following the closing of such sale approved by the Court in accordance with the provisions of the Stalking Horse Bid.

- v. the accounting for the receipts and disbursements of the Receiver from June 6, 2011 to July 31, 2011;
- vi. an increase in the Receiver's borrowing authority described in paragraphs 20 through 23 inclusive of the Receivership Order from \$500,000 to \$1.0 million; and
- vii. the fees, disbursements and other costs incurred to date by the Receiver and its legal counsel, Paliare.

All of which is respectfully submitted at Toronto, Ontario this 5<sup>th</sup> day of August, 2011.

**IRA SMITH TRUSTEE & RECEIVER INC.**  
solely in its capacity as Court-Appointed Interim Receiver  
and Receiver of Brushstrokes Fine Art Inc.  
and not in its personal Capacity

Per:

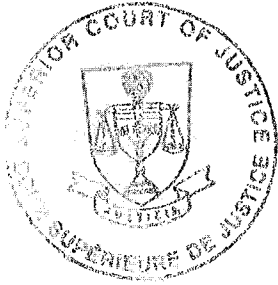


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Ira Smith  
President



## APPENDIX "A"

Court File No. CV-11-9233-0000

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**COMMERCIAL LIST**

THE HONOURABLE MIC )  
 )  
 JUSTICE MORAWETZ )  
 )

MONDAY, THE 6TH DAY  
 OF JUNE, 2011

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**ORDER**  
**(appointing Receiver)**

THIS APPLICATION made by the Applicant for an Order pursuant to sections 47(1) and 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended (the "CJA") appointing Ira Smith Trustee & Receiver Inc. ("Smith") of Toronto, Ontario as interim receiver and receiver (in such capacities, the "Receiver") without security, of all of the assets, undertakings and properties of Brushstrokes Fine Art Inc. of Richmond Hill, Ontario (the "Debtor") acquired for, or used in relation to a business carried on by the Debtor, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit(s) of Paul Luksha sworn May 24, 2011 and May 24, 2011 and the Exhibits thereto and on reading the Application Record and on hearing the submissions of counsel for 2251263 Ontario Inc., and on reading the responding Application Record of Brushstrokes Fine Art Inc., and on reading the consent of Smith to act as the Receiver,

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**SERVICE**

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

**APPOINTMENT**

2. THIS COURT ORDERS that pursuant to sections 47(1) and 243(1) of the BIA and section 101 of the CJA, Smith is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtor acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (the "Property").

**RECEIVER'S POWERS**

3. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

- (a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
- (b) to receive, preserve, conserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
- (c) to manage, operate, and carry on the business of the Debtor, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Debtor;

- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;
- (e) to purchase, license or lease such machinery, equipment, inventories, supplies, premises or other assets to continue the business of the Debtor or any part or parts thereof;
- (f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;
- (g) to settle, extend or compromise any indebtedness, in whole or in part owing to the Debtor;
- (h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;
- (i) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;
- (j) to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate;

(k) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,

(i) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out in the preceding clause;

and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act*, [or section 31 of the Ontario *Mortgages Act*, as the case may be,] shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply.

(l) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;

(m) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

(n) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;

(o) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtor;

(p) to permit the Receiver to file an assignment in bankruptcy on behalf of the Debtor, to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtor, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtor;

- (q) to exercise any shareholder, partnership, joint venture or other rights which the Debtor may have; and
- (r) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtor, and without interference from any other Person.

**DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER**

4. THIS COURT ORDERS that (i) the Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request. Provided, however, for greater certainty, that nothing herein shall obligate the Receiver to access or take possession of any Property in foreign jurisdictions.

5. THIS COURT ORDERS that all Persons shall forthwith advise the Receiver of the existence of without limiting the generality of the foregoing, any books, documents, securities, contracts, copyrights, patents, customs lists, trade agreements, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtor, and any computer programs, computer tapes, computer disks, or other data storage media including management information systems and inventory controls containing any such information (the foregoing, collectively, the "Records") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 5 or in paragraph 6 of this Order shall require the delivery of Records, or the granting of access

to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

6. THIS COURT ORDERS that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

**NO PROCEEDINGS AGAINST THE RECEIVER**

7. THIS COURT ORDERS that no proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

**NO PROCEEDINGS AGAINST THE DEBTOR OR THE PROPERTY**

8. THIS COURT ORDERS that no Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court.

**NO EXERCISE OF RIGHTS OR REMEDIES**

9. THIS COURT ORDERS that all rights and remedies against the Debtor, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the

Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "eligible financial contract" as defined in the BIA, and further provided that nothing in this paragraph shall (i) empower the Receiver or the Debtor to carry on any business which the Debtor is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtor from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

**NO INTERFERENCE WITH THE RECEIVER**

10. THIS COURT ORDERS that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtor, without written consent of the Receiver or leave of this Court.

**CONTINUATION OF SERVICES**

11. THIS COURT ORDERS that all Persons having oral or written agreements with the Debtor or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or utilities, including gas, water, telephone, internet, sewage or other services to the Debtor are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtor's current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtor or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

**RECEIVER TO HOLD FUNDS**

12. THIS COURT ORDERS that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any



source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

**EMPLOYEES**

13. THIS COURT ORDERS that all employees of the Debtor shall remain the employees of the Debtor until such time as the Receiver, on the Debtor's behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*.

**PIPEDA**

14. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

### **LIMITATION ON ENVIRONMENTAL LIABILITIES**

15. THIS COURT ORDERS that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

### **LIMITATION ON THE RECEIVER'S LIABILITY**

16. THIS COURT ORDERS that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*. Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA or by any other applicable legislation.

### **RECEIVER'S ACCOUNTS**

17. THIS COURT ORDERS that the Receiver and counsel to the Receiver and counsel to the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges unless otherwise ordered by the Court on the passing of accounts, and that the Receiver and counsel to the Receiver and Applicant shall be entitled to and are hereby granted a charge (the "Receiver's Charge") on 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 Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

18. THIS COURT ORDERS that the Receiver and its legal counsel and that of the Applicant shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel and that of the Applicant are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

19. THIS COURT ORDERS that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the standard rates and charges of the Receiver or its counsel, and that of the Applicant and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

#### **FUNDING OF THE RECEIVERSHIP**

20. THIS COURT ORDERS that the Receiver be at liberty and it is hereby empowered to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$500,000 (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subordinate in priority to the Receiver's Charge and the charges as set out in sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

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27. THIS COURT ORDERS that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.

28. 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 or in Mexico 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.

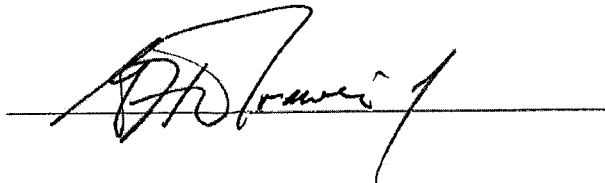
29. THIS COURT ORDERS that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

30. THIS COURT ORDERS that the Applicant shall have its costs of this Application, up to and including entry and service of this Order, provided for by the terms of the Applicant's security or, if not so provided by the Applicant's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.

31. THIS COURT ORDERS that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO.:

JUN 06 2011



PER/PAR:

**SCHEDULE "A"**

**RECEIVER CERTIFICATE**

CERTIFICATE NO. \_\_\_\_\_

AMOUNT \$ \_\_\_\_\_

1. THIS IS TO CERTIFY that Ira Smith Trustee & Receiver Inc., in its capacity as the interim receiver and receiver (the "Receiver") of the assets, undertakings and properties Brushstrokes Fine Art Inc., (the "Debtor") acquired for, or used in relation to a business carried on by the Debtor, including all proceeds thereof (collectively, the "Property") appointed by Order of the Ontario Superior Court of Justice (Commercial List) (the "Court") dated the 6th day of June 2011 (the "Order") made in an action having Court file number CV-11-9233-00CL, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$ \_\_\_\_\_, being part of the total principal sum of \$ \_\_\_\_\_ which the Receiver is authorized to borrow under and pursuant to the Order.

2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded [daily] [monthly not in advance on the \_\_\_\_\_ day of each month] after the date hereof at a notional rate per annum equal to the rate of \_\_\_\_\_ per cent above the prime commercial lending rate of Bank of \_\_\_\_\_ from time to time.

3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property, in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order and in the *Bankruptcy and Insolvency Act*, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.

4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at Toronto, Ontario.

5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver

to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property as authorized by the Order and as authorized by any further or other order of the Court.

7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

Ira Smith Trustee & Receiver Inc., solely in its capacity as Receiver of the Property, and not in its personal capacity

Per: \_\_\_\_\_

Name:

Title:

## APPENDIX "B"

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**AGREEMENT OF PURCHASE AND SALE**

Made as of August \_\_, 2011

Between

**Ira Smith Trustee & Receiver Inc.,**  
in its capacity as receiver of  
Brushstrokes Fine Art Inc. and not its  
personal or corporate capacities

and

2251263 Ontario Inc.,  
a company existing under the laws of Ontario

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# AGREEMENT OF PURCHASE AND SALE

This Agreement is made as of August \_\_, 2011, between

**Ira Smith Trustee & Receiver Inc.,**  
in its court appointed capacity as receiver of  
Brushstrokes Fine Art Inc., and not its  
personal or corporate capacities  
(the “**Vendor**”)

and

2251263 Ontario Inc, a company existing under the laws of  
Ontario  
(the “**Purchaser**”)

## RECITALS

A. Pursuant to the initial order of the Ontario Superior Court of Justice (the “**Court**”) made June 6, 2011 (the “**Appointment Order**”), the Vendor was appointed as interim receiver and receiver over all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situated including all proceeds thereof (the “**Property**”) of Brushstrokes Fine Art Inc. (the “**Company**”) with the authority to market and sell the Property (the “**Receivership Proceeding**”).

B. In connection with the Receivership Proceeding, the Vendor will seek the approval of the Honourable Court: (i) of a sales and marketing process for the Property as described in the First Report to the Court of Ira Smith Trustee & Receiver Inc.; (ii) to sell to the Purchaser as the “**Stalking Horse Bidder**” on an “as is, where is basis” the Business, together with the Property of the Company located at premises in Richmond Hill, Ontario, Juarez, Chihuahua, Mexico and El Paso, Texas, USA, all as defined herein and relating to the Business, all pursuant to the terms and conditions of this Agreement; and (iii) to implement bidding procedures including, if necessary, an auction (an “**Auction**”) to allow other bidders (each a “**Bidder**”) to review and evaluate the Business and make bids to acquire the Business and the Purchased Property (the “**Bid Procedures**”)

C. The Vendor’s execution of this Agreement shall constitute a conditional acceptance of the Purchaser’s offer to acquire the Purchased Property subject to the approval of the Court.

FOR VALUE RECEIVED, the parties agree as follows:

## SECTION 1 – INTERPRETATION

### 1.1 Definitions

In this Agreement:

- (1) **Accounts Receivable** means all accounts receivable, bills receivable, notes receivable, notes, trade accounts, book debts and other debts, due or accruing due to the Company on the Closing Date that are recorded on the Books and Records as of the Closing Date, and for greater certainty excluding all cash and cash equivalents;
- (2) **Agreement** means this agreement including any recitals and schedules to this agreement, as amended, supplemented or restated from time to time; provided that this agreement shall constitute an offer, as set out in Section 2.1, until accepted by the Vendor;
- (3) **Approval and Vesting Order** has the meaning given to it in Section 6.3(1)(b);
- (4) **Assumed Contracts** means the contracts listed on Schedule 1.1(4);
- (5) **Assumed Employees** has the meaning given to it in Section 4.1(1);
- (6) **Assumed Obligations** means all obligations and liabilities of the Company under and in connection with the Assumed Employees, the Assumed Contracts and the Receiver's Borrowings;
- (7) **Bid Procedures** has the meaning given thereto in Recital B;
- (8) **Books and Records** means the following books and records, in respect of the Business only, and to the extent within the control of the Receiver at Closing: all sales records, all supplier and customer information, advertising and promotional materials, all employee records related to the Assumed Employees, if applicable, records, files and documents related to the Purchased Property and the operation of the Business (whether in written, printed or electronic form), but for greater certainty excludes the minute books and corporate records of the Company and provided that the Receiver shall be entitled to retain any such books and records which the Receiver requires for tax, audit, legal or accounting purposes, but will provide copies of such books and records to the Purchaser;
- (9) **Business** means the manufacturing, supplying, and distribution of the Company involving the production of canvas oil paintings, reproductions, fine art paintings and photo-to-oil paintings;
- (10) **Business Day** means any day of the year, other than a Saturday, Sunday or any day on which Canadian chartered banks are closed in Toronto, Ontario, Canada;
- (11) **Company** has the meaning given to it in Recital A;
- (12) **Court** has the meaning given to it in Recital A;
- (13) **Closing** means the completion of the Transaction;
- (14) **Closing Date** means the first Business Day following the date on which the Approval and Vesting Order is granted or such later date as agreed to in writing by the parties;
- (15) **Deposit** has the meaning given to it in Section 0;

- (16) **Employees** means all current employees of the Company involved in the Business as of the Closing Date;
- (17) **Encumbrance** means any mortgage, charge, security interest, hypothec, pledge, assignment by way of security, lien (including statutory, construction and possessing liens), deemed trust, right of revendication or repossession, or any other claim to property attaching to any of the Purchased Property that has the effect of securing any obligation or liability;
- (18) **Excluded Obligations** has the meaning given to it in Section 3.8;
- (19) **Governmental Authority** means any Canadian federal, provincial, state, municipal or local, or other governmental, regulatory or administrative authority, agency, tribunal or commission or any court, tribunal or judicial or arbitral body;
- (20) **Incidental Prepaids** means any prepaid amounts directly resulting from the Assumed Contracts and the Assumed Employees relating to the period after the Closing Date, and subject to normal adjustments, including utilities (telecom, hydro, water, gas, etc.);
- (21) **Intellectual Property** means, inter alia, in whatever format, all registered, unregistered or pending patents (common law and statutory) registered in Canada, the USA or elsewhere, drawings, schematics, firmware (source code), trademarks, trade names, trade secrets, logos, commercial symbols, descriptions, and the website domain names owned by the Company and used exclusively in the Business or pertaining exclusively to the Purchased Property existing as of the Closing Date, but excluding any intellectual property licensed by the Company from third parties if the consent of the third party is required to an assignment of the applicable license agreement, as is more particularly set out in Schedule 1.1(21);
- (22) **Interim Receiver** or **Receiver** means Ira Smith Trustee & Receiver Inc., in its capacity as court-appointed interim receiver appointed pursuant to the Appointment Order dated June 6, 2011;
- (23) **Inventory** means all Usable Inventory and packaging materials, as of the Closing Date, relating to the Business and located at the Premises in Canada, the USA or Mexico or inventory which is paid for and is in transit to such premises or held by suppliers;
- (24) **Person** means an individual, partnership, corporation, association, limited or unlimited liability company, joint stock company, trust, joint venture, unincorporated organization or other legal entity or government entity;
- (25) **Premises** means the premises occupied by the Company or its Property, located at (i) 60 Leek Crescent, Richmond Hill, Ontario, (ii) 12273 Gateway Boulevard West, El Paso, Texas, and (iii) Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez Chihuahua, Mexico;
- (26) **Permitted Encumbrances** means any Encumbrances held by any third party which secure obligations to such third party pursuant to the Assumed Contracts;
- (27) **Purchase Price** has the meaning given to it in Section 3.2;

- (28) **Purchased Property** means, subject to the terms of this Agreement, all of the existing Property, including, without limitation: (a) Inventory (an estimate of which is set out in Schedule 1.1(28)); (b) Accounts Receivable (an estimate of which is set out in Schedule 1.1(28)); (c) Assumed Contracts; (d) Intellectual Property; (e) Incidental Prepaids; (f) Shares; (g) any goodwill associated with the Business; (h) Software; (i) the SR & ED claims to the extent assignable, or alternatively, any proceeds thereof; and (j) any choses in action, and for greater certainty for the purposes of this definition excludes the proceeds of this Agreement.
- (29) **Receiver's Borrowings** means the amounts borrowed by the Receiver pursuant to the Appointment Order and the Stalking Horse and Bid Procedures Order, as at the Closing Date (currently in the amount set out in Schedule 3.4).
- (30) **Receivership Proceeding** has the meaning given to it in Recital A;
- (31) **Shares** means the shares held by the Company in Brushstrokes Fine Art de Mexico S. de R.L. de CV;
- (32) **Software** means the computer software currently under license to the Company and relating to the operation of the Business as is more particularly set out in Schedule 1.1(32);
- (33) **SR&ED** means refundable tax credits relating to expenditures incurred with respect to scientific research and experimental development by the Company and claimable from a Governmental Authority;
- (34) **Stalking Horse and Bid Procedures Order** has the meaning given to it in Section 6.3(1)(a)
- (35) **Taxes** means, other than Transfer Taxes, all taxes, assessments, charges, duties, fees, levies, imposts or other governmental charges, including, without limitation, all federal, provincial, municipal, state, local foreign and other income, environmental, add-on, minimum, franchise, profits, capital gains, capital stock, capital structure, transfer, gross receipt, use, *ad valorem*, service, service use, lease, recording, customs, occupation, property excise, gift, windfall profits, premium, stamp, license, payroll, social security, employment, unemployment, disability, value-added, withholding, and other taxes, assessments, charges, duties, fees, levies, imposts or other governmental charges of any kind whatsoever (whether payable directly or by withholding and whether or not requiring the filing of a return) and all estimated taxes, deficiency assessments, additions to tax, additional amounts imposed by a governmental authority (domestic or foreign), penalties, fines and interest, and shall include any liability for such amounts as a result either of being a member of a combined, consolidated, unitary or affiliated group or of a contractual obligation to indemnify any person, regardless of whether disputed;
- (36) **Time of Closing** means the close of business on the Closing Date;
- (37) **Transaction** means the transaction of purchase and sale contemplated by this Agreement;
- (38) **Transfer Taxes** means, inter alia, all present and future harmonized sales taxes if applicable, value-added taxes, retail sales taxes, registration and recording fees, and any other

taxes and charges imposed by a Governmental Authority in connection with the sale, transfer or registration of the transfer of the Purchased Property; and

(39) *Useable Inventory* means all usable raw materials inventory, work-in-process and finished product of the Company located at the Premises on the Closing Date and for greater certainty for the purpose of this definition excludes any spare parts for the Equipment; and

**1.2 Headings and References**

The division of this Agreement into sections and subsections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “this Agreement,” “hereof,” “hereunder” and similar expressions refer to this Agreement and not to any particular section, subsection or other portion hereof and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to “Sections” are to sections, subsections and further subdivisions of sections of this Agreement.

**1.3 Extended Meanings**

Unless otherwise specified, words importing the singular include the plural and vice versa and words importing gender include all genders. The term “including” means “including without limitation.”

**1.4 Statutory References**

Each reference to an enactment is deemed to be a reference to that enactment, and to the regulations made under that enactment, as amended or re-enacted from time to time.

**1.5 Schedules and Exhibits**

The following are the schedules annexed to this Agreement and incorporated by reference and deemed to be part hereof:

- Schedule 1.1(4) Assumed Contracts
- Schedule 1.1(21) Intellectual Property
- Schedule 1.1(28) Estimate of Inventory and Accounts Receivable
- Schedule 1.1(32) Software
- Schedule 3.4 Receiver’s Borrowings
- Schedule 3.7 Bidding Procedures
- Schedule A Stalking Horse and Bid Procedures Order
- Schedule B Approval and Vesting Order

**SECTION 2 – OFFER**

**2.1 Offer**

This Agreement shall constitute a firm, valid and binding irrevocable offer by the Purchaser to purchase the Purchased Assets. Prior to Closing, the Receiver shall seek the Approval and Vesting Order approving the sale of the Purchased Property to the Purchaser on the terms and conditions set forth in this Agreement. If the Approval and Vesting Order approving the transaction contemplated hereby is not issued prior to August 31, 2011 at 11:59 p.m. (Toronto time) or such other time as the Purchaser and Vendor may agree) (the “**Approval and Vesting Order Deadline**”), the Vendor shall return this offer to the Purchaser and it shall be of no further force or effect and the Deposit shall be returned to the Purchaser.

**SECTION 3 - SALE AND PURCHASE**

**3.1 Sale and Purchase of Purchased Property – Assumption of Assumed Obligations.**

Upon and subject to the terms and conditions of this Agreement, the Vendor shall, on behalf of the Company, sell to the Purchaser and the Purchaser shall purchase all of the Receiver’s right, title and interest in, if any, in and to the Purchased Property, on the Closing Date, free of Encumbrances, other than Permitted Encumbrances, and the Purchaser shall assume the Assumed Obligations. The Purchaser acknowledges that it is not purchasing any other property or assets of the Company other than the Purchased Property.

**3.2 Purchase Price**

The purchase price (the “**Purchase Price**”) for the Purchased Property shall be as follows:

- (a) \$100,000, payable in cash;
- (b) \$500,000, payable by way of set off against the debt owed by the Company to the Purchaser; and
- (c) the transfer to the Purchaser of the Assumed Obligations, including, without limitation, the Receiver’s Borrowings.

**3.3 Deposit**

By no later than August 11, 2011, the Purchaser shall pay to the Vendor \$100,000 by certified cheque or bank draft issued by or drawn on a Canadian Schedule 1 bank payable to the Vendor, in trust, as a deposit (together with the interest earned thereon from time to time, the “**Deposit**”), which amount will be held by the Vendor and credited toward the Purchase Price on Closing unless otherwise returned to the Purchaser in accordance with Section 2.1.



**3.4 Assumed Obligations**

For certainty, if a Bidder other than the Stalking Horse Purchaser is the Successful Bidder (as defined in the Bid Procedures), such Bidder may not assume the Receiver’s Borrowings.

**3.5 Assignments Requiring Consent**

This Agreement and any document delivered under this Agreement shall not constitute an assignment or an attempted assignment of any Assumed Contract contemplated to be assigned to the Purchaser under this Agreement which is not assignable without the consent of a third party if such consent has not been obtained and such assignment or attempted assignment would constitute a breach of such Assumed Contract or, in the alternative, the Approval and Vesting Order has not been granted in a form that authorizes such assignment without such third party consent.

**3.6 “As is, Where is”**

Subject to the provisions of Section 5 hereof, the Purchaser acknowledges that the Receiver is, selling the Purchased Property on an “as is, where is” basis as it shall exist on the Closing Date and, except as specifically provided for herein, no adjustments shall be made for any changes in the condition of the Purchased Property to the extent that the actual Purchased Property or the value of the Purchased Property is more or less than estimated . The Purchaser further acknowledges that it has entered into this Agreement on the basis that the Purchaser has conducted such necessary inspections of the condition of and title to the Purchased Property, and the nature and quantum of the Assumed Obligations and Permitted Encumbrances against the Purchased Property, in each case as it deemed appropriate and has satisfied itself with regard to these matters. No representation, warranty or condition is expressed or can be implied as to title, encumbrances, description, fitness for purpose, merchantability, condition, assignability, collectability, quantity, outstanding amount, value or quality or in respect of any other matter or thing whatsoever concerning the Purchased Property or the right of the Company or the Vendor to sell same, save and except as expressly represented or warranted herein. Without limiting the generality of the foregoing: (1) any and all conditions, warranties or representations expressed or implied pursuant to the *Sale of Goods Act* (Ontario) or similar legislation in any other jurisdiction do not apply hereto and have been waived by the Purchaser and (2) no representation or warranty is made with respect to the accuracy or completeness of any information provided by the Receiver, and their respective officers, directors, employees, and agents, to the Purchaser in connection with this transaction. The description of the Purchased Property contained herein (including, without limitation, in the Schedules hereto) is for the purpose of identification only. No representation, warranty or condition has or will be given by the Receiver concerning completeness or the accuracy of such descriptions.

**3.7 Bid and Auction Procedures**

(1) The Purchaser and Vendor acknowledge that this Agreement and the transactions contemplated hereby are subject to the marketing and auction process contemplated by the Bid Procedures and to the approval of the Court.

(2) The Purchaser further acknowledges that the Vendor intends to bring a motion to the Court to seek approval for: (i) the Bid Procedures to market and sell the Purchased Property, as set out and described in Schedule 3.7 hereto; and (ii) the Stalking Horse and Bid Procedures Order. By making an offer pursuant to this Agreement, the Purchaser acknowledges that it has reviewed and accepts the Bid Procedures.

**3.8 Excluded Obligations**

In connection with its acquisition of the Purchased Property, Purchaser shall assume only the Assumed Obligations. Other than the Assumed Obligations, and except to the extent imposed by operation of law, the Purchaser shall not assume and shall not be liable for any liabilities or obligations of the Company, regardless of the type or nature of such liabilities (collectively, the “**Excluded Obligations**”) including, (a) expenses arising from the Receivership Proceeding, (b) fees and expenses owed by Vendor and the Company to its advisors including, without limitation, legal, accounting, financial advisory, consulting, investment banking, or any other professionals and transaction based fees which become due and payable as a result of the transactions contemplated hereby, (c) except to the extent imposed by operation of law, liabilities arising under applicable environmental laws and relating to the ownership or operation of the Business or the Purchased Property on or prior to the Closing Date, (d) trade payables or general unsecured claims not expressly assumed under this Agreement, and (e) any other liability or obligation not expressly assumed pursuant to this Agreement.

**3.9 Closing Adjustments**

Effective as of Closing, the Purchase Price shall be adjusted to reflect the adjustments to the Purchase Price relating only to the Incidental Prepaids.

**3.10 Post-Closing Collection of Accounts Receivable and Excluded Accounts Receivable.**

From and after the Closing Date, the Receiver agrees to hold in trust and promptly turn over to the Purchaser the full amount of any Accounts Receivable paid to the Company after the Closing Date without set-off or deduction.

**SECTION 4- EMPLOYEES**

**4.1 Employee Obligations**

(1) On or before the Closing Date, conditional on Closing, the Purchaser may offer employment effective as of the Closing Date to any Employees on terms and conditions which are in the aggregate no less favourable than the terms and conditions on which such Employees were employed immediately prior to the Closing Date (the “**Assumed Employees**”). The Purchaser making the offer of employment shall recognize the seniority and years of service with the Company of such Assumed Employee.

(2) On the Closing Date, the Purchaser shall assume the Company’s responsibility for all wages, statutory deductions, remittances, assessments, bonuses, vacation pay, sick leave,

severance pay, termination pay, amounts paid in lieu of notice and any other remuneration, benefits and deductions for all periods after the Closing in respect of all Assumed Employees.

**SECTION 5- REPRESENTATIONS AND WARRANTIES**

**5.1 Receiver’s Representations.**

The Vendor represents and warrants to the Purchaser that:

- (a) to the best of the Vendor’s knowledge, , no actions or proceedings are pending or have been threatened to restrain or prohibit the completion of the Transaction; and
- (b) the Vendor is not, and at the time of Closing will not be, a non-resident of Canada within the meaning of that term as used in the *Income Tax Act* (Canada).

**5.2 Purchaser’s Representations.**

The Purchaser represents and warrants to the Vendor that:

- (a) the Purchaser is a corporation existing under the laws of Ontario, and has full corporate power and authority to enter into and carry out this Agreement and the Transaction;
- (b) the entering into of this Agreement and all other documents contemplated hereunder to which the Purchaser is or will be a party and the consummation of the Transaction have been duly authorized by all requisite corporate action;
- (c) other than the Approval and Vesting Order of the Superior Court of Ontario, no approval or consent of and no filing with or application to any Governmental Authority is required for the Purchaser to enter into this Agreement or to complete the Transaction, other than such approvals, consents, filings and applications that have been obtained or made as at the date hereof, copies of which have been provided to the Receiver;
- (d) this Agreement and all other documents contemplated hereunder to which the Purchaser is or will be a party have been or will be, as at the Time of Closing, duly and validly executed and delivered by the Purchaser and constitute or will, as at the Time of Closing, constitute legal, valid and binding obligations of the Purchaser, as the case may be, enforceable in accordance with the terms hereof or thereof;
- (e) the Purchaser has entered into this Agreement and will be completing the Transaction on its own account, not as an agent; and
- (f) the Purchaser is registered under Part IX of the *Excise Tax Act* (Canada).

**5.3 Survival.**

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The representations and warranties of the parties shall survive Closing.

#### **5.4 Limitations**

With the exception of the Vendor's representations and warranties in Section 5.1 and the Purchaser's representations and warranties in Section 5.2, neither the Vendor nor the Purchaser or their respective representatives, nor any of their respective officers, directors, employees make, have made or shall be deemed to have made any other representation or warranty, express or implied, at law or in equity, in respect of the Vendor, the Purchaser, or the Purchased Assets or the sale and purchase of the Purchased Assets pursuant to this Agreement.

### **SECTION 6 – CONDITIONS TO CLOSING**

#### **6.1 Conditions - Purchaser.**

The obligation of the Purchaser to complete the Transaction is subject to the following conditions being fulfilled or performed at or prior to the time of Closing:

- (a) all representations and warranties of the Receiver contained in this Agreement shall be true as of the time of Closing with the same effect as though made on and as of that date;
- (b) the Receiver shall have performed each of its obligations under this Agreement to the extent required to be performed on or before the Closing Date;
- (c) the Receiver shall have delivered or caused to be delivered to the Purchaser each of the items listed in Section 7.4;
- (d) no material loss or damage to the Purchased Property shall have occurred on or before the Closing Date; and
- (e) the Receiver shall not have sold or otherwise transferred the Purchased Property to any other Person (except in the ordinary course of business).

The foregoing conditions are for the exclusive benefit of the Purchaser.

#### **6.2 Conditions - Vendor.**

The obligation of the Receiver to complete the Transaction is subject to the following conditions being fulfilled or performed at or prior to the Time of Closing:

- (a) all representations and warranties of the Purchaser contained in this Agreement shall be true as of the Time of Closing with the same effect as though made on and as of that date;
- (b) the Purchaser shall have performed each of its obligations under this Agreement to the extent required to be performed on or before the Closing Date; and

- (c) the Purchaser shall have delivered or caused to be delivered to the Vendor each of the items listed in Sections 7.5.

The foregoing conditions are for the exclusive benefit of the Receiver.

### 6.3 Conditions – Vendor and Purchaser

- (1) Neither party shall be obligated to complete the transactions contemplated by this Agreement unless at the Time of Closing:
- (a) an order shall have been made by the Court on notice to such persons as may have been reasonably required by the Purchaser and the Vendor approving: (i) the Stalking Horse Bid and the Bid Procedures (the “**Stalking Horse and Bid Procedures Order**”) substantially in the form attached hereto as Schedule A;
  - (b) an order shall have been made by the Court on notice to such persons as may have been reasonably required by the Purchaser and the Vendor approving the sale of the Purchased Assets to the Purchaser pursuant to this Agreement or to the Person otherwise submitting the best bid for the Purchased Assets at the Auction (as determined by the Vendor) and vesting in the Purchaser or such other Person all the right, title and interest of the Receiver, in the Purchased Property free and clear of all Encumbrances, other than Permitted Encumbrances, (the “**Approval and Vesting Order**”) substantially in the form attached hereto as Schedule B, including, if the Court so approves, authorization of the assignment of the Assumed Contracts without the prior consent of the applicable third party unless such consents will have been obtained by the Receiver or Purchaser prior to the Vendor attending at court for purposes of obtaining the Approval and Vesting Order;
  - (c) the Vendor shall have received the following from the lender(s) of the Receiver’s Borrowings, in form and substance satisfactory to the Receiver (collectively, the “**Lender’s Commitments**”): (i) a binding commitment to lend, prior to Closing, such additional amounts as the Receiver believes are necessary to complete the Receivership Proceedings; and, (ii) an acknowledgment and consent to the transfer of the Receiver’s Borrowings to the Purchaser contemplated by section 3.3(c) of this Agreement, and a corresponding covenant not to seek recourse with respect to the Receiver’s Borrowings against the Company, the Receiver or any assets remaining in the possession or control of the Receiver after the closing of this Agreement; and
  - (d) no Governmental Authority shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, injunction or other governmental order (whether temporary, preliminary or permanent) which is in effect and has the effect of making the transactions contemplated by this Agreement illegal or otherwise restraining or prohibiting consummation of such transactions or which would otherwise materially adversely affect or interfere with the business operation of the Purchased Property following Closing.

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The foregoing conditions are for the mutual benefit of both parties.

(2) The Receiver covenants that it will use commercially reasonable efforts to fulfil or cause to be fulfilled the conditions contained in Section 6.1 and Section 6.3 hereof and the Purchaser covenants to use commercially reasonable efforts to fulfil or cause to be fulfilled the conditions contained in Sections 6.2 and 6.3 hereof prior to Closing.

#### **6.4 Non-Satisfaction of Conditions.**

(1) If any condition set out in Section 6.1 or Section 6.2 is not satisfied or performed prior to the time specified therefor, the party for whose benefit the condition is inserted may in writing:

- (a) waive compliance with the condition in whole or in part in its sole discretion by written notice to the other party and without prejudice to any of its rights of termination in the event of non-fulfilment of any other condition in whole or in part; or
- (b) elect on written notice to the other party to terminate this Agreement before Closing.

(2) If any condition set out in Section 6.3 is not satisfied or performed prior to the time specified therefor, this Agreement shall terminate automatically unless the parties jointly waive compliance with such condition.

#### **6.5 Termination Obligations.**

If the Purchaser validly terminates this Agreement in accordance with Section 6.4 other than as a result of the failure by the Purchaser to complete the Transaction in accordance with the terms of this Agreement, then:

- (1) all the obligations of both the Receiver and Purchaser pursuant to this Agreement shall be at an end; and
- (2) the Purchaser shall be entitled to have the Deposit returned if termination under Section 6.4 is the result of the Vendor and/or the Company's actions.

#### **6.6 Break Fee**

(1) If the Stalking Horse Bid or the Stalking Horse Bidder's Revised Bid (as defined in the Bid Procedures), as applicable, is not the Accepted Bid (as defined in the Bid Procedures), then the Receiver shall pay to 2251263 Ontario Inc., an amount equal to **2.5%** of the Purchase Price (the "Break Fee") on the Business Day immediately following Closing of the Accepted Bid.

(2) The payment of the Break Fee will be the sole and exclusive remedy of the Purchaser, whether at law or in equity, in the event that the Purchaser's Stalking Horse Bid is not the Accepted Bid.

**6.7 Breach by Purchaser.**

If the Purchaser fails to complete the Transaction in accordance with the terms of this Agreement, then the Vendor may by notice to the Purchaser elect to treat the Agreement as having been repudiated by the Purchaser. In that event, the Deposit and any other payments made by the Purchaser shall be forfeited to the Vendor on account of, its liquidated damages, not as a penalty and the Purchased Property may be resold by the Vendor without prejudice to any claims which the Vendor may have against the Purchaser by reason of such default.

**SECTION 7 - PURCHASE CONSIDERATION**

**7.1 Deposit**

- (1) The Receiver shall hold the Deposit referred to in Section **Error! Reference source not found.** in trust in an interest bearing deposit with a Schedule I Bank.
- (2) If the Closing takes place, the Deposit shall be credited against the Purchase Price.
- (3) The Deposit shall be forfeited to the Receiver in the event that Closing does not occur as a result of a breach by the Purchaser of a condition set out in Section 6.2.
- (4) The Receiver shall return the Deposit to the Purchaser on the occurrence of either of the following:
  - (a) The Purchaser's Bid or the Purchaser's Revised Bid, as applicable, is not the Accepted Bid; or
  - (b) the Approval and Vesting Order is not issued by the Approval and Vesting Order Deadline.

On the occurrence of an event under paragraph 4(a) above, the Deposit shall be returned to the Purchaser on the Business Day immediately following the date of the Auction, and on the occurrence of an event under paragraph 4(b) above, the Deposit shall be returned to the Purchaser on the Business Day immediately following the expiry of the Approval and Vesting Order Deadline.

**7.2 Allocation of Consideration**

The Vendor and the Purchaser agree that the allocation of the Purchase Price be determined and agreed upon on a date no later than three Business Days before the Closing Date. The Vendor and the Purchaser shall report the sale and purchase of the Purchased Assets for all tax purposes in a manner consistent with such allocation, and will complete all tax returns, designations and elections in a manner consistent with such allocation and otherwise follow such allocation for all tax purposes on and subsequent to the Closing Date and may not take any position inconsistent with such allocation. If such allocation is disputed by any taxation or other Governmental Authority, the party receiving notice of such dispute will promptly notify the other party and the parties will use their reasonable commercial efforts to sustain the final allocation and to ensure that the transactions contemplated by this Agreement are properly, timely and consistently

reported; provided that, however, if the Vendor is discharged as Receiver, the Purchaser shall be entitled to make and agree to whatever adjustments or amendments after Closing to such allocations with such taxation or Governmental Authority as the Purchaser deem appropriate, and which shall be binding for all purposes on the Vendor.

### 7.3 Closing

The completion of the Transaction shall take place at the offices of Paliare Roland Rosenberg Rothstein LLP, solicitors for the Vendor, in Toronto, Ontario at 2:00 p.m. Toronto time on the Closing Date or as otherwise determined by mutual agreement of the parties in writing.

### 7.4 Vendor's Deliveries on Closing

At or before the Time of Closing, upon fulfilment by the Purchaser of all the conditions herein in favour of the Vendor which have not been waived in writing by the Vendor, the Vendor shall deliver the following, each of which shall be in form and substance satisfactory to the Purchaser, acting reasonably:

- (a) a copy of the Stalking Horse and Bid Procedures Order;
- (b) a copy of the Approval and Vesting Order;
- (c) specific assignments as may be required for registration purposes, executed by the Vendor and/or the Company, of all of the right, title and interest of the Company in and to the Intellectual Property;
- (d) the relevant Books and Records in the possession of the Vendor; and
- (e) such further and other documentation as is referred to in this Agreement, or as the Purchaser may reasonably require to give effect to this Agreement.

### 7.5 Purchaser's Deliveries on Closing

At or before the Time of Closing, upon fulfilment by the Vendor of all the conditions herein in favour of the Purchaser which have not been waived by the Purchaser, the Purchaser shall execute and deliver the following, each of which shall be in form and substance satisfactory to the Vendor, acting reasonably:

- (a) payment of the Purchase Price pursuant to Section **Error! Reference source not found.**;
- (b) payment or evidence of the payment of Transfer Taxes, as required by Section 7.6;
- (c) a specific written assumption of the Assumed Obligations in form and substance satisfactory to the Purchaser and the Vendor;



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- (d) the Lender's Commitments; and
- (e) such further and other documentation as is referred to in this Agreement or as the Vendor may reasonably require to give effect to this Agreement.

**7.6 Taxes.**

The parties agree that the Purchaser shall be liable and shall pay any and all Transfer Taxes and shall indemnify or reimburse the Vendor and the Company for any amounts for which the Vendor or the Company may become liable as a result of any failure by the Purchaser to pay any Transfer Taxes. At Closing, the Purchaser will, as applicable, either pay the foregoing to the Vendor or deliver to the Vendor evidence confirming the Purchaser's payment of all of the foregoing, in form and substance satisfactory to the Vendor, acting reasonably. The Purchaser shall be entitled to provide the Vendor with evidence that the Purchaser is an exempt Purchaser, in whole or in part, for purposes of relevant legislation and, upon provision of such evidence satisfactory to the Vendor, acting reasonably, the Purchaser shall not be required to pay on Closing such taxes.

**7.7 Purchaser's Acknowledgement**

The Purchaser acknowledges that the Vendor is selling the Purchased Property solely pursuant to the Vendor's rights and capacity conferred by the Appointment Order, Stalking Horse and Bid Procedures Order and Approval and Vesting Order. The Purchaser agrees to accept a conveyance of the Purchased Property by way of the Approval and Vesting Order.

**7.8 Possession of Purchased Property**

On Closing the Purchaser shall acquire ownership of the Purchased Property where situate at the Time of Closing provided that in no event shall title to the Purchased Property pass to the Purchaser until the Approval and Vesting Order is effective.

**7.9 Books and Records Access**

Following the Closing Date, the Purchaser shall preserve the Books and Records in good order and shall provide the Vendor and/or the Company with reasonable access thereto during normal business hours, and a right to make copies thereof, at the Vendor's or Company's expense, for so long as there is any obligation to maintain or hold such Books and Records under applicable law.

**7.10 Tender**

Any tender of documents or money hereunder may be made upon the Vendor or the Purchaser or their respective solicitors on the Closing Date.

**SECTION 8- GENERAL**

**8.1 Notices**

The Purchaser acknowledges that the Vendor acts solely in its capacity as court-appointed interim receiver of the Company with no personal or corporate liability on the part of Ira Smith Trustee & Receiver Inc. or its officers, directors and employees, whether in contract tort or otherwise. Any demand, notice or other communication to be given in connection with this Agreement shall be given in writing and shall be given by personal delivery (in which case it shall be left with a responsible officer of the recipient) or by electronic communication addressed to the recipients as follows:

in the case of the Vendor:

Ira Smith Trustee & Receiver Inc.,  
Interim Receiver of Brushstrokes Fine Art Inc.  
Suite 6 – 167 Applewood Crescent  
Concord, Ontario  
L4K 4K7

Attention: Ira Smith  
Facsimile No.: 905-738-9848  
Email: [ira@irasmithinc.com](mailto:ira@irasmithinc.com)

with a copy to:

Paliare Roland Rosenberg Rothstein LLP  
250 University Avenue, Suite 200  
Toronto, Ontario  
M5H 3E5  
Attention: Max Starnino and Jeffrey Larry  
Facsimile No: 416 646 4301 ●  
Email: [max.starnino@paliareroland.com](mailto:max.starnino@paliareroland.com) and [jeff.larry@paliareroland.com](mailto:jeff.larry@paliareroland.com)

in the case of the Purchaser:

Greenfield Credit  
300 East Long Lake Road, Suite 180  
Bloomfield Hills, Michigan, USA  
48304

Attention: David Vigna  
Facsimile No. 248 723 6050  
Email:

with a copy to:

Shibley Righton  
250 University Avenue, Suite 700  
Toronto, Ontario, Canada M5H 3E5

Attention: Arthur Jacques  
Facsimile No.: 416 254 5400  
Email: arthur.jacques@shibleyrighton.com

or to such other address, individual or electronic communication number as may be designated by notice given by either party to the other. Any demand, notice or other communication shall be conclusively deemed to have been given, if given by personal delivery, on the day of actual delivery thereof if delivered during normal business hours of the recipient on a Business Day and, if given by electronic communication, on the day following the transmittal thereof if transmitted during normal business hours of the recipient on a Business Day and on the second Business Day following the delivery or transmittal thereof if not so delivered or transmitted.

**8.2 Time of Essence**

Time shall be of the essence for every provision hereof.

**8.3 Publicity**

Prior to Closing, except as required by law and except pursuant to the application for the Approval and Vesting Order, neither party shall issue any press release or make any other public statement or announcement relating to or connected with or arising out of this Agreement or the matters contained herein, without obtaining the prior written approval of the other, to the contents and the manner of presentation and publication thereof. If disclosure is required by law, the disclosing party shall consult in advance with the other and attempt in good faith to reflect such other party's concerns in the required disclosure.

**8.4 Expenses**

Except as otherwise expressly provided herein, all costs and expenses (including the fees and disbursements of legal counsel, investment advisers and auditors) incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses.

**8.5 Third Party Beneficiaries**

Each party hereto intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person other than the parties hereto and their successors and permitted assigns, and no person, other than the parties hereto and their successors and their permitted assigns shall be entitled to rely on the provisions hereof in any action, suit, proceeding, hearing or other forum.

**8.6 Commission**

The Purchaser acknowledges that there are no agent's or broker's fees or other commissions payable by the Vendor or the Company on the Purchase Price and Purchaser agrees to indemnify and save the Vendor and the Company harmless with respect to any claims for compensation or commission by any third party or agent retained by the Purchaser.

**8.7 Further Assurances**

Each party shall from time to time execute and deliver, or cause to be executed and delivered, all such documents and instruments and do, or cause to be done, all such acts and things as the other party may, either before or after the Closing, reasonably required to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

**8.8 Entire Agreement**

This Agreement constitutes the only agreement between the parties with respect to the subject matter hereof and supersedes any and all prior negotiations, provisions, covenants, agreements, understandings and representations on that subject, all of which have become merged and finally integrated into this Agreement.

**8.9 Amendments**

This Agreement may only be amended, modified or supplemented by a written agreement signed by the parties.

**8.10 Waiver**

No waiver of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provision (whether or not similar), nor shall such waiver constitute a waiver or continuing waiver unless otherwise expressly provided in writing duly executed by the party to be bound thereby.

**8.11 Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and each of the parties hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of Ontario.

**8.12 Benefit of Agreement**

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns, provided that the Purchaser shall not assign the benefit of this Agreement without the prior written consent of the Vendor.

**8.13 Severability**

If any provision of this Agreement or any document delivered in connection with this Agreement is partially or completely invalid or unenforceable, the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, all of which shall be construed and enforced as if that invalid or unenforceable provision were omitted. The invalidity or unenforceability of any provision in one jurisdiction shall not affect such provision validity or enforceability in any other jurisdiction.

**8.14 Counterparts**

This Agreement may be executed and delivered in any number of counterparts which may be delivered electronically or by facsimile, each of which when executed and delivered is an original but all of which taken together constitute one and the same instrument.

**8.15 Assignment and Enurement**

No party may assign its rights or obligations under this Agreement without the prior written consent of the other party. Notwithstanding the forgoing, the Purchaser shall have the right to assign, in whole or in part, its rights to acquire the Purchased Property hereunder to any affiliate of the Purchaser provided that such assignment shall not release the Purchaser from its obligations under this Agreement.

Dated at \_\_\_\_\_, \_\_\_\_\_ as of the 5th day of August, 2011.

2251263 ONTARIO INC

Per: \_\_\_\_\_  
Name:  
Title:

The Vendor accepts the foregoing offer to acquire the Purchased Property in accordance with its terms.

Dated at \_\_\_\_\_, \_\_\_\_\_ as of the 5<sup>th</sup> day of August, 2011.

Ira Smith Trustee & Receiver Inc., it its capacity  
as Receiver of Brushstrokes Fine Art Inc.  
and not in its personal or corporate capacities

Per: \_\_\_\_\_  
Name:  
Title:

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**Schedule 1.1(4) Assumed Contracts**

1. All outstanding purchase orders authorized by the Receiver which as of August 1, 2011 total the amount of \$137,440.46.
2. License agreement - 5700966 Manitoba Inc. as Licensee.
3. All royalty contracts relating to the production and sale of specific images as per the information in the Receiver's Data Room used in the sales process.
4. National Leasing Group Inc. Lease # 2432568.
5. Agreement with Canon Canada Inc. dated October 1, 2010 for the production of images.

Schedule 1.1(21) Intellectual Property

PATENT # USA	PATENT # CANADA	TITLE
5,667,747	2529511 2215828 5958470	Vacuum Formed Three-Dimensional Surface Article
5,904,962		Raised Mounting System for Artistic Work
5,958,470		Vacuum Formed Apparatus for Forming a Three Dimensional Relief Reproduction
6,444,147		Apparatus for Making Molds for Thermoforming a Three-Dimensional Relief Reproduction
6,444,148		Process and Making Molds for Thermoforming a Three-Dimensional Relief Reproduction
6,908,954	2315959	Coating Composition for Artistic Reproductions

TRADEMARK # USA	TRADEMARK # CANADA	TITLE
75911836	TMA501911	Brushstrokes
75298892	TMA584490	Brushstrokes Originals
75587183	TMA591677	Artscapes



**Schedule 1.1(28) Estimated Closing Inventory and  
Accounts Receivable**

Estimated Closing Inventory: \$\$1,375,985

Estimated Purchased Accounts Receivable: \$756,937

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**Schedule 1.1(32)    Software**

**See Attached**

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## Brushstrokes Application Software

Description	Qty
Adobe Creative Suite 2 Premium	3
Adobe Creative Suite 2 Standard	2
Adobe CS 2.3 Prem Mac	4
Adobe CS3 Design Standard Mac	5
Adobe CS3 Design Standard Win	5
Adobe CS4 Design Premium Mac	1
Adobe CS4 Design Standard Mac	2
Adobe CS4 Design Standard Win	1
Adobe Illustrator 9	2
Adobe Photoshop 5.5	2
Corel Painter 11	12
Corel Painter 9.5	2
Corel Painter IX.5	12
Corel Painter X	12
Covast EDI Accelerator Partner Edition	1
Covast EDI Accelerator Standard Edition	1
Extensis Suitcase 8	1
iSofterDVD Ripper Platinum	1
Microsoft Backoffice 4.5	1-45 user
Microsoft Biztalk Server 2004	1
Microsoft Mappoint 2006	1
Microsoft Office 2000 Small Business Edition	21
Microsoft Office 2000 Pro	6
Microsoft Office 2003	2
Microsoft Office 2007 Pro	6
Microsoft Office 2007 Small Business	2
Microsoft Office Mac 2004	3
Microsoft Project 2000	1
Microsoft Terminal Server	1
Microsoft Terminal Server Client Access License	8
Photoshop CS4 Mac	2
Photoshop CS4 Win	1
Quark Xpress	1
Sonicwall Global VPN Client	50 user
SQL Server 2000	1
Sunbelt iHateSpam	70 user
Sunbelt Messaging Ninja	70 user
Symantec Backup Exec 12.5	1
Symantec Endpoint Protection 11	25 user
Syspro 6.0	1 - 12 user
Syspro CRM 4.10	1 - 12 user

**Schedule 3.4 – Receiver’s Borrowings**

<u>Certificate #</u>	<u>Date</u>	<u>Amount</u>
1	June-09-11	70,000
2	June-10-11	37,000
3	June-20-11	183,260
4	July-14-11	24,000
5	July-21-11	122,863
6	July-28-11	62,877
<b>Total</b>		<b>\$500,000</b>

**Schedule 3.7 – Bidding Procedures**

**(See Attached)**

**BID PROCEDURES**

Set forth below are the proposed bid procedures (the “**Bid Procedures**”) to be employed with respect to the sale of the assets and undertaking of Brushstrokes Fine Art Inc. (“**Brushstrokes**”) including its subsidiary and affiliate Brushstrokes Fine Art de Mexico, S. de R.L. de C.V. (the “**Purchased Assets**”). Such Purchased Assets are located at the Brushstrokes premises described as follows:

- (a) Canadian manufacturing premises located at 60 Leek Crescent, Richmond Hill, ON Canada;
- (b) Mexican manufacturing premises located at Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez, Chihuahua, Mexico; and
- (c) independent warehouse facilities located at 12273 Gateway Blvd. W., El Paso, TX USA.

The Purchased Assets being purchased and the terms and conditions upon which Ira Smith Trustee & Receiver Inc. (“**Smith**” and/or “**Receiver**”) contemplate consummating a sale as further described in the form of the Stalking Horse Agreement between the Receiver and 2251263 Ontario Inc. made as of August 5, 2011 (the “**APA**”).

The Receiver will seek approval of the Superior Court of Justice of Ontario Commercial List (the “**Court**”) of the APA with 2251263 Ontario Inc. (the “**Stalking Horse Bidder**”) and the Bid Procedures set out herein, which includes a description of the sales and marketing process (the “**Stalking Horse and Bid Procedures Orders**”). The Stalking Horse Process is described more particularly in the First Report of the Receiver dated August 5, 2011.

**Marketing Process and Identifying Potential Bidders**

1. Upon Court approval of the Sale Process, the Receiver will immediately commence the following marketing process:
  - (a) a list of potential buyers has been identified by the Receiver for the current opportunity to acquire the assets introduced;
  - (b) advertisement(s) will be placed in the national edition of the Globe and Mail newspaper during the week immediately following Court approval of the Sale Process;
  - (c) notice(s) will be placed on the website of the Receiver.

**Due Diligence**

2. A confidential information memorandum (“**CIM**”) has been prepared and will be provided to all interested parties that sign a confidentiality agreement and who the

Receiver determines is likely, based on financial information submitted by the bidder, the availability of financing and other considerations deemed relevant by the Receiver, to be able to consummate a sale if selected as the Successful Bidder, as defined below (a "**Potential Bidder**");

3. A Potential Bidder will be provided access to a data room containing detailed information regarding the assets to enable them to perform their due diligence.
4. A Potential Bidder will be provided access to management, facilitated by the Receiver, to supplement their due diligence procedures, as necessary.
5. If a Qualified Bidder (as defined below) requests access to one or more of Brushstrokes' key customers, the Receiver will make all reasonable effort to facilitate such access prior to the Auction. For certainty, only Qualified Bidders may request such access. Each Bidder acknowledges and agrees that if it becomes a Qualified Bidder, the Receiver can disclose its name and the identity of its officers and directors to whichever key customers that Qualified Bidder wishes to meet.
6. Potential Bidders are cautioned not to rely upon any documentation or information provided by or on behalf of the Receiver. Any such documentation or other material provided with respect to the Assets was prepared solely for the convenience of Potential Bidders and is not warranted to be complete or accurate, has not been independently verified, and is not part of these Bid Procedures or the APA. Each Potential Bidder shall be deemed to have relied entirely on its own inspection and investigation in submitting its offer. Potential Bidders are required to obtain such third party consents as they consider necessary. Potential Bidders are to make such independent enquiries, as they deem necessary, concerning all Assets prior to submitting their Offer.

### **Bid Deadline**

7. A Potential Bidder that desires to make a bid (a "**Bidder**") shall deliver its bid to the Receiver not later than noon (Eastern Time) on August 22, 2011 (the "**Bid Deadline**").

### **Bid Requirements**

8. All bids must include:
  - (a) An offer to pay a cash purchase price greater than the aggregate consideration offered by the Stalking Horse Bidder pursuant to the APA, plus the amount of the breakup fee of 2.5% of the Purchase Price stipulated in the Stalking Horse Agreement (the "**Breakup Fee**");
  - (b) An executed copy of a purchase agreement in the form of the APA, together with a blackline copy of the APA reflecting any changes made to the APA, shall be submitted to the Receiver and shall be binding and irrevocable until either (i) such

time as the Receiver rejects a Bidder's Bid in accordance with paragraph 14 herein; (ii) at the conclusion of the Auction, if held, each respective Qualified Bidder does not become the Successful Bidder; or (iii) the Court does not approve the Successful Bidder's Accepted Bid;

- (c) A certified cheque, bank draft or wire transfer drawn on a Canadian Schedule "1" Chartered Bank (an "Acceptable Institution") or by bankers draft from an Acceptable Institution in the amount of \$140,000 payable to the Receiver in trust. This amount will either (i) be applied to satisfy the purchase price of a Successful Bidder, the balance of which purchase price shall be due on closing; (ii) be returned to the Bidder if its bid is not successful at the Auction (subject to the other provisions of these Bid Procedures) or approved by the Court, or (iii) be forfeited to the Receiver in the event that the Successful Bidder breaches its obligations pursuant to the APA or an Accepted Bid (as defined herein);
- (d) A representation of the Bidder and written evidence of available cash and/or a commitment for financing to evidence the Bidder's ability to consummate the proposed transaction as the Receiver may reasonably request;
- (e) A copy of a resolution or similar document demonstrating authority to make an irrevocable bid, and to execute the transaction contemplated by the offering bid for the Purchased Assets;
- (f) A disclosure of the identity of each entity that will be bidding for the Purchased Assets or otherwise participating with such bid and the complete terms of any such participation;
- (g) A disclosure of the identity of each of the Officers and Directors or Partners, as the case may be, of each entity bidding for the Purchased Assets or otherwise participating with such bid;
- (h) An acknowledgement by such Bidder that if its bid becomes a Qualified Bid and the bidder becomes a Qualified Bidder (as such terms are hereinafter defined) that such Qualified Bidder's continued participation in this Stalking Horse Process is on a non-exclusive basis;
- (i) A description of the Bidder's current operations, including an indication of similarities between its current operations and that of the Vendor;
- (j) A listing of the Bidder's existing relationships with any of Brushstroke's current customers, including an indication of whether it has preferred supplier status with any of the customers; and
- (k) A representation as to the Bidder's plans to either engage current management and senior management or provide its own management team if the bid is accepted.



- (l) A statement of the email address at which the Bidder wishes to receive any notices sent pursuant to these procedures.

### **Qualified Bids**

9. A bid received from a Bidder that meets the above requirements will be considered a "Qualified Bid" and each Bidder that submits a Qualified Bid will be considered a "Qualified Bidder".
10. The APA shall be deemed to be a Qualified Bid and the Stalking Horse Bidder shall be deemed to be a Qualified Bidder for all purposes and requirements pursuant to the Sale Procedures, notwithstanding the requirements that other potential Bidders must satisfy to be considered a Qualified Bidder.
11. Qualified Bids will be valued and assessed by the Receiver in its sole commercial discretion based upon any and all factors that the Receiver may deem pertinent.
12. The Receiver, in its business judgement, reserves the right to reject any bid if such bid:
  - a) is on terms that are more burdensome or conditional than the terms of the APA;
  - b) requires any indemnification of such Bidder;
  - c) excludes assets or contracts, or leases of the Vendor;
  - d) is not received by the Bid Deadline;
  - e) includes non-cash consideration;
  - f) is subject to any due diligence, financing condition or other contingencies (including representations, warranties, covenants, and timing requirements) of any kind or any other conditions precedent on such party's obligation to acquire the Purchased Assets other than as may be specifically included in the APA; or
  - g) includes any other considerations that the Receiver may deem relevant to the bid.
13. Any bid rejected pursuant to Paragraph 12 above, shall not be deemed to be a Qualified Bid.
14. The Receiver will advise all Bidders by email whether or not they are a Qualified Bidder by 5:00 p.m. on August 23, 2011 or by such further date as the Receiver may determine in its sole discretion, but in any event not less than 48 hours before the start of the Auction (the "Notification Date").

### The Auction and Auction Procedures

15. If the Receiver determines that it has received more than one Qualified Bid (in addition to the APA), it will invite Qualified Bidders to participate in an Auction, as described in more detail below (the "**Auction**"). If the Receiver does not receive any Qualified Bids other than the APA, it will not hold an Auction, in which case the APA will be deemed the Successful Bid (as this term is defined below) and the Stalking Horse Bidder will be named the Successful Bidder (as this term is defined below).
16. By 5:00 p.m. on August 24, 2011, each Qualified Bidder must inform the Receiver, by email, whether it intends to participate in the Auction.
17. The Receiver will promptly thereafter inform, in writing, each Qualified Bidder who has expressed its intent to participate in the Auction of the identity of all other Qualified Bidders that have expressed their intention to participate in the Auction and will provide copies of all other Qualified Bids to such Qualified Bidders.
18. Only the authorized representatives, professionals or agents of the Stalking Horse Bidder and each other Qualified Bidder identified in advance to the Receiver, shall be eligible to participate at the Auction.
19. The Auction, if any, shall be conducted by the Receiver, commencing on August 26, 2011 at 10:00 a.m. (Eastern Time) at the offices of Paliare Roland Rosenberg Rothstein LLP, 250 University Avenue, Suite 500, Toronto, Ontario.
20. At the Auction, the bidding will start at the aggregate consideration for the Purchased Assets and terms proposed in the offer that the Receiver selects as the highest and best offer prior to the Auction and will continue in cash increments of at least \$250,000.
21. The Receiver, in its sole discretion, may adjourn the auction at any time to permit the Qualified Bidders and the Stalking Horse Bidder, the opportunity to consider improved bids.
22. During the Auction, Qualified Bidders and the Stalking Horse Bidder may submit revised bids that otherwise comply with the rules of this bidding and Auction process (a "**Revised Bid**").
23. If no Qualified Bidder submits a Revised Bid after a period of 15 minutes following the Receiver's acceptance of a Revised Bid and the Receiver in its sole discretion chooses not to adjourn the Auction further, the Auction will be concluded whereupon the Receiver shall enter into a binding agreement of purchase and sale with the Qualified Bidder or the Stalking Horse Bidder (the "**Accepted Bid**") that submitted the leading bid

as determined by the Receiver in its sole discretion (the “**Successful Bidder**”). The bid process shall end at the conclusion of the Auction.

24. The Successful Bidder agrees to do all such things as may be required by the Receiver to obtain Court approval of the Accepted Bid.
25. If the Successful Bidder fails to consummate the transaction by August 31, 2011 (or such date that may otherwise be mutually agreed upon by the Receiver and the Successful Bidder), the Receiver shall be authorized but not required to deem that the Successful Bidder has breached its obligations pursuant to the Accepted Bid, has forfeited its deposit to the Receiver, and the Company and the Receiver are authorized to seek an alternative bidder for the Purchased Assets.
26. Except for the Stalking Horse Bidder with respect to the Breakup Fee, Potential Bidders, Bidders and/or Qualified Bidders shall not be allowed any breakup, termination or similar fee. For greater certainty, Potential Bidders, Bidders and/or Qualified Bidders/Successful Bidder shall be responsible for all of their own professional and other fees and costs relating to their investigation or closing of any transaction in this regard.
27. The Receiver shall have the right to adopt and implement such other rules for the Auction as may be necessary to promote the goals of this bid process generally.
28. The highest or any offer will not necessarily be accepted.

### **Court Approval**

29. The sale of Purchased Assets is subject to an approval and vesting Order being issued by the Court.
30. In the case of an Agreement for the Receiver’s interest in any lease of equipment, the Receiver shall assign (without covenants) all of its right, title and interest, if any, in such lease to the Purchaser on closing. The Receiver agrees to use all commercially reasonable efforts to obtain the requisite consent of the landlord or lessor, as the case may be, and/or the approval of the Court, to such assignment (if required by the lease) but in so doing shall not be required to incur any expense or liability (except as the Receiver in its absolute discretion may see fit).
31. Pursuant to the Stalking Horse and Bid Procedures Order, the Receiver shall report to the Court and provide its recommendations to the Court regarding the sale of the Purchased Assets no later than August 31, 2011, or as soon thereafter as the Court may allow.
32. The Receiver shall not be required to pay any commission or finder’s fee with respect to any sale pursuant hereto.

**“As is, where is”**

33. The Purchased Assets are being sold on an “as is, where is” basis and no warranty, condition or representation, whether statutory, express or implied is being given by the Receiver as to the description, condition, state, cost, size, quality, fitness for purpose, merchantability, or in respect to any other matter or thing whatsoever concerning the Purchased Assets other than as set out herein. The Purchaser is deemed to have satisfied itself with regard to all of the foregoing and any matter or thing whatsoever in respect of the Purchased Assets.

**Miscellaneous**

34. The Purchased Assets shall be and remain at the risk of the Receiver as its interest may appear until closing. From and after closing, the Purchased Assets shall be at the Purchaser’s risk. Pending closing, the Receiver shall hold any insurance policies or proceeds thereof in trust for itself, the Purchaser and others as their respective interests may appear. In the event of substantial damage to or loss prior to closing of the Purchased Assets which are insured, the Purchaser may elect by notice in writing, 15 days after receiving notice from the Receiver, of such damage or loss, either to close the Agreement and receive the remaining Purchased Assets and the proceeds of the insurance, or may rescind the Agreement, have all moneys theretofore paid returned without interest, costs, deduction or compensation, but shall have no further or other right to damages, costs, specific performance or any other remedy.
35. The Purchaser shall pay on closing, in addition to the purchase price, all applicable federal, provincial and municipal taxes in connection with the sale.
36. The Purchaser shall, at its own cost and expense, be responsible for compliance with all municipal, provincial and federal laws insofar as they apply to the Purchased Assets and the use thereof by the Purchaser from and after closing.
37. All stipulations as to time are strictly of the essence.
38. Any tender of documents or money hereunder may be made upon the Receiver or its solicitor. Money may only be tendered by certified cheque, bank draft or wire transfer drawn on an Acceptable Institution.
39. The obligations of the Receiver to complete the Agreement shall be relieved if, on or before the closing of such sale, any asset which is the subject of the sale has been removed from the control of the Receiver by any means or process, or any such asset is redeemed, or if the completion of the sale is restrained or prohibited by an injunction or other order issued by a court of competent jurisdiction, whereupon the only obligation of the Receiver shall be to return the applicable deposit, without interest, deduction, costs or compensation.

**SUMMARY TIMELINE OF IMPORTANT DATES**

<b>Sales Procedure</b>	<b>Date</b>
<b>Court approval of Sales Process and Stalking Horse Bid</b>	August 12, 2011
<b>Potential bidders notified; release of Globe and Mail advertisement</b>	August 16, 2011
<b>Period for Due Diligence by Potential Bidders who have executed NDAs</b>	Until August 22, 2011 at noon
<b>Bids due</b>	August 22, 2011 at noon
<b>Notification sent to Bidders</b>	August 23, 2011
<b>Indication of intent to participate in the Auction by Qualified Bidders and identification of all representatives</b>	August 24, 2011
<b>Auction</b>	August 26, 2011
<b>Court motion to approval Successful Bid</b>	August 30, 2011
<b>Transaction close</b>	August 31, 2011

**Schedule A – Stalking Horse and Bid Procedures Order**

**(See Attached)**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

THE HONOURABLE \_\_\_\_\_ ) FRIDAY, THE 12<sup>TH</sup> DAY  
 )  
JUSTICE \_\_\_\_\_ ) OF AUGUST, 2011

BETWEEN:

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**STALKING HORSE AND BID PROCEDURES ORDER**

WHEREAS Ira Smith Trustee & Receiver Inc. was appointed receiver (the "**Receiver**") of the undertaking, property and assets of Brushstrokes Fine Art Inc. (the "**Company**") pursuant to an order of this Court made June 6, 2011 (the "**Appointment Order**");

NOW THEREFORE the Receiver brings this motion for an order authorizing the Receiver to enter into the stalking horse asset purchase agreement and to carry out the related bid procedures, approving the activities of the Receiver as set out in the First Report to the Court of the Receiver dated August 5, 2011 (the "**First Report**"), approving an increase in the Receiver's borrowing authority from \$500,000 to \$1 million, approving the Receiver's receipts and disbursements and approving the fees and disbursements of the Receiver and its counsel was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the First Report and the Affidavits of Ira Smith sworn August 5, 2011 and Ken Rosenberg sworn August 4, 2011 (together, the “**Fee Affidavits**”), and on hearing the submissions of counsel for the Receiver, the Company, the Applicant [**insert names of other parties appearing**], no one appearing for any other person on the service list, although properly served:

**SERVICE**

1. THIS COURT ORDERS that the time for service of the Notice of Motion and Motion Record in respect of this motion is hereby abridged and that further service is dispensed with.

**STALKING HORSE PROCESS**

2. THIS COURT ORDERS that the Receiver is hereby authorized and approved to enter into an agreement (the “**Purchase Agreement**”) to sell all or substantially all of the assets, property and undertakings of the Company (the “**Purchased Assets**”) to 2251263 Ontario Inc. (the “**Purchaser**”) (“**Transaction**”), substantially in the form of the agreement attached as Appendix “B” to the First Report (the “**Stalking Horse APA**” or the “**Stalking Horse Bid**”), and subject to the terms of this Order, such agreement is hereby approved and accepted for the purpose of conducting the Stalking Horse Process (as defined below).

3. THIS COURT ORDERS that the bidding procedures described in the First Report (and attached thereto as Appendix “C”) and attached hereto as Schedule “A” (the “**Bid Procedures**”) and the sales and auction process described therein (collectively, the “**Stalking Horse Process**”) be and are hereby approved and the Receiver is hereby authorized and directed to conduct the Stalking Horse Process.

4. THIS COURT ORDERS that, in the event that the Receiver concludes a sale of all or substantially all of the Purchased Assets to a Successful Bidder (as defined in the Bid Procedures) other than the Stalking Horse Bidder, the Receiver be and is hereby authorized and directed to pay the Breakup Fee (as defined in the Bid Procedures) to the Stalking Horse Bidder forthwith following the closing of such sale approved by the Court in accordance with the provisions of the Stalking Horse Bid.



5. THIS COURT ORDERS that, in connection with the Stalking Horse Process and pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose personal information of identifiable individuals to prospective bidders for the Purchased Assets and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete a sale of such assets. Each prospective bidder to whom any such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the assets and related business, and if it does not complete a purchase thereof, shall return all such information to the Receiver or in the alternative destroy all such information and certify such destruction to the Receiver.

**ACTIVITIES OF THE RECEIVER**

6. THIS COURT ORDERS that the activities of the Receiver disclosed in the First Report be and are hereby approved.

7. THIS COURT ORDERS that the Receipts and Disbursements of the Receiver from June 6, 2011 until July 31, 2011, as set out and described in **Appendix U** to the First Report, be and are hereby approved.

THIS COURT ORDERS that the fees and the disbursements of the Receiver and its legal counsel from June 6, 2011 until July 31, 2011, as disclosed in the Fee Affidavits, be and are hereby approved and taxed in the amounts reflected therein.

**RECEIVER'S BORROWING AUTHORITY**

8. THIS COURT ORDERS that the authority granted to the Receiver pursuant to paragraph 20 of the Appointment Order to borrow monies by way of a revolving credit or otherwise, shall be hereby increased from \$500,000 to \$1 million.

9. THIS COURT ORDERS that in all respects and for certainty, the provisions governing the Receiver's borrowing authority including, without limitation, the Receiver's Borrowing Charge (as defined in the Appointment Order) and the priority of such borrowings, as fully set out in paragraphs 20 through 23 of the Appointment Order, shall apply to any and all additional amounts that may be borrowed by the Receiver up to the \$1 million borrowing limit.

**GENERAL**

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.

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**Schedule "A"**

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## **BID PROCEDURES**

Set forth below are the proposed bid procedures (the “**Bid Procedures**”) to be employed with respect to the sale of the assets and undertaking of Brushstrokes Fine Art Inc. (“**Brushstrokes**”) including its subsidiary and affiliate Brushstrokes Fine Art de Mexico, S. de R.L. de C.V. (the “**Purchased Assets**”). Such Purchased Assets are located at the Brushstrokes premises described as follows:

- (a) Canadian manufacturing premises located at 60 Leek Crescent, Richmond Hill, ON Canada;
- (b) Mexican manufacturing premises located at Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez, Chihuahua, Mexico; and
- (c) independent warehouse facilities located at 12273 Gateway Blvd. W., El Paso, TX USA.

The Purchased Assets being purchased and the terms and conditions upon which Ira Smith Trustee & Receiver Inc. (“**Smith**” and/or “**Receiver**”) contemplate consummating a sale as further described in the form of the Stalking Horse Agreement between the Receiver and 2251263 Ontario Inc. made as of August 5, 2011 (the “**APA**”).

The Receiver will seek approval of the Superior Court of Justice of Ontario Commercial List (the “**Court**”) of the APA with 2251263 Ontario Inc. (the “**Stalking Horse Bidder**”) and the Bid Procedures set out herein, which includes a description of the sales and marketing process (the “**Stalking Horse and Bid Procedures Orders**”). The Stalking Horse Process is described more particularly in the First Report of the Receiver dated August 5, 2011.

### **Marketing Process and Identifying Potential Bidders**

1. Upon Court approval of the Sale Process, the Receiver will immediately commence the following marketing process:
  - (a) a list of potential buyers has been identified by the Receiver for the current opportunity to acquire the assets introduced;
  - (b) advertisement(s) will be placed in the national edition of the Globe and Mail newspaper during the week immediately following Court approval of the Sale Process;
  - (c) notice(s) will be placed on the website of the Receiver.

### **Due Diligence**

2. A confidential information memorandum (“**CIM**”) has been prepared and will be provided to all interested parties that sign a confidentiality agreement and who the

Receiver determines is likely, based on financial information submitted by the bidder, the availability of financing and other considerations deemed relevant by the Receiver, to be able to consummate a sale if selected as the Successful Bidder, as defined below (a "**Potential Bidder**");

3. A Potential Bidder will be provided access to a data room containing detailed information regarding the assets to enable them to perform their due diligence.
4. A Potential Bidder will be provided access to management, facilitated by the Receiver, to supplement their due diligence procedures, as necessary.
5. If a Qualified Bidder (as defined below) requests access to one or more of Brushstrokes' key customers, the Receiver will make all reasonable effort to facilitate such access prior to the Auction. For certainty, only Qualified Bidders may request such access. Each Bidder acknowledges and agrees that if it becomes a Qualified Bidder, the Receiver can disclose its name and the identity of its officers and directors to whichever key customers that Qualified Bidder wishes to meet.
6. Potential Bidders are cautioned not to rely upon any documentation or information provided by or on behalf of the Receiver. Any such documentation or other material provided with respect to the Assets was prepared solely for the convenience of Potential Bidders and is not warranted to be complete or accurate, has not been independently verified, and is not part of these Bid Procedures or the APA. Each Potential Bidder shall be deemed to have relied entirely on its own inspection and investigation in submitting its offer. Potential Bidders are required to obtain such third party consents as they consider necessary. Potential Bidders are to make such independent enquiries, as they deem necessary, concerning all Assets prior to submitting their Offer.

### **Bid Deadline**

7. A Potential Bidder that desires to make a bid (a "**Bidder**") shall deliver its bid to the Receiver not later than noon (Eastern Time) on August 22, 2011 (the "**Bid Deadline**").

### **Bid Requirements**

8. All bids must include:
  - (a) An offer to pay a cash purchase price greater than the aggregate consideration offered by the Stalking Horse Bidder pursuant to the APA, plus the amount of the breakup fee of 2.5% of the Purchase Price stipulated in the Stalking Horse Agreement (the "**Breakup Fee**");
  - (b) An executed copy of a purchase agreement in the form of the APA, together with a blackline copy of the APA reflecting any changes made to the APA, shall be submitted to the Receiver and shall be binding and irrevocable until either (i) such

time as the Receiver rejects a Bidder's Bid in accordance with paragraph 14 herein; (ii) at the conclusion of the Auction, if held, each respective Qualified Bidder does not become the Successful Bidder; or (iii) the Court does not approve the Successful Bidder's Accepted Bid;

- (c) A certified cheque, bank draft or wire transfer drawn on a Canadian Schedule "1" Chartered Bank (an "**Acceptable Institution**") or by bankers draft from an Acceptable Institution in the amount of \$140,000 payable to the Receiver in trust. This amount will either (i) be applied to satisfy the purchase price of a Successful Bidder, the balance of which purchase price shall be due on closing; (ii) be returned to the Bidder if its bid is not successful at the Auction (subject to the other provisions of these Bid Procedures) or approved by the Court, or (iii) be forfeited to the Receiver in the event that the Successful Bidder breaches its obligations pursuant to the APA or an Accepted Bid (as defined herein);
- (d) A representation of the Bidder and written evidence of available cash and/or a commitment for financing to evidence the Bidder's ability to consummate the proposed transaction as the Receiver may reasonably request;
- (e) A copy of a resolution or similar document demonstrating authority to make an irrevocable bid, and to execute the transaction contemplated by the offering bid for the Purchased Assets;
- (f) A disclosure of the identity of each entity that will be bidding for the Purchased Assets or otherwise participating with such bid and the complete terms of any such participation;
- (g) A disclosure of the identity of each of the Officers and Directors or Partners, as the case may be, of each entity bidding for the Purchased Assets or otherwise participating with such bid;
- (h) An acknowledgement by such Bidder that if its bid becomes a Qualified Bid and the bidder becomes a Qualified Bidder (as such terms are hereinafter defined) that such Qualified Bidder's continued participation in this Stalking Horse Process is on a non-exclusive basis;
- (i) A description of the Bidder's current operations, including an indication of similarities between its current operations and that of the Vendor;
- (j) A listing of the Bidder's existing relationships with any of Brushstroke's current customers, including an indication of whether it has preferred supplier status with any of the customers; and
- (k) A representation as to the Bidder's plans to either engage current management and senior management or provide its own management team if the bid is accepted.

- (l) A statement of the email address at which the Bidder wishes to receive any notices sent pursuant to these procedures.

### **Qualified Bids**

9. A bid received from a Bidder that meets the above requirements will be considered a "Qualified Bid" and each Bidder that submits a Qualified Bid will be considered a "Qualified Bidder".
10. The APA shall be deemed to be a Qualified Bid and the Stalking Horse Bidder shall be deemed to be a Qualified Bidder for all purposes and requirements pursuant to the Sale Procedures, notwithstanding the requirements that other potential Bidders must satisfy to be considered a Qualified Bidder.
11. Qualified Bids will be valued and assessed by the Receiver in its sole commercial discretion based upon any and all factors that the Receiver may deem pertinent.
12. The Receiver, in its business judgement, reserves the right to reject any bid if such bid:
  - a) is on terms that are more burdensome or conditional than the terms of the APA;
  - b) requires any indemnification of such Bidder;
  - c) excludes assets or contracts, or leases of the Vendor;
  - d) is not received by the Bid Deadline;
  - e) includes non-cash consideration;
  - f) is subject to any due diligence, financing condition or other contingencies (including representations, warranties, covenants, and timing requirements) of any kind or any other conditions precedent on such party's obligation to acquire the Purchased Assets other than as may be specifically included in the APA; or
  - g) includes any other considerations that the Receiver may deem relevant to the bid.
13. Any bid rejected pursuant to Paragraph 12 above, shall not be deemed to be a Qualified Bid.
14. The Receiver will advise all Bidders by email whether or not they are a Qualified Bidder by 5:00 p.m. on August 23, 2011 or by such further date as the Receiver may determine in its sole discretion, but in any event not less than 48 hours before the start of the Auction (the "Notification Date").

### The Auction and Auction Procedures

15. If the Receiver determines that it has received more than one Qualified Bid (in addition to the APA), it will invite Qualified Bidders to participate in an Auction, as described in more detail below (the "**Auction**"). If the Receiver does not receive any Qualified Bids other than the APA, it will not hold an Auction, in which case the APA will be deemed the Successful Bid (as this term is defined below) and the Stalking Horse Bidder will be named the Successful Bidder (as this term is defined below).
16. By 5:00 p.m. on August 24, 2011, each Qualified Bidder must inform the Receiver, by email, whether it intends to participate in the Auction.
17. The Receiver will promptly thereafter inform, in writing, each Qualified Bidder who has expressed its intent to participate in the Auction of the identity of all other Qualified Bidders that have expressed their intention to participate in the Auction and will provide copies of all other Qualified Bids to such Qualified Bidders.
18. Only the authorized representatives, professionals or agents of the Stalking Horse Bidder and each other Qualified Bidder identified in advance to the Receiver, shall be eligible to participate at the Auction.
19. The Auction, if any, shall be conducted by the Receiver, commencing on August 26, 2011 at 10:00 a.m. (Eastern Time) at the offices of Paliare Roland Rosenberg Rothstein LLP, 250 University Avenue, Suite 500, Toronto, Ontario.
20. At the Auction, the bidding will start at the aggregate consideration for the Purchased Assets and terms proposed in the offer that the Receiver selects as the highest and best offer prior to the Auction and will continue in cash increments of at least \$250,000.
21. The Receiver, in its sole discretion, may adjourn the auction at any time to permit the Qualified Bidders and the Stalking Horse Bidder, the opportunity to consider improved bids.
22. During the Auction, Qualified Bidders and the Stalking Horse Bidder may submit revised bids that otherwise comply with the rules of this bidding and Auction process (a "**Revised Bid**").
23. If no Qualified Bidder submits a Revised Bid after a period of 15 minutes following the Receiver's acceptance of a Revised Bid and the Receiver in its sole discretion chooses not to adjourn the Auction further, the Auction will be concluded whereupon the Receiver shall enter into a binding agreement of purchase and sale with the Qualified Bidder or the Stalking Horse Bidder (the "**Accepted Bid**") that submitted the leading bid



as determined by the Receiver in its sole discretion (the "**Successful Bidder**"). The bid process shall end at the conclusion of the Auction.

24. The Successful Bidder agrees to do all such things as may be required by the Receiver to obtain Court approval of the Accepted Bid.
25. If the Successful Bidder fails to consummate the transaction by August 31, 2011 (or such date that may otherwise be mutually agreed upon by the Receiver and the Successful Bidder), the Receiver shall be authorized but not required to deem that the Successful Bidder has breached its obligations pursuant to the Accepted Bid, has forfeited its deposit to the Receiver, and the Company and the Receiver are authorized to seek an alternative bidder for the Purchased Assets.
26. Except for the Stalking Horse Bidder with respect to the Breakup Fee, Potential Bidders, Bidders and/or Qualified Bidders shall not be allowed any breakup, termination or similar fee. For greater certainty, Potential Bidders, Bidders and/or Qualified Bidders/Successful Bidder shall be responsible for all of their own professional and other fees and costs relating to their investigation or closing of any transaction in this regard.
27. The Receiver shall have the right to adopt and implement such other rules for the Auction as may be necessary to promote the goals of this bid process generally.
28. The highest or any offer will not necessarily be accepted.

### **Court Approval**

29. The sale of Purchased Assets is subject to an approval and vesting Order being issued by the Court.
30. In the case of an Agreement for the Receiver's interest in any lease of equipment, the Receiver shall assign (without covenants) all of its right, title and interest, if any, in such lease to the Purchaser on closing. The Receiver agrees to use all commercially reasonable efforts to obtain the requisite consent of the landlord or lessor, as the case may be, and/or the approval of the Court, to such assignment (if required by the lease) but in so doing shall not be required to incur any expense or liability (except as the Receiver in its absolute discretion may see fit).
31. Pursuant to the Stalking Horse and Bid Procedures Order, the Receiver shall report to the Court and provide its recommendations to the Court regarding the sale of the Purchased Assets no later than August 31, 2011, or as soon thereafter as the Court may allow.
32. The Receiver shall not be required to pay any commission or finder's fee with respect to any sale pursuant hereto.

**“As is, where is”**

33. The Purchased Assets are being sold on an “as is, where is” basis and no warranty, condition or representation, whether statutory, express or implied is being given by the Receiver as to the description, condition, state, cost, size, quality, fitness for purpose, merchantability, or in respect to any other matter or thing whatsoever concerning the Purchased Assets other than as set out herein. The Purchaser is deemed to have satisfied itself with regard to all of the foregoing and any matter or thing whatsoever in respect of the Purchased Assets.

**Miscellaneous**

34. The Purchased Assets shall be and remain at the risk of the Receiver as its interest may appear until closing. From and after closing, the Purchased Assets shall be at the Purchaser’s risk. Pending closing, the Receiver shall hold any insurance policies or proceeds thereof in trust for itself, the Purchaser and others as their respective interests may appear. In the event of substantial damage to or loss prior to closing of the Purchased Assets which are insured, the Purchaser may elect by notice in writing, 15 days after receiving notice from the Receiver, of such damage or loss, either to close the Agreement and receive the remaining Purchased Assets and the proceeds of the insurance, or may rescind the Agreement, have all moneys theretofore paid returned without interest, costs, deduction or compensation, but shall have no further or other right to damages, costs, specific performance or any other remedy.
35. The Purchaser shall pay on closing, in addition to the purchase price, all applicable federal, provincial and municipal taxes in connection with the sale.
36. The Purchaser shall, at its own cost and expense, be responsible for compliance with all municipal, provincial and federal laws insofar as they apply to the Purchased Assets and the use thereof by the Purchaser from and after closing.
37. All stipulations as to time are strictly of the essence.
38. Any tender of documents or money hereunder may be made upon the Receiver or its solicitor. Money may only be tendered by certified cheque, bank draft or wire transfer drawn on an Acceptable Institution.
39. The obligations of the Receiver to complete the Agreement shall be relieved if, on or before the closing of such sale, any asset which is the subject of the sale has been removed from the control of the Receiver by any means or process, or any such asset is redeemed, or if the completion of the sale is restrained or prohibited by an injunction or other order issued by a court of competent jurisdiction, whereupon the only obligation of the Receiver shall be to return the applicable deposit, without interest, deduction, costs or compensation.

**SUMMARY TIMELINE OF IMPORTANT DATES**

<b>Sales Procedure</b>	<b>Date</b>
<b>Court approval of Sales Process and Stalking Horse Bid</b>	August 12, 2011
<b>Potential bidders notified; release of Globe and Mail advertisement</b>	August 16, 2011
<b>Period for Due Diligence by Potential Bidders who have executed NDAs</b>	Until August 22, 2011 at noon
<b>Bids due</b>	August 22, 2011 at noon
<b>Notification sent to Bidders</b>	August 23, 2011
<b>Indication of intent to participate in the Auction by Qualified Bidders and identification of all representatives</b>	August 24, 2011
<b>Auction</b>	August 26, 2011
<b>Court motion to approval Successful Bid</b>	August 30, 2011
<b>Transaction close</b>	August 31, 2011

**Schedule B Approval and Vesting Order**  
**(See Attached)**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

THE HONOURABLE \_\_\_\_\_ )  
 )  
JUSTICE \_\_\_\_\_ )     ●, THE DAY  
 )     OF SEPTEMBER, 2011

B E T W E E N :

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**APPROVAL AND VESTING ORDER**

THIS MOTION, made by Ira Smith Trustee & Receiver Inc. in its capacity as the Court-appointed receiver (the "**Receiver**") of the undertaking, property and assets of Brushstrokes Fine Art Inc. (the "**Company**"), for an order, among other things, approving the completion of the sale transaction the ("**Transaction**") contemplated by an agreement of purchase and sale between the Receiver and 2251263 Ontario Inc. (the "**Purchaser**") dated August ●, 2011 (the "**Purchase Agreement**"), appended to the Second Report of the Receiver dated September ●, 2011 (the "**Second Report**"), and vesting in the Purchaser all of the Company's right, title and interest in and to the assets described in the Purchase Agreement (the "**Purchased Assets**"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Second Report, the affidavit of Ira Smith sworn August ●, 2011 and the affidavit of Ken Rosenberg sworn August ●, 2011 (the "**Fee Affidavits**"), and on hearing the submissions of counsel for the Receiver, [**the Company**], [**the Applicant**] [**insert names of other parties appearing**], no one appearing for any other person on the service list, although properly served:

1. THIS COURT ORDERS AND DECLARES that the time for service of the Notice of Motion and Motion Record in respect of this motion is hereby abridged and that further service is dispensed with.
2. THIS COURT ORDERS AND DECLARES that the Transaction is hereby approved and the execution of the Purchase Agreement by the Receiver is hereby authorized and approved. The Receiver 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.
3. THIS COURT ORDERS AND DECLARES that upon the delivery of a Receiver's certificate to the Purchaser substantially in the form attached as Schedule 1 hereto (the "**Receiver's Certificate**"), all of the Company's right, title and interest in and to the Purchased Assets 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 any prior orders made in these proceedings; 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 (all of which are collectively referred to as the "**Encumbrances**") 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.
4. THIS COURT ORDERS that for the purposes of determining the nature and priority of Claims, the net proceeds 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 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, 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.

5. THIS COURT ORDERS AND DIRECTS the Receiver 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 Company's past and current employees. 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 Company.

7. THIS COURT ORDERS that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of the Company and any bankruptcy order issued pursuant to any such applications; and
- (c) any assignment in bankruptcy made in respect of the Company,

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Company and shall not be void or voidable by creditors of the Company, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance 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 AND DECLARES that the activities of the Receiver disclosed in the Second Report be and are hereby approved.

10. THIS COURT ORDERS AND DECLARES that the fees and the disbursements of the Receiver and its legal counsel, as disclosed in the Fee Affidavits, be and are hereby approved and taxed in the amounts reflected therein.

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.

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

BETWEEN:

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**APPROVAL AND VESTING ORDER**

**RECEIVER’S CERTIFICATE**

**RECITALS**

- A. Pursuant to an Order of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (the "Court") dated June 6, 2011, Ira Smith Trustee & Receiver Inc. was appointed as receiver (the "Receiver") of the undertaking, property and assets of the Respondent (the "Company").
- B. Pursuant to an Order of the Court dated August ●, 2011, the Court approved the agreement of purchase and sale made as of August ● (the "APA ") between the Receiver and 2251263 Ontario Inc. (the "Purchaser") and provided for the vesting in the Purchaser of the Respondents’ right, title and interest in and to the assets described in the APA (the "Purchased Assets"), which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Receiver 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

APA have been satisfied or waived by the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

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

THE RECEIVER CERTIFIES the following:

- 1. The Purchaser has paid and the Receiver has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the APA;
- 2. The conditions to Closing as set out in the APA have been satisfied or waived by the Receiver and the Purchaser; and
- 3. The Transaction has been completed to the satisfaction of the Receiver.
- 4. This Certificate was delivered by the Receiver at \_\_\_\_\_ [TIME] on \_\_\_\_\_ [DATE].

**IRA SMITH TRUSTEE & RECEIVER INC,  
in its capacity as Receiver of the undertaking,  
property and assets of Brushstrokes Fine Art  
Inc., and not in its personal capacity**

Per: \_\_\_\_\_

Name:

Title:

## APPENDIX "C"

## BID PROCEDURES

Set forth below are the proposed bid procedures (the “**Bid Procedures**”) to be employed with respect to the sale of the assets and undertaking of Brushstrokes Fine Art Inc. (“**Brushstrokes**”) including its subsidiary and affiliate Brushstrokes Fine Art de Mexico, S. de R.L. de C.V. (the “**Purchased Assets**”). Such Purchased Assets are located at the Brushstrokes premises described as follows:

- (a) Canadian manufacturing premises located at 60 Leek Crescent, Richmond Hill, ON Canada;
- (b) Mexican manufacturing premises located at Av. Santiago Blancas/Libramiento Aeropuerto, Parque Industrial Salvarcar, Juarez, Chihuahua, Mexico; and
- (c) independent warehouse facilities located at 12273 Gateway Blvd. W., El Paso, TX USA.

The Purchased Assets being purchased and the terms and conditions upon which Ira Smith Trustee & Receiver Inc. (“**Smith**” and/or “**Receiver**”) contemplate consummating a sale as further described in the form of the Stalking Horse Agreement between the Receiver and 2251263 Ontario Inc. made as of August 5, 2011 (the “**APA**”).

The Receiver will seek approval of the Superior Court of Justice of Ontario Commercial List (the “**Court**”) of the APA with 2251263 Ontario Inc. (the “**Stalking Horse Bidder**”) and the Bid Procedures set out herein, which includes a description of the sales and marketing process (the “**Stalking Horse and Bid Procedures Orders**”). The Stalking Horse Process is described more particularly in the First Report of the Receiver dated August 5, 2011.

### **Marketing Process and Identifying Potential Bidders**

1. Upon Court approval of the Sale Process, the Receiver will immediately commence the following marketing process:
  - (a) a list of potential buyers has been identified by the Receiver for the current opportunity to acquire the assets introduced;
  - (b) advertisement(s) will be placed in the national edition of the Globe and Mail newspaper during the week immediately following Court approval of the Sale Process;
  - (c) notice(s) will be placed on the website of the Receiver.

### **Due Diligence**

2. A confidential information memorandum (“**CIM**”) has been prepared and will be provided to all interested parties that sign a confidentiality agreement and who the

Receiver determines is likely, based on financial information submitted by the bidder, the availability of financing and other considerations deemed relevant by the Receiver, to be able to consummate a sale if selected as the Successful Bidder, as defined below (a "**Potential Bidder**");

3. A Potential Bidder will be provided access to a data room containing detailed information regarding the assets to enable them to perform their due diligence.
4. A Potential Bidder will be provided access to management, facilitated by the Receiver, to supplement their due diligence procedures, as necessary.
5. If a Qualified Bidder (as defined below) requests access to one or more of Brushstrokes' key customers, the Receiver will make all reasonable effort to facilitate such access prior to the Auction. For certainty, only Qualified Bidders may request such access. Each Bidder acknowledges and agrees that if it becomes a Qualified Bidder, the Receiver can disclose its name and the identity of its officers and directors to whichever key customers that Qualified Bidder wishes to meet.
6. Potential Bidders are cautioned not to rely upon any documentation or information provided by or on behalf of the Receiver. Any such documentation or other material provided with respect to the Assets was prepared solely for the convenience of Potential Bidders and is not warranted to be complete or accurate, has not been independently verified, and is not part of these Bid Procedures or the APA. Each Potential Bidder shall be deemed to have relied entirely on its own inspection and investigation in submitting its offer. Potential Bidders are required to obtain such third party consents as they consider necessary. Potential Bidders are to make such independent enquiries, as they deem necessary, concerning all Assets prior to submitting their Offer.

### **Bid Deadline**

7. A Potential Bidder that desires to make a bid (a "**Bidder**") shall deliver its bid to the Receiver not later than noon (Eastern Time) on August 22, 2011 (the "**Bid Deadline**").

### **Bid Requirements**

8. All bids must include:
  - (a) An offer to pay a cash purchase price greater than the aggregate consideration offered by the Stalking Horse Bidder pursuant to the APA, plus the amount of the breakup fee of 2.5% of the Purchase Price stipulated in the Stalking Horse Agreement (the "**Breakup Fee**");
  - (b) An executed copy of a purchase agreement in the form of the APA, together with a blackline copy of the APA reflecting any changes made to the APA, shall be submitted to the Receiver and shall be binding and irrevocable until either (i) such

time as the Receiver rejects a Bidder's Bid in accordance with paragraph 14 herein; (ii) at the conclusion of the Auction, if held, each respective Qualified Bidder does not become the Successful Bidder; or (iii) the Court does not approve the Successful Bidder's Accepted Bid;

- (c) A certified cheque, bank draft or wire transfer drawn on a Canadian Schedule "1" Chartered Bank (an "Acceptable Institution") or by bankers draft from an Acceptable Institution in the amount of \$140,000 payable to the Receiver in trust. This amount will either (i) be applied to satisfy the purchase price of a Successful Bidder, the balance of which purchase price shall be due on closing; (ii) be returned to the Bidder if its bid is not successful at the Auction (subject to the other provisions of these Bid Procedures) or approved by the Court, or (iii) be forfeited to the Receiver in the event that the Successful Bidder breaches its obligations pursuant to the APA or an Accepted Bid (as defined herein);
- (d) A representation of the Bidder and written evidence of available cash and/or a commitment for financing to evidence the Bidder's ability to consummate the proposed transaction as the Receiver may reasonably request;
- (e) A copy of a resolution or similar document demonstrating authority to make an irrevocable bid, and to execute the transaction contemplated by the offering bid for the Purchased Assets;
- (f) A disclosure of the identity of each entity that will be bidding for the Purchased Assets or otherwise participating with such bid and the complete terms of any such participation;
- (g) A disclosure of the identity of each of the Officers and Directors or Partners, as the case may be, of each entity bidding for the Purchased Assets or otherwise participating with such bid;
- (h) An acknowledgement by such Bidder that if its bid becomes a Qualified Bid and the bidder becomes a Qualified Bidder (as such terms are hereinafter defined) that such Qualified Bidder's continued participation in this Stalking Horse Process is on a non-exclusive basis;
- (i) A description of the Bidder's current operations, including an indication of similarities between its current operations and that of the Vendor;
- (j) A listing of the Bidder's existing relationships with any of Brushstroke's current customers, including an indication of whether it has preferred supplier status with any of the customers; and
- (k) A representation as to the Bidder's plans to either engage current management and senior management or provide its own management team if the bid is accepted.

- (l) A statement of the email address at which the Bidder wishes to receive any notices sent pursuant to these procedures.

### **Qualified Bids**

9. A bid received from a Bidder that meets the above requirements will be considered a "Qualified Bid" and each Bidder that submits a Qualified Bid will be considered a "Qualified Bidder".
10. The APA shall be deemed to be a Qualified Bid and the Stalking Horse Bidder shall be deemed to be a Qualified Bidder for all purposes and requirements pursuant to the Sale Procedures, notwithstanding the requirements that other potential Bidders must satisfy to be considered a Qualified Bidder.
11. Qualified Bids will be valued and assessed by the Receiver in its sole commercial discretion based upon any and all factors that the Receiver may deem pertinent.
12. The Receiver, in its business judgement, reserves the right to reject any bid if such bid:
  - a) is on terms that are more burdensome or conditional than the terms of the APA;
  - b) requires any indemnification of such Bidder;
  - c) excludes assets or contracts, or leases of the Vendor;
  - d) is not received by the Bid Deadline;
  - e) includes non-cash consideration;
  - f) is subject to any due diligence, financing condition or other contingencies (including representations, warranties, covenants, and timing requirements) of any kind or any other conditions precedent on such party's obligation to acquire the Purchased Assets other than as may be specifically included in the APA; or
  - g) includes any other considerations that the Receiver may deem relevant to the bid.
13. Any bid rejected pursuant to Paragraph 12 above, shall not be deemed to be a Qualified Bid.
14. The Receiver will advise all Bidders by email whether or not they are a Qualified Bidder by 5:00 p.m. on August 23, 2011 or by such further date as the Receiver may determine in its sole discretion, but in any event not less than 48 hours before the start of the Auction (the "Notification Date").

### The Auction and Auction Procedures

15. If the Receiver determines that it has received more than one Qualified Bid (in addition to the APA), it will invite Qualified Bidders to participate in an Auction, as described in more detail below (the "**Auction**"). If the Receiver does not receive any Qualified Bids other than the APA, it will not hold an Auction, in which case the APA will be deemed the Successful Bid (as this term is defined below) and the Stalking Horse Bidder will be named the Successful Bidder (as this term is defined below).
16. By 5:00 p.m. on August 24, 2011, each Qualified Bidder must inform the Receiver, by email, whether it intends to participate in the Auction.
17. The Receiver will promptly thereafter inform, in writing, each Qualified Bidder who has expressed its intent to participate in the Auction of the identity of all other Qualified Bidders that have expressed their intention to participate in the Auction and will provide copies of all other Qualified Bids to such Qualified Bidders.
18. Only the authorized representatives, professionals or agents of the Stalking Horse Bidder and each other Qualified Bidder identified in advance to the Receiver, shall be eligible to participate at the Auction.
19. The Auction, if any, shall be conducted by the Receiver, commencing on August 26, 2011 at 10:00 a.m. (Eastern Time) at the offices of Paliare Roland Rosenberg Rothstein LLP, 250 University Avenue, Suite 500, Toronto, Ontario.
20. At the Auction, the bidding will start at the aggregate consideration for the Purchased Assets and terms proposed in the offer that the Receiver selects as the highest and best offer prior to the Auction and will continue in cash increments of at least \$250,000.
21. The Receiver, in its sole discretion, may adjourn the auction at any time to permit the Qualified Bidders and the Stalking Horse Bidder, the opportunity to consider improved bids.
22. During the Auction, Qualified Bidders and the Stalking Horse Bidder may submit revised bids that otherwise comply with the rules of this bidding and Auction process (a "**Revised Bid**").
23. If no Qualified Bidder submits a Revised Bid after a period of 15 minutes following the Receiver's acceptance of a Revised Bid and the Receiver in its sole discretion chooses not to adjourn the Auction further, the Auction will be concluded whereupon the Receiver shall enter into a binding agreement of purchase and sale with the Qualified Bidder or the Stalking Horse Bidder (the "**Accepted Bid**") that submitted the leading bid



**“As is, where is”**

33. The Purchased Assets are being sold on an “as is, where is” basis and no warranty, condition or representation, whether statutory, express or implied is being given by the Receiver as to the description, condition, state, cost, size, quality, fitness for purpose, merchantability, or in respect to any other matter or thing whatsoever concerning the Purchased Assets other than as set out herein. The Purchaser is deemed to have satisfied itself with regard to all of the foregoing and any matter or thing whatsoever in respect of the Purchased Assets.

**Miscellaneous**

34. The Purchased Assets shall be and remain at the risk of the Receiver as its interest may appear until closing. From and after closing, the Purchased Assets shall be at the Purchaser’s risk. Pending closing, the Receiver shall hold any insurance policies or proceeds thereof in trust for itself, the Purchaser and others as their respective interests may appear. In the event of substantial damage to or loss prior to closing of the Purchased Assets which are insured, the Purchaser may elect by notice in writing, 15 days after receiving notice from the Receiver, of such damage or loss, either to close the Agreement and receive the remaining Purchased Assets and the proceeds of the insurance, or may rescind the Agreement, have all moneys theretofore paid returned without interest, costs, deduction or compensation, but shall have no further or other right to damages, costs, specific performance or any other remedy.
35. The Purchaser shall pay on closing, in addition to the purchase price, all applicable federal, provincial and municipal taxes in connection with the sale.
36. The Purchaser shall, at its own cost and expense, be responsible for compliance with all municipal, provincial and federal laws insofar as they apply to the Purchased Assets and the use thereof by the Purchaser from and after closing.
37. All stipulations as to time are strictly of the essence.
38. Any tender of documents or money hereunder may be made upon the Receiver or its solicitor. Money may only be tendered by certified cheque, bank draft or wire transfer drawn on an Acceptable Institution.
39. The obligations of the Receiver to complete the Agreement shall be relieved if, on or before the closing of such sale, any asset which is the subject of the sale has been removed from the control of the Receiver by any means or process, or any such asset is redeemed, or if the completion of the sale is restrained or prohibited by an injunction or other order issued by a court of competent jurisdiction, whereupon the only obligation of the Receiver shall be to return the applicable deposit, without interest, deduction, costs or compensation.

**SUMMARY TIMELINE OF IMPORTANT DATES**

<b>Sales Procedure</b>	<b>Date</b>
<b>Court approval of Sales Process and Stalking Horse Bid</b>	August 12, 2011
<b>Potential bidders notified; release of Globe and Mail advertisement</b>	August 16, 2011
<b>Period for Due Diligence by Potential Bidders who have executed NDAs</b>	Until August 22, 2011 at noon
<b>Bids due</b>	August 22, 2011 at noon
<b>Notification sent to Bidders</b>	August 23, 2011
<b>Indication of intent to participate in the Auction by Qualified Bidders and identification of all representatives</b>	August 24, 2011
<b>Auction</b>	August 26, 2011
<b>Court motion to approval Successful Bid</b>	August 30, 2011
<b>Transaction close</b>	August 31, 2011

## APPENDIX "D"

IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.

**NOTICE AND STATEMENT OF THE RECEIVER AND MANAGER**  
(The Bankruptcy and Insolvency Act Subsections 245(1) and 246(1))

The Receiver gives notice and declares that:

1. By Order of the Ontario Superior Court of Justice (Commercial List) dated the 6th day of June, 2011 the undersigned Ira Smith Trustee & Receiver Inc. ("ISI") became the Interim Receiver and Receiver (the "Receiver") of all the assets, undertakings and property of Brushstrokes Fine Art Inc., an insolvent company that is described below:

	Net Book Value	Estimated to Realize <sup>1</sup>
	\$	
Accounts Receivable	959,741.89	Unknown
Inventory	3,992,918.80	Unknown
Prepaid Expenses and Other Receivables	1,012,317.13	Unknown
Equipment and Leasehold Improvements	979,587.44	Unknown
Intangible Assets (& Intellectual Property)	1,469,736.82	Unknown

2. The undersigned became the Receiver by virtue of being appointed by the Court.

3. The majority of the assets described above are located in Canada at the location specified below. Certain assets are located outside of Canada at the locations specified below and the Receiver's investigations are ongoing.

4. The following information relates to the appointment:

- (a) Address of insolvent company: 60 Leek Crescent  
Richmond Hill, ON L4B 1H1
- (b) Principal line of business: Manufacture and sale of artwork reproductions and custom portraits using proprietary technologies
- (c) Location(s) of business: i) Head Office as described above;  
ii) warehouse facility in El Paso, TX;  
and iii) manufacturing facility in Ciudad Juarez, Mexico

(d) Amount owed by the insolvent company to each creditor who holds or may hold a security on the property described above, is as indicated on the attached list. A search of the Ontario Personal Property Security Registration System has indicated that the following parties may have a security interest in certain assets of the insolvent company:

1. Greenfield Financial Group Inc. and its assignee 2251263 Ontario Inc.
2. Transcontinental 2005 G.P.
3. National Leasing Group Inc.
4. 1450714 Ontario Inc. and the Estate of Harvey Kalef
5. Her Majesty the Queen in the right of Ontario as represented by the Minister of Revenue

(e) The list of creditors of the insolvent company including above noted secured creditors and the amount owed to each creditor and the total amount due by the insolvent company, based on the information currently available to the Receiver, is as follows<sup>ii</sup>:

See attached list.

(f) The intended plan of action of the Receiver is as follows:

The Receiver is currently developing a plan of action to maximize the realization on the assets for all stakeholders. The Receiver will report to the Court with respect to its findings and intended plan.

(g) Contact person for the Receiver:      Brandon Smith  
    Telephone      905-738-4167 ext. 113  
    Fax                905-738-9848  
    Email:            brandon@irasmithinc.com


DATED at Concord, Ontario, this 9<sup>th</sup> day of June, 2011

Yours truly,

IRA SMITH TRUSTEE & RECEIVER INC.

Solely in its capacity as Court Appointed Interim Receiver and Receiver of the assets, properties and undertakings of Brushstrokes Fine Art Inc.

Per:

  
 Brandon Smith  
 Senior Vice -President

<sup>i</sup> The Receiver is currently not in a position to provide an Estimated Realization analysis. When the Receiver is in a position to do so, such analysis will be provided to the Court in a Report to Court.

<sup>ii</sup> This list is tentative and subject to change.

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**IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.**

**CREDITORS LIST**

Name	Currency	Amount
1450714 ONTARIO INC.	CDN	unknown
407 ETR	CDN	602.61
A&E FINE ARTS,INC/AVIRAM ART	USD	unknown
ABACUS	USD	unknown
ABELL PEST CONTROL	CDN	410.78
ACCURATE COMMUNICATIONS	USD	6,660.66
ACCUWRAP	CDN	unknown
ALICIA QUAINI	USD	unknown
ALL KLEEN SERVICES	CDN	4,101.00
ALLSTREAM	CDN	716.26
AMANDA DUNBAR	USD	unknown
AMERICAN EXPRESS	USD	unknown
ANNAN & BIRD	CDN	12,190.49
ARCTIC PACKAGING INDUSTRIES	CDN	unknown
ART BANK LLC	USD	unknown
ART RIVER STUDIO	USD	unknown
ARTISTREE INC.	USD	unknown
ATIFF PRODUCTION	CDN	unknown
ATLANTIC ARTS, INC.	USD	unknown
BEHRENS INTERNATIONAL GROUP	USD	unknown
BELL CANADA	CDN	1,267.96
BELL CANADA	CDN	1,386.55
BENTLEY LICENSING GROUP	USD	unknown
BFI CANADA	CDN	1,093.57
BRAD DANCHES	USD	1,614.44
BRIDGEMAN ART LIBRARY INT'L	USD	unknown
BRITTANY INDUSTRIES	USD	920.89
BRYAN POTTRATZ FINE ART	USD	unknown
CAFO INC	CDN	unknown
CANADA POST CORPORATION	CDN	unknown
CANADA REVENUE AGENCY	CDN	unknown
CANADA REVENUE AGENCY	CDN	unknown
CARLSON SYSTEMS	CDN	unknown
CFM ENTERPRISES	CDN	unknown
CHRIS PASCHKE	USD	unknown
CIBC AEROGOLD	CDN	25,458.68
CLASSIC PUBLICATIONS INC.	USD	unknown
CLIMATEMP SYSTEMS(2009) LTD.	CDN	713.26
COMMERCE TECHNOLOGIES, INC.	USD	265.89
COMMERCE TECHNOLOGIES, INC.	USD	741.30
COMMISSION JUNCTION	USD	unknown
COMPRESSOR SERVICES LTD	CDN	1,665.43
CONTAINER CORPORATION OF CANADA	CDN	5,413.27

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IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.

CREDITORS LIST

Name	Currency	Amount
CON-WAY	CDN	1,817.81
CORAL CANYON PUBLISHING LLC	USD	unknown
CORPORATE EXPRESS	CDN	2,061.50
COUNTERFORCE	CDN	2,056.78
COYLE CORRUGATED CONTAINERS	CDN	unknown
CURT WALTERS	USD	unknown
DALLAS a. SAUNDERS STUDIO	USD	unknown
DANIELLE O'CONNOR AKIYAMA	CDN	unknown
DAVID MOORE ENTERPRIZES INC.	CDN	6,665.17
DELJOU ART GROUP	USD	28,864.48
DELTA PICTURE FRAME CO	USD	unknown
DESIGNS INC	USD	unknown
DHL EXPRESS (CANADA), LTD.	CDN	unknown
DIESEL GLOBAL LOGISTICS, INC.	USD	39.84
EDITIONS LIMITED	USD	unknown
EHNLE HOLZ-HANDELS-GMBH	CDN	unknown
ELECOMPACT SYSTEMS INC.	CDN	536.39
ELIZABETH LEE	USD	unknown
ENBRIDGE CONSUMERS GAS	CDN	11,033.87
EPSILON DATA MGMT LLC	USD	unknown
ERIC POULSON	USD	unknown
ESTATE OF HARVEY KALEF	CDN	unknown
EXPORT DEVELOPMENT CANADA	CDN	864.91
EXPORT DEVELOPMENT CANADA	USD	427.76
FEDERAL EXPRESS CANADA	CDN	6,187.97
FEDEX EXPRESS CANADA LTD.	USD	406.63
FEDEX FREIGHT EAST	USD	177.60
FEDEX TRADE NETWORKS	USD	2,935.13
FEDEX TRADE NETWORKS	USD	14.57
FELIX ROSENSTIELS WIDOW & SON	CDN	1,556.00
FIRST REFERENCE INC.	CDN	unknown
FLAME-TAMER FIRE & SAFETY LTD.	CDN	unknown
FLINT PACKAGING PRODUCTS LTD.	CDN	1,863.69
FORD SMITH FINE ART INC	USD	unknown
FRAMEWARE INC.	USD	2,065.00
FREDERIC REMINGTON	USD	unknown
FRONTIER DISTRIBUTING	CDN	unknown
FRONTIER DISTRIBUTING	USD	136.66
FRONTIER MATERIAL HANDLING	CDN	unknown
FSA GROUP	USD	unknown
GALLERY STREET	USD	unknown
GARY HOLLAND	USD	unknown
GND WOOD CRAFT	CDN	28,217.38

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**IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.**

**CREDITORS LIST**

Name	Currency	Amount
GOOGLE AFFILIATE NETWORK	USD	497.30
GRAND IMAGE	USD	unknown
GREENFIELD COMMERCIAL CREDIT	CDN	unknown
GREGORY EDITIONS FINE ART	USD	unknown
GRUPO AMERICAN INDUSTRIES	USD	2,182,428.26
GS1 CANADA	CDN	847.50
GXS CANADA INC.	CDN	1,741.10
H.M.Q. IN THE RIGHT OF ONTARIO REPRESENTED BY THE MINISTER OF REVENUE	CDN	unknown
HALLTECH INC.	CDN	8,914.30
HARVEY KALEF	CDN	unknown
HOFACRE ENTERPRISES, LLC.	USD	unknown
HOLMES FREIGHT LINES INC.	CDN	4,974.88
HOME DEPOT CREDIT SERVICES	CDN	4,707.24
HOMELAND CONNECT INC.	CDN	1,552.62
HORTON COMPONENTS	USD	105,735.00
HUNTON & WILLIAMS LLP	USD	unknown
IBE FINE ART	USD	unknown
ICECORP LOGISTICS INC.	USD	unknown
IGOR'S ART HOUSE INC	USD	unknown
IKON OFFICE SOLUTIONS	CDN	175.31
IMPERIAL COFFEE AND SERVICES	CDN	368.53
IND. DE MOLDURAS CATARINENSE	CDN	unknown
INTERNATIONAL GRAPHICS	CDN	unknown
INTERNATIONAL TELEPHONE PRODUCT	CDN	5,661.69
JACK ZHOU	CDN	unknown
JAMES COLEMAN	USD	unknown
JAMES SULKOWSKI	USD	unknown
JEFFREY LARSON	USD	unknown
JEREMY BORTZ	CDN	unknown
JOHN BARBER ART LTD.	USD	unknown
JOHN L HASTING	USD	unknown
JULIA KLIMOVA	USD	unknown
JUST OFFICE PERSONNEL	CDN	1,352.30
KLOCKNER PENTAPLAST OF CANADA	CDN	23,225.94
KLOCKNER PENTAPLAST OF CANADA	USD	unknown
KWIK KOPY	CDN	1,884.82
LARSON - JUHL	USD	unknown
LARSON-JUHL	CDN	unknown
LARSON-JUHL (ATL)	USD	unknown
LEONARD WREN	USD	unknown
LESLIE SIESWERDA	USD	unknown
LIPTON WISEMAN ALTBAUM LLP	CDN	unknown
LIVINGSTON INTERNATIONAL INC.	CDN	1,703.32



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**IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.**

**CREDITORS LIST**

Name	Currency	Amount
LIVINGSTON INTERNATIONAL INC.	USD	158.60
LUCIA ROCCA	USD	unknown
MADERAS DE LA FRONTERA	USD	35,000.00
MADIX, INC.	USD	unknown
MANULIFE FINANCIAL	CDN	unknown
MARCOM GROUP INC.	CDN	unknown
MARK A. HILL	USD	unknown
MARK KALEF	CDN	1,110.26
MARKHAM ECONOMIST & SUN	CDN	unknown
MAVERICK PUBLIC RELATIONS	CDN	unknown
MC2	USD	822.56
MICHAEL ETHRIDGE	USD	unknown
MICHELANGELO MOULDING	USD	26,700.44
MINDEN GROSS FRAFSTEIN & GREEN	CDN	unknown
MINISTRY OF FINANCE	CDN	unknown
MINISTRY OF LABOUR	CDN	unknown
NANCY KIRAKOS	CDN	unknown
NATASHA BARNES	USD	unknown
NATIONAL LEASING GROUP INC.	CDN	unknown
NELDA PIEPER	USD	unknown
NEXT ACTION	USD	unknown
NINGBO CONDA IMP & EXP CO. LTD	USD	unknown
NOVA COLOR	USD	988.89
ORLANDO/INVESTORS CO-TENANCY	CDN	90,902.66
P.O.P. STORE FIXTURES INC.	CDN	5,735.32
PEER 1 NETWORK USA INC.	USD	543.04
PETE TILLACK	USD	unknown
PETER COLBERT	CDN	293.85
PHOENIX ART GROUP INC.	USD	unknown
PIETRO ADAMO FINE ARTS INC.	CDN	unknown
PIETRO ADAMO FINE ARTS INC.	USD	unknown
PILOT AIR FREIGHT CORP.	USD	1,091.29
PISTORIUS MACHINE CO., INC.	USD	unknown
PITNEY BOWES GLOBAL CREDIT SER	CDN	348.54
PITNEY WORKS	CDN	2,249.41
PLAN A CORPORATION	USD	unknown
PLASTICOS Y CORRUGADOS	USD	unknown
POWERSTREAM INC.	CDN	17,222.11
PRINTER'S PARTS & EQUIPMENT	CDN	8,339.33
PRIORITY STAFFING USA, INC.	USD	unknown
PUROLATOR COURIER LTD.	CDN	3,417.02
QUARLES & BRADY LLP	USD	unknown
RAPID PALLETS LP	USD	64,674.09

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**IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.**

**CREDITORS LIST**

Name	Currency	Amount
REXCEL COATING CORPORATION	USD	1,648.64
REYNA CASTANO	USD	unknown
RFS CANADA	CDN	2,464.53
RICHES, McKENZIE & HERBERT	CDN	unknown
RICOH CANADA INC.	CDN	3,981.11
ROBERT STURMAN	USD	unknown
ROGERS WIRELESS INC.	CDN	416.29
ROSS INDUSTRIES	USD	210.21
ROZENVAIN FINE ART	CDN	1,575.00
RYAN HOPKINS	USD	unknown
S. I. PUBLISHING, LLC	USD	unknown
SANDEE SANDER	USD	unknown
SANI-SERVICE	CDN	226.00
SCL IMAGING GROUP	CDN	1,186.50
SETON	CDN	1,161.39
SEYMOUR ALPER INC.	CDN	unknown
SHELTON ABRAMS	USD	unknown
SHORELINE MANAGEMENT GROUP	USD	unknown
SIM & MCBURNEY	CDN	unknown
SIMON BULL INTERNATIONAL, INC.	USD	unknown
SIR SPEEDY	CDN	508.50
SOFTCHOICE CORPORATION	CDN	unknown
SOS EMERGENCY RESPONSE TECHNOLOGY	CDN	892.70
SPIRAL LICENSING	USD	unknown
SPS COMMERCE	USD	239.86
STELLAP PALLETS	CDN	1,267.86
STOCKWOODS LLP	CDN	unknown
TARA MATERIAL INC.	USD	13,211.29
TECH MARK INC.	CDN	unknown
THE AMERICAN EXPRESS CORPORATE	CDN	unknown
THE CREATECH GROUP	CDN	820.80
THE KINDT- COLLINS COMPANY LLC	CDN	unknown
THE MIX	USD	2,270.76
TIANEN PHOTO FRAME MAN. CO LTD	USD	unknown
TIGERDIRECT.CA INC.	CDN	629.29
TODD WILLIAMS	USD	unknown
TOM BROWNING	USD	unknown
TORQUE ELECTRIC MOTORS LTD	CDN	113.00
TRANS ONTARIO EXPRESS	CDN	2,102.89
TRANSCONTINENTAL 2005 G.P.	CDN	unknown
TRANSCONTINENTAL PRINTING G.P.	CDN	348,016.87
UNITED STATES POSTAL SERVICE	USD	808.27
UPS CANADA	CDN	44.64

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**IN THE MATTER OF THE RECEIVERSHIP OF THE PROPERTY OF  
BRUSHSTROKES FINE ART INC.**

**CREDITORS LIST**

<b>Name</b>	<b>Currency</b>	<b>Amount</b>
UPS CANADA LIMITED	CDN	54.96
UPS CANADA LTD.	CDN	8,487.68
UPS SCS INC.	USD	2,741.31
UPS SCS INC.	USD	19,200.86
UPS SUPPLY CHAIN SOLUTIONS	USD	431.31
UPS SUPPLY CHAIN SOLUTIONS, IN	USD	1,050.15
VITAL BABY INNOVATIONS INC.	CDN	unknown
WESTERN CANADA EXPRESS	CDN	unknown
WILD APPLE GRAPHICS LTD	USD	unknown
WMCV PHASE 1 LLC,	USD	unknown
WORKPLACE SAFETY & INSURANCE	CDN	5,138.08
WORKPLACE SAFETY NORTH	CDN	unknown
WSIB	CDN	unknown
WUXI PHOENIX STATIONARY LTD.	CDN	unknown
X SONG JIANG	USD	unknown
X-PRESS ELECTRIC SERVICES LTD.	CDN	618.86
YORKE TOWNE	CDN	unknown

## APPENDIX "E"



You are a *business owner or an individual* in financial trouble...

You provide professional services as a *lawyer, accountant, financial advisor*, and your client is facing a financial crisis...

You are a *secured lender or supplier* who needs to collect...

### Brushstrokes Fine Art Inc.

By Order of the Honourable Mr. Justice Morawetz dated June 6, 2011, ISI was appointed Receiver and Manager over the assets, properties and undertakings of the Company. The Receiver is currently formulating its plan for the operation of the business and the eventual sale of the assets.

#### Receivership

#### Court Matters

- Endorsement of the Honourable Mr. Justice Newbould - *May 27, 2011*
- Receivership Order of the Honourable Mr. Justice Morawetz - *June 6, 2011*
- Sealing Order of the Honourable Mr. Justice Morawetz - *June 6, 2011*
- Endorsement of the Honourable Mr. Justice Morawetz - *June 6, 2011*
- Notice and Statement of the Receiver (s.245/246) - *June 9, 2011*

All documents are in Acrobat/PDF format - free reader available [HERE](#).

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- [Hide House](#)
- [1 King West](#)
- [Linda Lundstrom](#)
- [Trinity Landing](#)
- [Korex](#)



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## APPENDIX "F"

**Brushstrokes Fine Art Inc.**  
**Statement of Income & Deficit**  
For the 10 months ended April 30, 2011

	YTD 30-Apr	
<b>Sales</b>	5,675,181.61	100.00%
<b>Cost of Sales</b>	4,312,339.92	75.99%
<b>Gross Margin</b>	1,362,841.69	24.01%
<b>Expenses:</b>		
Selling & Marketing	620,481.13	10.93%
General & Administrative	530,304.96	9.34%
<b>Total SG&amp;A</b>	1,150,786.09	20.28%
<b>Operations</b>	212,055.60	3.74%
<b>Other expenses (income):</b>		
Interest	675,012.03	11.89%
Amortization/Depreciation	221,674.30	3.91%
Foreign Exchange Loss	2,473.13	0.04%
SR&ED Refund		
<b>Total</b>	899,159.46	15.84%
	(687,103.86)	-12.11%

BrushStrokes Fine Arts Inc.  
Balance Sheet  
as at April 30, 2011

	30-Apr-11
<b>ASSETS</b>	
<b>Current</b>	
Accounts receivable	959,741.89
Inventory	3,992,918.80
Prepaid expenses & other receivables	<u>1,012,317.13</u>
	5,964,977.82
Equipment & leasehold improvements	979,587.44
Intangible Assets	<u>1,469,736.82</u>
	<u>8,414,302.08</u>
<b>LIABILITIES</b>	
<b>Current</b>	
Bank Indebtedness	4,013,607.27
Accounts payable & accrued liabilities	1,289,131.28
Advances from related parties	<u>0</u>
	5,302,738.55
Long term debt	5,218,460.43
Advances from shareholders	<u>21,632,523.87</u>
	<u>32,153,722.85</u>
<b>SHAREHOLDERS DEFICIENCY</b>	
Share capital	4,265,640.00
Deficit	<u>(28,005,060.77)</u>
	<u>(23,739,420.77)</u>
	<u>8,414,302.08</u>



## APPENDIX "G"

BRUSHSTROKES FINE ART INC.  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009

BRUSHSTROKES FINE ART INC.  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009

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Statement of operations and deficit	3
Statement of cash flows	4
Notes to financial statements	5 - 14

**Lipton  
Wiseman  
Altbaum &  
Partners LLP**

Chartered Accountants

**REVIEW ENGAGEMENT REPORT**

To the Shareholders of  
Brushstrokes Fine Art Inc.

We have reviewed the balance sheet of Brushstrokes Fine Art Inc. as at June 30, 2009 and the statements of operations and deficit and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the corporation.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

As a result of not reviewing the opening balances of accounts receivable and accounts payable and accrued liabilities, we were unable to determine whether adjustments to sales, cost of goods sold, net loss, and opening deficit might be necessary.

Except for the effect of adjustments, if any, which we might have determined to be necessary had we reviewed the opening balances of accounts, as described in the preceding paragraph, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

We have not performed any audit or review procedures in respect of the comparative figures presented in these financial statements and accordingly, we express no assurance thereon.

*Lipton Wiseman Altbaum & Partners LLP*

Toronto, Ontario  
September 10, 2009

Chartered Accountants  
Licensed Public Accountants

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BRUSHSTROKES FINE ART INC.  
(Incorporated under the laws of Ontario)  
BALANCE SHEET AS AT JUNE 30, 2009

UNAUDITED

	2009 \$	2008 (Unreviewed) \$
<b>ASSETS</b>		
Current:		
Accounts receivable	1,253,865	1,592,566
Inventory (Note 4)	4,383,335	3,583,830
Prepaid expenses and other receivables	366,781	279,910
	6,003,981	5,456,306
Capital assets (Note 5)	781,591	899,224
Intangible assets (Note 6)	1,121,928	1,225,095
	7,907,500	7,580,625
<b>LIABILITIES</b>		
Current:		
Bank indebtedness (Note 7)	4,174,604	3,960,415
Accounts payable and accrued liabilities	3,723,140	4,728,532
Current portion of long-term debt (Note 8)	424,281	-
Advances from related parties (Note 10)	3,599,822	3,411,148
	11,921,847	12,100,095
Long-term debt (Note 8)	3,019,319	2,279,109
Advances from shareholders (Note 9)	17,900,504	16,484,408
	32,841,670	30,863,612
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	4,265,640	4,265,640
Deficit	(29,199,810)	(27,548,627)
	(24,934,170)	(23,282,987)
	7,907,500	7,580,625

These financial statements are approved by and on behalf of the Board of Directors:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

*See accompanying notes.*

Lipton  
Wiseman  
Altbaum &  
Partners LLP  
Chartered Accountants

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BRUSHSTROKES FINE ART INC.  
STATEMENT OF OPERATIONS AND DEFICIT  
YEAR ENDED JUNE 30, 2009  
UNAUDITED

	2009 \$	2008 (Unreviewed) \$
Sales	11,602,174	12,838,177
Cost of goods sold	7,601,240	7,562,450
Gross profit	4,000,934	5,275,727
Expenses:		
Selling	2,051,870	4,066,373
Administrative	1,675,357	1,914,191
Interest on long-term debt	136,766	149,000
Interest	769,011	824,783
Loss on foreign exchange	836,512	312,696
Amortization of capital assets	192,980	182,665
Amortization of intangible assets	103,167	102,092
	5,765,663	7,551,800
Loss before the under-noted	(1,764,729)	(2,276,073)
Scientific Research and Experimental Development tax credits	113,546	170,068
Net loss	(1,651,183)	(2,106,005)
Deficit - beginning of year	(27,548,627)	(25,442,622)
Deficit - end of year	(29,199,810)	(27,548,627)

*See accompanying notes.*

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BRUSHSTROKES FINE ART INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2009  
UNAUDITED

	2009	2008 (Unreviewed)
	\$	\$
Operating activities:		
Net loss	(1,651,183)	(2,106,005)
Item not affecting cash:		
Amortization	296,147	418,590
	(1,355,036)	(1,687,415)
Net changes in non-cash working capital balances (Note 12)	(1,553,067)	(195,223)
Cash flows used in operating activities	(2,908,103)	(1,882,638)
Investing activity:		
Purchase of capital assets	(75,347)	-
Cash flows used in investing activity	(75,347)	-
Financing activities:		
Advances from shareholders	1,416,096	-
Advances from related parties	188,674	5,561,586
Increase in bank indebtedness	214,189	714,003
Repayment of long-term debt	(40,314)	(4,392,951)
Proceeds from long-term borrowings	1,204,805	-
Cash flows provided by financing activities	2,983,450	1,882,638
Change in cash and cash equivalents - end of year	-	-

See accompanying notes.

BRUSHSTROKES FINE ART INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2009  
UNAUDITED

1. Basis of presentation

Going concern:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the corporation will continue its operation in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Concern regarding the validity of this assumption exists as the corporation had a shareholders' deficit of \$29,199,810 and a working capital deficiency of \$5,917,866. The corporation's continued existence is dependent upon its ability to obtain financing and to achieve and maintain profitable operations.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate because management believes that the actions already taken or planned will mitigate the adverse conditions and events which raise doubts about the validity of the going concern assumption used to prepare these financial statements.

If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Significant accounting policies:

(a) Management estimates:

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Any variations between these estimates and actual amounts are not expected to materially affect the reported amounts, unless otherwise disclosed.

(b) Accounts receivable:

Trade accounts receivable are carried at amounts due, net of a provision for amounts estimated to be uncollectible.

(c) Inventory:

Inventory is valued at the lower of cost, determined on an average unit cost basis, and net realizable value. The amount of inventory recognized as an expense during the year is \$3,525,392.



Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

2. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided for on the declining balance basis at the following annual rates:

Computer hardware	30 %
Computer software	30 %
Furniture and fixtures	20 %
Production equipment	20 %
Vehicle	30 %

Leasehold improvements are amortized on a straight-line basis over the remaining period of the leases.

(e) Intangible assets:

Patents are recorded at cost and are amortized on the straight-line basis over the contractual life of the patents. The carrying value of intangible assets are periodically reviewed by management to determine if the facts and circumstances suggest that they might be impaired.

(f) Foreign currency translation:

The temporal method is used to translate the transactions and balances of the corporation that are denominated in foreign currencies. Under this method, monetary assets and liabilities, and non-monetary items carried at market values, are translated at the period-end exchange rate; other assets and liabilities are translated at their historical exchange rates. Revenues and expenses are translated at the rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized in current earnings.

(g) Future income taxes:

Future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

2. Significant accounting policies (continued):

(h) Government grants:

Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statements of operations as a reduction of expenses. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets. During the year, the company received investment tax credits of \$113,546.

(i) Revenue recognition:

Revenue is recognized when goods are shipped to customers and collectibility is reasonably assured.

3. Newly adopted accounting policies:

(a) General standards of financial statement presentation:

C.I.C.A. Handbook Section 1400 has been amended to require management to make an assessment of an entity's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern assumption is appropriate management must take into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The adoption of this standard had no impact on the financial statements of the corporation other than the disclosure in note 1.

(b) Capital disclosure:

C.I.C.A. Handbook Section 1535 specifies the disclosure of whether the corporation has complied with any externally imposed capital requirements, and if not complied, the consequences of non-compliance. The corporation is not subject to any externally imposed capital requirements.

(c) Inventories:

C.I.C.A. Handbook Section 3031 replaces the existing Section 3030, Inventories, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this standard had no impact on the corporation.

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Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

3. Newly adopted accounting policies (continued):

(d) Goodwill and intangible assets:

C.I.C.A. Handbook Section 3064 replaces the existing Section 3062 Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. These changes clarify the criteria for asset recognition for an internally developed intangible asset and reinforce the distinction between costs that should be expensed and those that should be capitalized. The adoption of this standard had no impact on the corporation.

4. Inventory:

	2009	2008 (Unreviewed)
	\$	\$
Finished goods	3,387,427	2,759,555
Raw materials	995,908	824,275
	<u>4,383,335</u>	<u>3,583,830</u>

5. Capital assets:

	Cost	Accumulated amortization	2009	Net 2008 (Unreviewed)
	\$	\$	\$	\$
Computer hardware	70,157	34,298	35,859	10,865
Computer software	6,752	1,013	5,739	-
Furniture and fixtures	500,182	338,203	161,979	202,474
Leasehold improvements	598,165	477,724	120,441	150,551
Production equipment	1,280,349	831,868	448,481	535,334
Vehicle	11,365	2,273	9,092	-
	<u>2,466,970</u>	<u>1,685,379</u>	<u>781,591</u>	<u>899,224</u>

6. Intangible assets:

	Cost	Accumulated amortization	2009	Net 2008 (Unreviewed)
	\$	\$	\$	\$
Patents	1,753,843	631,915	1,121,928	1,225,095

Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

7. Bank indebtedness:

Included in bank indebtedness is a credit facility with HSBC Bank Canada for which advances are available to the corporation to finance general corporate requirements subject to an overall maximum of \$100,000 by way of an overdraft. An officer of the corporation has provided an unlimited guarantee for this indebtedness. All amounts outstanding under the credit facility are repayable on demand. The overdraft bears interest at the bank prime rate plus 2.5% per annum, payable monthly in arrears. As at June 30, 2009, the bank indebtedness with HSBC Bank of Canada is \$53,812.

Also included in bank indebtedness are revolving lines of credit made up of a Canadian loan facility and U.S. loan facility from Greenfield Financial Group Inc. The aggregate of the two revolving lines of credit, after converting into the Canadian dollar equivalent amount, is not to exceed the maximum loan amount of \$4,500,000. The outstanding balance of the lines of credit become immediately payable should the lender demand repayment or the corporation default on procedures with regards to receivables and inventory. The financing agreement has a term until December 16, 2009 which will then be subject to repayment. The loans are secured by a general security agreement creating a first-ranking security interest over all accounts receivable, guarantees from related individuals of the corporate shareholders, and subordinations by the corporate shareholders. As at June 30, 2009, the net book value of the accounts receivable secured is approximately \$1,253,865. The line of credit in Canadian funds bears interest at the Canadian prime rate plus 6% per annum, payable monthly in arrears. The line of credit in U.S. funds bears interest at the U.S. prime rate plus 6% per annum, payable monthly in arrears. As at June 30, 2009, the bank indebtedness with Greenfield Financial Group Inc. is \$4,120,792.

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Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

8. Long-term debt:

	2009	2008 (Unreviewed)
	\$	\$
(a) American Industries, denominated in U.S. dollars (\$1,743,910 U.S.), bearing interest at 5% per annum, unsecured, repayable \$364,816 U.S. semi-annually with the balance due December 31, 2011.	1,981,716	1,515,000
(b) J.A.L. Developments Inc., bearing interest at 15% per annum, unsecured, fully repaid during the year.	-	306,096
(c) JLJR Investment, bearing interest at \$3,000 per month, unsecured, no fixed terms of repayment.	258,771	247,433
(d) Hy Meiteen, bearing interest at 1% per month, unsecured, no fixed terms of repayment.	200,000	-
(e) David Shore, denominated in U.S. dollars (\$585,790 U.S.), bearing interest at 12% per annum, unsecured, no fixed terms of repayment.	665,671	-
(f) Cliff Siegel, denominated in U.S. dollars (\$111,638 U.S.), bearing interest at 12% per annum, unsecured, no fixed terms of repayment.	126,862	-
(g) Transcontinental, bearing interest at 3.75% per annum, unsecured, no fixed terms of repayment.	210,580	210,580
	<u>3,443,600</u>	<u>2,279,109</u>
Less amounts due within one year	424,281	-
	<u>3,019,319</u>	<u>2,279,109</u>

Principal repayments due in future fiscal years are as follows:

	\$
2010	424,281
2011	848,562
2012	708,873
	<u>1,981,716</u>

Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

9. Advances from shareholders:

	2009	2008 (Unreviewed)
	\$	\$
Vintage Family Holdings Limited	2,338,063	2,423,063
W.S.P. Financial Limited	4,530,238	4,530,238
Bratone Inc.	11,032,203	9,531,107
	<u>17,900,504</u>	<u>16,484,408</u>

The above advances are subordinated to Greenfield Financial Group Inc. (Note 7) and accordingly have been presented as long-term. The advances are non-interest bearing and have no fixed terms of repayment.

10. Advances from related parties:

	2009	2008 (Unreviewed)
	\$	\$
(a) Hareton Sales & Marketing Inc.	740,762	783,423
(b) Harold Wine	859,587	859,587
(c) Judith Wine	1,211,939	980,604
(d) Esther Wine	587,534	587,534
(e) Shelley Wine	200,000	200,000
	<u>3,599,822</u>	<u>3,411,148</u>

- (a) The advances are due to corporation controlled by one of the ultimate shareholders. These advances are non-interest bearing, unsecured, and have no fixed terms of repayments.
- (b) The advances are due to one of the ultimate shareholders. These advances are non-interest bearing, unsecured, and have no fixed terms of repayment.
- (c) The advances are due to a member of the immediate family of the ultimate controlling shareholders. These advances bear interest of \$4,000 per month, unsecured, and have no fixed terms of repayment.
- (d) The advances are due to a member of the immediate family of the ultimate controlling shareholders. These advances are non-interest bearing, secured by a general security agreement, and have no fixed terms of repayment.
- (e) The advances are due to a member of the immediate family of the ultimate controlling shareholders. These advances are non-interest bearing, unsecured, and have no fixed terms of repayment.

Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

11. Capital stock:

Authorized:

- Unlimited Common shares
- Unlimited Equity shares, non-voting
- Unlimited Class A shares, redeemable for \$1 per share, convertible to common shares, non-voting, entitled to a cumulative dividend 6%

2009	2008 (Unreviewed)
\$	\$

Issued:

- 8,000,000 Common shares
- 2,000,000 Equity shares
- 4,265,500 Class A shares

120	120
20	20
4,265,500	4,265,500
<u>4,265,640</u>	<u>4,265,640</u>

Subject to certain conditions the corporation has cumulative dividends in arrears of \$nil on the Class A shares.

12. Net changes in non-cash working capital balances:

	2009	2008 (Unreviewed)
	\$	\$
Decrease in accounts receivable	338,701	80,529
Decrease (increase) in inventory	(799,505)	317,900
Decrease in accounts payable and accrued liabilities	(1,005,392)	(667,994)
Net change in other non-cash working capital balances related to operations	(86,871)	74,342
	<u>(1,553,067)</u>	<u>(195,223)</u>

13. Related party transactions:

Included in other income is a management fee of \$48,000 received from a related corporation controlled by one of the ultimate shareholders.

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Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

14. Income taxes:

At June 30, 2009, the corporation has an unrecognized future tax asset resulting from non-capital losses carried forward amounting to \$25,557,562. These losses expire between 2010 to 2029. The asset has not been recognized as management is uncertain if the future benefit will be realized.

The tax effected temporary differences on future income tax assets are as follows:

	2009	2008 (Unreviewed)
	\$	\$
Income tax losses	(8,510,668)	(10,332,287)
Less: Valuation allowance	8,510,668	10,332,287
	<u>-</u>	<u>-</u>

The income tax expense differs from the amount calculated by applying Canadian income tax rates (Federal and Provincial) of 33.3% as follows:

	2009	2008 (Unreviewed)
	\$	\$
Loss before income taxes	1,651,183	2,106,005
Expected income tax recovery	549,844	701,300
Future benefit of losses	(549,844)	(701,300)
	<u>-</u>	<u>-</u>

15. Economic dependence:

Management is of the opinion that the corporation is economically dependent on one customer whose sales represent approximately 56% of revenues and 59% of accounts receivable.



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Brushstrokes Fine Art Inc.

Notes to financial statements (continued):

June 30, 2009

Unaudited

16. Lease obligation:

The following is a summary of the corporation's operating lease obligations due in future fiscal years:

	<u>\$</u>
2010	286,221
2011	270,619
2012	260,955
2013	256,952
2014	<u>192,714</u>
	<u><u>1,267,461</u></u>

17. Financial instruments:

(a) Fair values:

The fair values of bank indebtedness, accounts receivables, accounts payable and accrued liabilities correspond approximately to their carrying amount because of their short-term nature.

The fair values of advances from shareholders, advances from related parties, and long-term debt are not readily determinable and have not been disclosed.

(b) Credit risk:

Concentration of credit risk arises when a group of customers having a similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. As disclosed in note 15 it is management's opinion that the corporation has a significant risk with respect to a single customer.

(c) Currency risk:

Currency risk is the risk that variations in foreign exchange rates between the Canadian and United States dollar will affect the corporation's operations and financial results. As at June 30, 2009, the corporation had approximately \$279,800 bank indebtedness, \$304,300 accounts receivable, \$1,704,900 accounts payable, and \$2,441,300 long-term debt denominated in United States dollars. In addition, the corporation had approximately \$508,000 of accounts payable denominated in Euros.

(d) Interest rate risk:

The corporation is exposed to interest rate risk by virtue of bank indebtedness which varies with the prime rate.

## APPENDIX "H"



**Martin Wolfe**  
Tel. (905) 738-4167  
Fax (905) 738-9848  
Email: martin@irasmithinc.com  
Website: [www.irasmithinc.com](http://www.irasmithinc.com)

# Memo

To: FILE  
From:  
CC:  
Date: June 16, 2011 & updated June 17, 2011 & June 22, 2011

Re: Review of Accounts Receivable

- 1) The balance per adjusted GL on April 30 was \$957,967.28 and the balance on the listing dated June 7 2011 was \$793,882.83 in mixed dollars. Furthermore the list only had balances owing, there were no credit balances. The credit balances on June 16, 2011 is \$ 11,203.53. No credit notes have been issued since June 7, so subject to any further findings, the A/R balance on June 7, 2011 was \$782,679.31
- 2) The following is a listing of corporate customers with balances in excess of 120 days.

	TOTAL A/R	OVER 90
Annapolis Marine Art Gallery	\$1,016.80	\$1,016.80 -Collectible
The Shopping Channel	3,535.79	2,669.59- approx 1,600 is collectible
Costco Wholesale USA	6,353.92	6,353.92 w/o very old, probably returns and c/n not issued
Costco Wholesale Canada	52,063.80	31,738.17 mostly uncollectible. Returns & C/N not issued
Sears Canada	19,446.71	10,379.16 not collectible. 15% discount given to Sears not Booked and 2,000 is duplicate billing
Ikea Distribution	143,441.60	12,600.14 not collectible credit notes & discounts
Ikea Supply	51,114.00	8,357.59 not collectible credit notes & discounts
UCC Total Homes	4,461.31	2,329.08 not collectible credit note to be issued
Michael's Stores (note 1)	43,574.87	19,029.03 probably collectible. Michael's POs & Brushstrokes invoices need to be matched
QVC Inc	58,405.29	37,642.19 STORY
Target Corporation	1,678.75	1,678.75 not collectible
CSI International Inc	12,562.81	5,071.64 collectible
Thomas Kinkade Co	129,826.79	129,826.79 chapter 11 and some pd to Mexico
Messenger	13,402.75	6,371.02

\$275,063.77 or 35% of A/R

- 3) Non Corporate over 120 days  
 The balance is \$39,843.44 (Balance computed as follows  
 Over 120 per list 320,073  
 Less corp customers -275,064  
 Less aging adjustments  
 Oak Hill Memorial Park -4165

\$ 40,844 (some has been collected)

A meeting with Craig and Anton will be held on Fri to get updates on collection efforts. I met with Anton today and he provided me with the explanations. I will meet with him Monday to review the small dollar amounts. Subsequent to meeting I provide the following summary.

#### SUMMARY

The amount determined to be collectible is as follows:

Balance per list June 6, 2011	\$793,882
Over 120 days w/o	(275,063)
Smaller amounts	( 25,000)
	\$493,819
General Provision – 10%	<u>49,300</u>
A/R Realizable value	\$444,519

Credit insurance was not renewed in 2009 and therefore there is no potential to recover from that source.

The current "old balance" (July 5, 2011) is approx \$6,500. \$2,000 may be collectible. I have summarized the no. of dollars and the number of credit card collections from June 22 through July 4. The A/R person is being paid 32K a year (\$1,230 a week gross) working 4 days a week over 5 days (9 to 3). That position should be evaluated as very little collection activities is currently necessary. Should the A/R person's position be found redundant, the functions can be replaced by Greg.

Note 1) The reconciliation was sent to Michaels and were submitted by Michael's internally for approval and payment on July 14, 2011

Note 2) QVC (The Home shopping Network) Brushstrokes does not know what is owing.

## APPENDIX "I"



167 Applewood Cres. Suite 6, Concord, ON L4K 4K7  
 Phone: 905.738.4167  
 Fax: 905.738.9848  
 irasmithinc.com

# Memo

**Brandon Smith**  
 Phone: 905.738.4167 ext. 113  
 Email: brandon@irasmithinc.com

To: Brushstrokes Asset File  
 From: Brandon Smith  
 CC: I. Smith, P. Luksha, G. Greve, J. Rye & J.R.K. Ward  
 Date: June 16, 2011  
 Re: El Paso, TX Inventory

On June 14, 2011, Paul Luksha and I attended at Trans-Maq Co.'s premises located at 12273 Gateway Blvd. W. in El Paso, TX. Trans-Maq operates logistics and warehousing operations specifically for business operating in the Maquiladoras zone within Mexico.

Brushstrokes rents warehouse space at Trans-Maq as well as use their services for cross docking shipments from Mexico to Ikea. Space is rented by at the rate of \$4 per pallet per month. Jorge Olivera, Trans-Maq's Operations Manager, advised that \$4 is the going rate for such storage in El Paso. Brushstrokes is currently 2 months in arrears and is indebted for cross docking fees, e-manifest customs paperwork and Mexican trucking costs for an approximate total of \$16,000. Jorge advised that they have suspended service for Brushstrokes and will not release any goods on account of the arrears. Jorge confirmed that this warehouse is not a customs bonded warehouse.

Trans-Maq considers any collection of boxes placed on a pallet, or any single box or container with a self-contained hoisting/lifting rig attached to be a pallet for rent purposes regardless of the square footage, volume or height (i.e. 4 loads stacked on top of each other each with their own pallet or lifting rig is considered 4 pallets). Ikea mandates the use of reusable, non-wooden pallets and accordingly each master case of Ikea goods has a set of plastic "feet" strapped to it making each Ikea master case count as a pallet.

Paul and I initially met with an employee by the name of Gerard who showed us the various locations in the warehouse where Brushstrokes property was being stored. There are essentially 4 locations in the warehouse.

### Location 1

A U-shaped section of racking with pallets stacked to the ceiling and pallets stored within the centre of the "U". This area contains 300 pallets, 55 in the centre and 245 on the racks. The pallets in the centre of the "U" were fairly accessible and Paul and I made a

written inventory using the quantities and stock codes or descriptions visible on inventory or shipping labels.

Of the 300 pallets, 279 belong to the artist Thomas Kinkade. This is his product that was recovered from a US retailer that went into bankruptcy. Pat Hofacre, Mexico Operations Manager for Brushstrokes, has advised that Kinkade is billed separately by Trans-Maq for its property and Brushstrokes neither owns the Kinkade goods nor does it pay for storage.

Pat advised that the Brushstrokes inventory in this area consisted of a) discontinued or non-quality conforming Ikea finished goods; b) non-vac-formed printed sheets; c) MDF frame liners; d) inventory acquired from Atelier that included individually boxed frames; and e) other discontinued finished goods.

#### Location 2

To the north of the open end of the "U" was a considerably smaller area containing 156 pallets. Access to this area was limited and stock-codes were not accessible. No inventory of this area was performed. However, the majority of the items in this area were wooden crates containing vac-formed sheets as well as Ikea finished goods. Pat had advised that this product was either discontinued Ikea stock or it did not meet their quality specifications due to printing inconsistencies.

#### Location 3

At the far Western end of the warehouse, 6 rows of pallets on the ground. Access was greatly limited to the pallets on the inside rows. We had counted approximately 157 pallets in this area although due to access limitations we are not certain if certain pallets were stacked more than one high or if there was a tall load on a single pallet. As access was limited, an inventory was not performed.

Pat advised that the inventory in this area was mainly Ikea or other product line discontinued or non-quality conforming finished goods. A few pallets contained stretcher bar parts for a size no longer in production and damaged frame parts that could be re-worked and re used if the damaged sections could be cut off (i.e. a 4' length with a blemish could be cut down and used as a 3' length).

#### Location 4

To the south of location 3 was 2 sections of pallets that had been carved out to be trucked up to Canada. This consisted of 50 pallets in total. Access was generally good to this area and an inventory was taken in a manner similar to centre of Location 1. The majority of the inventory in this area was a mixed assortment of finished goods intended for sale at the annual Canadian warehouse sale. There were a few pallets of Moldura frames.

There was also an additional 9 pallets of Kinkade product in a 5<sup>th</sup> location.

In total we had counted 672 pallets of which approximately 384 were actually property of Brushstrokes. The remainder was Kinkade product, although there may have been additional Kinkade product in locations that were not fully accessible.

Pat indicated that a few weeks ago 150 pallets of cardboard that Brushstrokes was paying to store were sent for recycling. Jorge believes that originally 820 to 875 pallets were being stored and that they did not separate the Kinkaid inventory. Adding the 150 recently removed pallets of cardboard to our count of 672 yields 822. Paul was provided with a copy of an account statement for Trans-Maq which has arrears for storage of 525 pallets. Removing the 150 recently removed pallets from 525 yields 375 which is very close to our count of 384 pallets.

Pat advised he would speak with Trans-Maq regarding the current count as well as prorating the charges to reflect that 150 pallets were removed mid-month.

After learning that the majority of the inventory at Trans-Maq is either a) old Attelier product that is not used in Brushstrokes production; b) discontinued; c) saleable but not to customer spec; or d) raw material not used in production, I requested that Pat contact a liquidator known to him to attend at the warehouse and provided us with a liquidation proposal.

I advised Pat that such proposal should contain either a net minimum guaranty or a fixed purchase price for the liquidator to assume risk and cost of sale. The proposal or other advice from the liquidator should contemplate the potential value obtained from turning no-finished goods into finished goods to which Pat should provide an estimate of total cost to complete inclusive of transportations costs so that we can have a frame of reference as to the benefit of finishing the goods. I had further requested that Pat seek the liquidator's opinion as to venue (El Paso vs. a larger market in Texas) regarding highest and best value.

It should be noted that it is Ikea's policy that any non-discontinued but non-quality conforming Ikea product can only be sold in countries where Ikea does not have a retail location. It may be necessary to take steps to have certain non-finished goods destroyed to prevent them from finding their way into the marketplace and possibly exposing ourselves to claims from customers and artists.



## APPENDIX "J"

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# CANAM - APPRAIZ INC.

APPRAISERS • VALUATORS • STOCK TAKERS • LIQUIDATORS

S. Terry Warren CAGA  
Sia Mizrahi CPPA

IRA SMITH TRUSTEE & RECEIVER INC.  
6-167 Applewood Cres.  
CONCORD, ONTARIO  
L4K 4K7

**RECEIVED**  
JUN 17 2011  
IRA SMITH TRUSTEE &  
RECEIVER INC.

June 14<sup>th</sup>, 2011

ATTENTION: MR. BRANDON SMITH

RE.: BRUSHSTROKES INVENTORY

Dear Mr. Smith:

On the day of our inspection we selected 76 random samples of finished products and raw materials which represent 3.69% of the total number of inventory items in stock which is 2062.

Of the 76 samples, 50 were incorrect and did not match the inventory count on the company's computer system. The percentage of error is 65.79%.

The computer system shows more on the books than what we actually counted in; however in some instances the system shows 0 while we counted 4 pieces. In some cases, the size does not appear in the system at all, although the item counted is similar to other sizes of the same article number.

Almost all the raw materials are incorrect in count or are not in the system. Of the 14 raw material items we counted, 9 were incorrect making the percentage of error 64.3%.

Of the 4 packaging items we counted, all quantities on the computer system were incorrect making the percentage of error 100%.

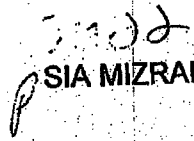
Our sample worksheets are attached for your perusal and show the discrepancies per chart below.

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	over	under	equal	not in system	Qty counted
Total	32	13	27	4	76
% of error	42.11%	17.11%	35.52%	5.26%	100.00%

If we can be of any further assistance to you in this matter, please do not hesitate to contact us.

CANAM-APPRAIZ INC.

  
SIA MIZRAHI

## APPENDIX "K"

<b>PATENT # USA</b>	<b>PATENT # CANADA</b>	<b>TITLE</b>
5,667,747	2529511 2215828 5958470	Vacuum Formed Three-Dimensional Surface Article
5,904,962		Raised Mounting System for Artistic Work
5,958,470		Vacuum Formed Apparatus for Forming a Three Dimensional Relief Reproduction
6,444,147		Apparatus for Making Molds for Thermoforming a Three-Dimensional Relief Reproduction
6,444,148		Process and Making Molds for Thermoforming a Three-Dimensional Relief Reproduction
6,908,954	2315959	Coating Composition for Artistic Reproductions

## APPENDIX "L"

LICENSE AGREEMENT

THIS LICENSE AGREEMENT made as of 9<sup>th</sup> day of October, 2008.

BETWEEN:

BRUSHSTROKES FINE ART INC.,

(herein called the "Licensor"),

OF THE FIRST PART,

- and -

5700966 MANITOBA INC.,

(herein called the "Licensee"),

OF THE SECOND PART.

WHEREAS the Licensor owns or has applied for intellectual property protection for the Licensor's Technology (as herein defined);

AND WHEREAS the Licensor has agreed to enter to this Agreement with the Licensee in order to grant to the Licensee the Licensee Exclusive License (as herein defined) in accordance with the terms of this Agreement;

NOW THEREFORE in consideration of the mutual covenants, conditions and agreements herein contained and the payment of \$1.00 and other good and valuable consideration by each party here to the other (the receipt and sufficiency of which is hereby acknowledged) the parties hereto agree as follows:

ARTICLE 1 - DEFINITIONS

1.01 **Definitions.** For the purposes of this Agreement, the following words and phrases shall have the following meanings:

- (a) "Act of Default" means the occurrence of any one of the following pertaining to other party hereto:
  - (i) if a party fails to perform or observe any of the provisions of this Agreement and failure is not remedied within 30 days following written notice being given to such party by the other party;

- (ii) if any representation, warranty, certificate, statement or report made in connection with this Agreement is false or erroneous in any material respect and is not remedied or rectified within 30 days following written notice being given by one party to the other;
- (iii) if a party becomes insolvent or bankrupt or subject to provisions of any legislation for relief from creditors, or goes into liquidation, either voluntarily or under an order of a court of competent jurisdiction, or makes a general assignment for the benefit of its creditors or otherwise acknowledge itself insolvent.

- (b) "Agreement" means this Agreement and any amendments thereto made in accordance with the terms hereof;
- (c) "Business Day" means any day other than Saturday, Sunday or other day in which the Royal Bank of Canada's head office located in the City of Toronto, Ontario is not open for business during normal banking hours;
- (d) "Contract Year" means each year during the Term commencing, the first year, the date of this Agreement and ending on the day prior to the first anniversary date of this Agreement and, in each year thereafter, commencing on the anniversary of the date of this Agreement and ending on the date prior to the next anniversary date of this Agreement;
- (e) "Defaulting Party" means the party which has committed an Act of Default;
- (f) "Licensee Exclusive License" means the perpetual worldwide exclusive license of the Licensor Technology for use in connection with Licensee Products granted by the Licensor to the Licensee pursuant to this Agreement;
- (g) "Licensee Products" means the products listed on Schedule "A" hereto and any improvements, variations or derivatives thereof, produced using Licensor Technology, all of which are intended to be used exclusively by customers of Licensee for commercial applications in promoting or marketing their own products for sale. Licensee Products do not include consumer products that are themselves intended for use or sale;
- (h) "Licensor Technology" means the intellectual property owned by the Licensor, or applied for by the Licensor for intellectual property protection, and any improvements, variations or derivatives thereof used to reproduce

*Handwritten initials*



images three dimensionally onto a substrate as more fully described in Schedule "B" hereto;

- (i) "Net Earnings" means the net income of the Licensee in any Contract Year after all expenses and costs including interest, depreciation and amortization but before taxes calculated by the Licensee, acting reasonably;
- (j) "Person" means an individual, firm, corporation, syndicate, partnership, association, joint venture, a government or agency thereof or any other legal or business entity whatsoever;
- (k) "Royalties" means the royalties payable by the Licensee to the Licensor pursuant to the terms of this Agreement;
- (l) "Sales" means all earnings, revenues, income and other proceeds, excluding Taxes and Sublicense Revenue (as herein defined) received by the Licensee as a direct result of the use of the Licensor Technology;
- (m) "Sublicense" means a sublicense of the right to use all or any of the Licensor Technology for use in connection with Licensee Products granted to a Sublicensee;
- (n) "Sublicense Revenue" means any royalties and license fees received by the Licensee from Sublicensees pursuant to Sublicenses;
- (o) "Sublicensee" shall mean a sublicensee receiving a sublicense from the Licensee of the right to use any or all of the Licensor Technology;
- (p) "Taxes" means all federal, state, provincial, municipal or governmental authority taxes levied directly on sales and collected from customers provided the amount is added to the selling price and actually paid by the Licensee to any such governmental authority or offset against a tax receivable owing to the Licensee by such governmental authority;
- (q) "Term" means the period from and including the date of this Agreement to and including the expiry date of the last of the patents pertaining to the Licensor Technology or until this Agreement is terminated in accordance with the terms and conditions hereof, whichever is earlier.

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**ARTICLE 2 - GRANT OF LICENSE**

2.01 **Grant of License.** Subject to the terms and conditions of this Agreement, the Licensor hereby grants to the Licensee the Licensee Exclusive License, being an exclusive perpetual worldwide license during the Term to use the Licensor Technology for any and all purposes and in any and all ways as the Licensee shall determine, in its sole discretion, for and in connection with the production, sales, distribution and any other use of Licensee Products. It is expressly acknowledged and agreed by the Licensor that the granting of the Licensee Exclusive License shall include the sole right to grant Sublicenses to any Person and the right to determine and receive royalties and compensation and the rates and amounts thereof and the terms and conditions of any such Sublicenses and the unlimited right to exploit and use the Licensor Technology in connection with Licensee Products such manner as it shall see fit. The Licensor shall have no right to use for its own purposes or for others, the Licensor Technology in any way with respect to Licensee Products.

**ARTICLE 3- REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE LICENSOR**

3.01 **Licensor Representations, Warranties And Covenants.** The Licensor hereby represents, warrants and covenants as follows and hereby acknowledges that the Licensee has entered into this Agreement in strict reliance upon such representations, warranties, and covenants:

- (a) the Licensor is a corporation and validly incorporated and subsisting under the laws of the Province of Ontario;
- (b) the Licensor has the corporate power to own or lease its property and, without limiting the generality of the foregoing, to enter into this Agreement and carry out its obligations hereunder and to own the Licensor Technology;
- (c) the entering into this Agreement and the transactions contemplated in this Agreement will not result in the violation of any of the terms and provisions of the constating documents and bylaws of the Licensor or of any indenture, contract or other agreement, whether written or oral, to which the Licensor may be a party, or by which it is otherwise bound including, without limitation, any agreements entered into with 4D Print Media Corporation, The Eastwood Harvey Corporation, GBD Corp., 2089272 Ontario Ltd., Harvey Kalef, 2089275 Ontario Ltd., and/or Wayne Conrad;

- (d) there are no actions, suits or proceedings, whether or not purportedly on behalf of the Licensor, pending or threatened, against or effecting the Licensor or the Licensor Technology, in law or in equity or before any federal, provincial, state, municipal or any other governmental department or authority in any jurisdiction which would impair the ability of the Licensor to perform its obligations under this Agreement or which would impair the ability of the Licensee to enjoy the use of the Licensor Technology herein licensed and the Licensor is not aware of any existing ground on which any such action, suit or proceeding might be commenced with any reasonable likelihood of success;
- (e) the Licensor is the owner of all of the Licensor Technology and no other Person has any rights or interest therein;
- (f) the Licensor Technology and any use thereof does not infringe upon the rights of any other Person;
- (g) all of the foregoing representations, warranties and covenants are true as at the date of this Agreement and shall continue to be true throughout the Term with the same force and effect as if made on and as of each day during such period; and
- (h) the Licensor shall provide to the Licensee throughout the Term, without cost to the Licensee other than reimbursement of the Licensor's expense disbursements to third parties, such advice and assistance with respect to implementation, development and operation of the Licensor Technology as the Licensee may from time to time request.

**ARTICLE 4 - REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE LICENSEE**

4.01 **Licensee Representations, Warranties And Covenants.** The Licensee hereby represents, warrants and covenants as follows and hereby acknowledges that the Licensor is entering into this Agreement in strict reliance upon such representations, warranties, and covenants:

- (a) the Licensee is a corporation and validly incorporated and subsisting under the laws of the Province of Manitoba;
- (b) the Licensee is a corporate power to own or lease its property and, without limiting the generality of the foregoing, to enter into this Agreement and carry out its obligations hereunder;

*Az*

- (c) the entering into this Agreement and the transactions contemplated in this Agreement will not result in the violation of any of the terms and provisions of the constating documents and bylaws of the Licensee or of any indenture, contract or other agreement, whether written or oral, to which the Licensee may be a party;
- (d) there are no actions, suits or proceedings, whether or not purportedly on behalf of the Licensee, pending or threatened, against or effecting the Licensee, in law or in equity or before any federal, provincial, state, municipal or any other governmental department or authority in any jurisdiction which would impair the ability of the Licensee or to perform its obligations under this Agreement and the Licensee is not aware of any existing ground on which any such action, suit or proceeding might be commenced with any reasonable likelihood of success;
- (e) all of the foregoing representations, warranties and covenants are true as at the date of this Agreement and shall continue to be true throughout the Term with the same force and effect as if made on and as of each day during such period.

**ARTICLE 5 - ROYALTIES**

5.01 **Royalties.** In consideration of the granting of the Licensee Exclusive License and the continuing right to it during the Term, the Licensee shall pay to the Licensor, during the Term,

- (a) Royalties equal to 0.5% (1/2 of 1%) of Sales in each Contract Year, provided that if, and only if, in any Contract Year (x) the Licensee achieves Net Earnings equal to or greater than 15% of Sales and (y) Sales in that Contract Year are greater than \$8,000,000, then instead of Royalties being equal to 0.5% of Sales the Licensee shall pay Royalties to the Licensor in the amount of 0.75% (3/4 of 1%) of Sales for that Contract Year and provided further that if, and only if, in any Contract Year (x) the Licensee achieves Net Earnings equal to or greater than 15% of Sales and (y) Sales in any Contract Year are greater than \$20,000,000 then instead of Royalties being equal to 0.75% of Sales the Licensee shall pay Royalties to the Licensor in the amount of 1.00% of Sales for that Contract Year; and
- (b) Royalties equal to 5% of Sublicense Revenue in each Contract Year.

*Handwritten initials*

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the following equipment previously owned by Eastwood Harvey on an "as is where is" basis (no warranties):

1. One Double sided shuttle type vacuum former;
2. One Temptek Portable Chiller;
3. One Electro Form "Minivac 700 x 500" single sided vacuum former;
4. One Safety Cage;
5. One 2-Door Flameproof Cabinet;
6. One HP PC with Monitor;
7. One Skill cordless drill;
8. One HP server, internet Hub, rack;

The Licensor must make all arrangements for the pick up and transportation equipment from its current site. The foregoing equipment list and description has been provided by the Receiver for Eastwood Harvey and the Licensee makes no representation or warranty in connection therewith, including its availability, other than to confirm that the Licensee has the right to purchase the foregoing equipment and will pay to the Receiver for Eastwood Harvey the agreed upon price for it. The Licensee will have no responsibility for any failure by such Receiver to make the equipment available or to otherwise comply with its contractual obligations to the Licensee, other than to take such reasonable action as may be necessary to cause such Receiver to make the equipment available to the Licensor, any such reasonable action taken at the Licensor's expense and in addition, if some of the equipment is not made available to the Licensor, the Licensee shall fairly compensate the Licensor for any missing equipment only.

Provided this Agreement has not been terminated by the Licensee for any reason, the Licensee shall also pay to the Licensor \$50,000 at the start of the second Contract Year and, provided this Agreement has not already been terminated by the Licensee for any reason, the Licensee shall pay a further \$50,000 at the start of the third Contract Year. All of the foregoing payments shall be deemed to be fully earned when paid.

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## ARTICLE 7- INFRINGEMENT

7.01 **Infringement by Third Parties.** Each of the Licensor and Licensee shall inform the other within 30 days of gaining knowledge of a possible infringement of the patent rights relating to the Licensor Technology. If the Licensee determines to institute legal proceedings to eliminate such infringement, it will shall have the first right to undertake such legal action whereupon the costs of such undertaking shall be shared equally with the Licensor and Licensee. If the Licensee determined not to institute legal proceedings it shall so advise the Licensor whereupon the Licensor shall have the right, at its discretion, to undertake such legal action whereupon the costs of such undertaking shall be apportioned as between the Licensor and Licensee as they may mutually agree.

7.02 **Infringement of Third Party Rights.** Each party shall inform the other within 30 days of obtaining knowledge of any action that is threatened or instituted by any Person against the Licensor or Licensee pertaining to the Licensor Technology. The Licensee shall have the first right to determine, in its discretion, whether to assume defence of any such action whereupon the cost of such defence shall be shared equally by the Licensor and Licensee. If the Licensee determines not to assume defence of any such action the Licensor shall assume such defence of such action and the Licensor and Licensee shall apportion the costs of such defence as they may mutually agree.

7.03 **Mutual Cooperation.** The Licensor and Licensee shall cooperate fully with respect to any actions hereinbefore described in this Section 7, including, without limitation, releasing information, documents relating thereto, participation in any litigation and/or appearance of their respective representatives as witnesses, subject to reimbursement of reasonable costs or as they may otherwise agree between them.

## ARTICLE 8 - TERMINATION

8.01 **Due to Default.** In the event of the occurrence of an Act of Default by the Licensor or Licensee, as the case may be, the non-defaulting party may terminate this Agreement upon 30 days prior notice to the defaulting party.

8.02 **Licensee Termination Right.** The Licensee shall have the right to terminate this Agreement at any time upon 60 days written notice to the Licensor.

8.03 **Effect of Termination.** Upon termination of this Agreement pursuant to the rights under Article 8, the Licensee shall immediately cease to use the Licensor Technology provided that the Licensee and its Sublicensees shall have, for a period of 6

*[Handwritten signature]*

months after the date of termination, the continuing right to sell any Licensee Products made to date of termination using the Licensor Technology subject to payment of applicable Royalties therefore. Termination of this Agreement shall not affect the parties rights and obligations incurred hereunder to the date of termination or any rights and obligations expressed, or which by implication are intended, to survive termination of this Agreement. If this Agreement is terminated by the Licensor due to an Act of Default by the Licensee, the Licensee, effective the termination date of the Agreement, shall assign to the Licensor any Sublicense that the Licensor requests, prior to the termination date, be assigned to it.

### ARTICLE 9 - ASSIGNMENT

9.01 **Assignment by Licensee.** Provided there is not an Act of Default in existence at the time, the Licensee shall be entitled to assign its interest in this Agreement upon notice to the Licensor and subject to obtaining the consent of the Licensor, which shall not be unreasonably withheld or delayed, provided that the Licensor shall only be entitled to withhold its consent if the proposed assignee has established a reputation for dishonesty or incompetence or if the proposed assignee has capitalization of less than \$2,500,000, failing which the Licensor shall be conclusively deemed to have consented to such assignment.

9.02 **Assignment by Licensor.** Provided there is not an Act of Default in existence at the time, the Licensor shall be entitled to assign its interest in this Agreement to any party without the consent of the Licensee, but upon notice to it, provided that such assignment shall not relieve the Licensor of its obligations hereunder.

### ARTICLE 10 - INDEMNIFICATION

10.01 **Indemnification By Licensor.** Licensor agrees that it shall indemnify and hold the Licensee harmless from and against any and all damages, liabilities, costs, loss and expense incurred by the Licensee as a result of any violation or breach of this Agreement by the Licensor or by any act of omission or commission on the part of the Licensor, or any of its agents, servants, or employees, and from all claims, damages, suits or rights of any Person arising from any breach of this Agreement or from the use of the Licensor Technology in accordance with the terms of this Agreement; save and except any such claim, damages, suits or rights of any Person to the extent they are in consequence of the negligence of the Licensee, agents, servants or employees, or any of them. This indemnity shall survive the termination or expiration of this Agreement.

10.02 **Indemnification By Licensee.** Licensee agrees that it shall indemnify and hold the Licensor harmless from and against any and all damages, liabilities, costs, loss and expense in connection therewith incurred by the Licensor as a result of any

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violation or breach of this Agreement by the Licensee or by any act of omission or commission on the part of the Licensee, or any of its agents, servants, or employees, and from all claims, damages, suits or rights of any Person arising from any breach of this Agreement or from the use of the Licensor Technology not in accordance with the terms of this Agreement; save and except any such claim, damages, suits or rights of any Person to the extent they are in consequence of the negligence or default of the Licensor, agents, servants or employees, or any of them. This indemnity shall survive the termination or expiration of this Agreement.

**ARTICLE 11 - RELATIONSHIP OF PARTIES**

11.01 **Independent Contractor.** The parties hereto agree that they are independent contractors completely separate from one another and that neither party has the authority to bind or attempt to bind the other in any manner or form whatsoever.

**ARTICLE 12 - MISCELLANEOUS**

12.01 **Entire Agreement.** This Agreement contains the entire understanding between the parties with respect to the Licensor Technology and supercedes all previous agreements and understandings in any way relating to the subject matter hereof.

12.02 **Severability.** If any covenant or other provision of this Agreement is contract to rule of law or public policy, all of the other conditions and provisions of this Agreement shall, nevertheless, remain in full force and effect.

12.03 **Successors and Assigns.** Subject to restrictions on assignment herein contained, this Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

12.04 **Applicable Law.** This Agreement shall be interpreted, construed and governed by the laws of the Province of Ontario.

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12.05 **Notices.** All notices, requests, demands or other communications by the terms hereof required or permitted to be given by one party to another shall be given in writing and sent to such other party by delivery, registered mail, facsimile or other form of recorded communication tested prior to transmission:

(a) In the case of the Licensor at:

60 Leek Crescent  
Richmond Hill ON L4B 1H1  
Attention: Mitch Wine  
Telecopier: (905) 771-5803

(b) In the case of the Licensee at:

Friesens Corporation  
One Printers Way  
Altona MB R0G 0B0  
Attention: Curwin Friesen

with a copy to:

Thompson Dorfman Sweatman LLP  
Barristers & Solicitors  
2200 - 201 Portage Avenue  
Winnipeg MB R3B 3L3  
Attention: G. J. Tallon  
Telecopier: (204) 934-0516

such notices, requests, demands and other communications shall be deemed to have been received when delivered or, if mailed, 48 hours after the date of mailing thereof or, if given by facsimile or other form of recorded communication, on the day of transmission, as the case may be.

12.06 **Time of the Essence.** Time shall be of the essence of this Agreement and every part hereof.

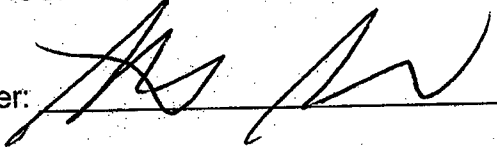
12.07 **Further Assurances.** The parties shall do all things and provide all such reasonable assurances as may be required to consummate the transactions hereby contemplated and each party shall provide such further documents or instruments required by the other party hereto as may be reasonably necessary desirable to effect the purposes of this Agreement and carry out its provisions.

12.08 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which counterparts so executed shall constitute and be deemed to be an original and all of which together shall constitute one and the same agreement.

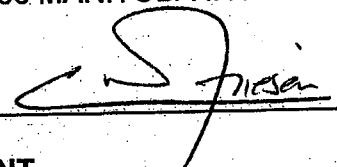
12.09 **Currency.** All amounts in this Agreement are expressed in Canadian currency. Any Sales received by the Licensee in currencies other than Canadian currency shall be converted to Canadian currency for the purpose of inclusion in Sales using methods adopted by the Licensee, acting reasonably.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BRUSHSTROKES FINE ART INC.

Per:  \_\_\_\_\_


5700966 MANITOBA INC.

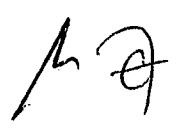
Per:  \_\_\_\_\_

**FRIESENS COVENANT**

For valuable consideration received, Friesens Corporation ("Friesens") does hereby agree to and with the Licensor, as principal debtor and not as surety, that it will well and truly pay or cause to be paid to the Licensor, all monies payable hereunder on the days and times and in the manner hereinbefore limited and provided for payment thereof, and shall in everything well and truly do, observe, fulfill and keep each and every one of the conditions, covenants, provisoes, agreements and stipulations hereinbefore set forth according to the true meaning and intent of this agreement and shall and will abide by and submit to and does hereby agree to all conditions, provisoes and stipulations hereinbefore on the part of the Licensee set forth.

FRIESENS CORPORATION

Per:  \_\_\_\_\_



SCHEDULE "A"

- Media cases packaging (CD, DVD, games, etc)
- Book Covers
- Magazine Covers or pages
- Outer packaging of products to be sold to customers of Licensee
- Cosmetics and fragrances packaging
- Wine and Spirit labels and packaging
- Beverage labels and packaging
- Food labels and packaging
- Envelopes to be used by customers of Licensee for corporate communications
- Advertising
- Point of purchase displays
- Corporate communications
- Materials to be used in conjunction with Direct response mail programs
- Point of Sale materials
- Luxury Goods Packaging for Corporate Gifts, Jewellery, Pens, etc.

AG

## APPENDIX "M"

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Ontario.ca



Sign In > New Enquiry

Web Page ID: WEnqResult

File Currency: 06JUN 2011

System Date: 07JUN2011

All Pages

Show All Pages

Note: All pages have been returned.

Type of Search	Business Debtor								
Search Conducted On	BRUSHSTROKES FINE ART INC.								
File Currency	06JUN 2011								
	File Number	Family	of Families	Page	of Pages	Expiry Date	Status		
	630521712	1	5	1	13	10NOV 2011			
<b>FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN</b>									
File Number	Cauton Filing	Page of	Total Pages	Motor Vehicle Schedule	Registration Number	Registered Under	Registration Period		
630521712		001	001		20061110 1408 1862 3591	P PPSA	5		
Individual Debtor	Date of Birth	First Given Name		Initial	Surname				
Business Debtor	Business Debtor Name					Ontario Corporation No.			
	BRUSHSTROKES FINE ART INC.								
	Address			City	Province	Postal Code			
	60 LEEK CRESCENT			RICHMOND HILL	ON	L4B 1H1			
Individual Debtor	Date of Birth	First Given Name		Initial	Surname				
Business Debtor	Business Debtor Name					Ontario Corporation No.			
	Address			City	Province	Postal Code			
Secured Party	Secured Party / Lien Claimant								
	GREENFIELD COMMERCIAL CREDIT INC.								
	Address			City	Province	Postal Code			
	20 QUEEN STREET WEST, SUITE 316			TORONTO	ONT	M5H 3R3			
Collateral Classification	Consumer Goods	Inventory	Equipment	Accounts	Other	Motor Vehicle Included	Amount	Date of Maturity or	No Fixed Maturity Date
		X	X	X	X				
Motor Vehicle Description	Year	Make		Model		V.I.N.			
General Collateral Description	General Collateral Description								
Registering Agent	Registering Agent								
	SHIBLEY RIGHTON LLP (CLAYTON A. HUDSON)								
	Address			City	Province	Postal Code			
	250 UNIVERSITY AVENUE, SUITE 700			TORONTO	ON	M5H 3E5			

CONTINUED

<b>Type of Search</b>	Business Debtor								
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.								
<b>File Currency</b>	06JUN 2011								
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>				
	630521712	1	5	2	13				
<b>FORM 2C FINANCING CHANGE STATEMENT / CHANGE STATEMENT</b>									
	<b>Cautions Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule Attached</b>	<b>Registration Number</b>	<b>Registered Under</b>			
		001	002		20100723 1437 1862 7829				
<b>Record Referenced</b>	<b>File Number</b>	<b>Page Amended</b>	<b>No Specific Page Amended</b>	<b>Change Required</b>	<b>Renewal Years</b>	<b>Correct Period</b>			
	630521712		X	A AMNDMNT					
<b>Reference Debtor / Transferor</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>				
	<b>Business Debtor Name</b>								
	BRUSHSTROKES FINE ART INC.								
<b>Other Change</b>	<b>Other Change</b>								
<b>Reason / Description</b>	<b>Reason / Description</b>								
	THE SECURED PARTY, GREENFIELD COMMERCIAL CREDIT INC., AMALGAMATED ON JANUARY 1, 2007 WITH GREENFIELD FINANCIAL GROUP INC., GREENFIELD HOLDINGS INC. AND GREENFIELD ASSET MANAGEMENT INC. TO FORM								
<b>Debtor / Transferee</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
<b>Assignor</b>	<b>Assignor</b>								
<b>Secured Party</b>	<b>Secured Party / Lien Claimant / Assignee</b>								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>			<b>Model</b>		<b>V.I.N.</b>		
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
<b>Registering Agent</b>	<b>Registering Agent or Secured Party / Lien Claimant</b>								
	SHIBLEY RIGHTON LLP (CLAYTON A. HUDSON)								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	250 UNIVERSITY AVENUE, SUITE 700				TORONTO	ON	MSH 3E5		

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CONTINUED

Type of Search	Business Debtor								
Search Conducted On	BRUSHSTROKES FINE ART INC.								
File Currency	06JUN 2011								
	File Number	Family	of Families	Page	of Pages				
	630521712	1	5	3	13				
<b>FORM 2C FINANCING CHANGE STATEMENT / CHANGE STATEMENT</b>									
	Caution Filing	Page of	Total Pages	Motor Vehicle Schedule Attached	Registration Number	Registered Under			
		002	002		20100723 1437 1862 7829				
Record Referenced	File Number	Page Amended	No Specific Page Amended	Change Required	Renewal Years	Correct Period			
	630521712								
Reference Debtor/ Transferor	First Given Name			Initial	Surname				
	Business Debtor Name								
Other Change	Other Change								
Reason / Description	Reason / Description								
	GREENFIELD FINANCIAL GROUP INC.								
Debtor/ Transferee	Date of Birth	First Given Name			Initial	Surname			
	Business Debtor Name						Ontario Corporation No.		
	Address				City	Province	Postal Code		
Assignor	Assignor								
Secured Party	Secured Party/ Lien Claimant/ Assignee								
	Address				City	Province	Postal Code		
Collateral Classification	Consumer Goods	Inventory	Equipment	Accounts	Other	Motor Vehicle Included	Amount	Date of Maturity or	No Fixed Maturity Date
Motor Vehicle Description	Year	Make			Model		V.I.N.		
General Collateral Description	General Collateral Description								
Registering Agent	Registering Agent or Secured Party/ Lien Claimant								
	Address				City	Province	Postal Code		

CONTINUED

<b>Type of Search</b>	Business Debtor								
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.								
<b>File Currency</b>	06JUN 2011								
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>				
	630521712	1	5	4	13				
<b>FORM 2C FINANCING CHANGE STATEMENT / CHANGE STATEMENT</b>									
	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule Attached</b>	<b>Registration Number</b>	<b>Registered Under</b>			
		001	001		20100726 1026 1862 7867				
<b>Record Referenced</b>	<b>File Number</b>	<b>Page Amended</b>	<b>No Specific Page Amended</b>	<b>Change Required</b>	<b>Renewal Years</b>	<b>Correct Period</b>			
	630521712		X	D ASSGNMT					
<b>Reference Debtor/ Transferor</b>	<b>First Given Name</b>		<b>Initial</b>	<b>Surname</b>					
	<b>Business Debtor Name</b>								
	BRUSHSTROKES FINE ART INC.								
<b>Other Change</b>	<b>Other Change</b>								
<b>Reason / Description</b>	<b>Reason / Description</b>								
<b>Debtor/ Transferee</b>	<b>Date of Birth</b>	<b>First Given Name</b>		<b>Initial</b>	<b>Surname</b>				
	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			
<b>Assignor</b>	<b>Assignor</b>								
	GREENFIELD FINANCIAL GROUP INC.								
<b>Secured Party</b>	<b>Secured Party/ Lien Claimant/ Assignee</b>								
	2251263 ONTARIO INC.								
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			
	20 QUEEN STREET WEST, SUITE 316			TORONTO	ON	M5H 3R3			
<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>		<b>Model</b>		<b>V.I.N.</b>			
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
<b>Registering Agent</b>	<b>Registering Agent or Secured Party/ Lien Claimant</b>								
	SHIBLEY RIGHTON LLP (CLAYTON A. HUDSON)								
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			
	250 UNIVERSITY AVENUE, SUITE 700			TORONTO	ON	M5H 3E5			



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CONTINUED

Type of Search	Business Debtor									
Search Conducted On	BRUSHSTROKES FINE ART INC.									
File Currency	06JUN 2011									
	File Number	Family	of Families	Page	of Pages					
	630521712	1	5	5	13					
<b>FORM 2C FINANCING CHANGE STATEMENT / CHANGE STATEMENT</b>										
	Caution Filing	Page of	Total Pages	Motor Vehicle Schedule Attached	Registration Number	Registered Under				
		001	001		20100929 0847 1862 2412					
Record Referenced	File Number	Page Amended	No Specific Page Amended	Change Required	Renewal Years	Correct Period				
	630521712		X	A AMNDMNT						
Reference Debtor/ Transferor	First Given Name	Initial			Surname					
	Business Debtor Name									
	BRUSHSTROKES FINE ART INC.									
Other Change	Other Change									
Reason / Description	Reason / Description									
	THE ADDRESS OF THE SECURED PARTY, 2251263 ONTARIO INC. IS HEREBY CHANGED TO 29 DONWOODS DRIVE, TORONTO, ONTARIO, M4N 2E9.									
Debtor/ Transferee	Date of Birth	First Given Name			Initial		Surname			
	Business Debtor Name									
	Ontario Corporation No.									
	Address				City		Province	Postal Code		
Assignor	Assignor									
Secured Party	Secured Party/ Lien Claimant/ Assignee									
	Address				City		Province	Postal Code		
Collateral Classification	Consumer Goods	Inventory	Equipment	Accounts	Other	Motor Vehicle Included	Amount	Date of Maturity or	No Fixed Maturity Date	
Motor Vehicle Description	Year	Make			Model		V.I.N.			
General Collateral Description	General Collateral Description									
Registering Agent	Registering Agent or Secured Party/ Lien Claimant									
	SHIBLEY RIGHTON LLP (CLAYTON A. HUDSON)									
	Address				City		Province	Postal Code		
	250 UNIVERSITY AVENUE, SUITE 700				TORONTO		ON	M5H 3E5		

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END OF FAMILY

<b>Type of Search</b>	Business Debtor								
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.								
<b>File Currency</b>	06JUN 2011								
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>		
	634398876	2	5	6	13	17APR 2012			
<b>FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN</b>									
<b>File Number</b>	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule</b>	<b>Registration Number</b>	<b>Registered Under</b>	<b>Registration Period</b>		
634398876		001	002		20070417 1139 1862 4045	P PPSA	5		
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	BRUSHSTROKES FINE ART INC.								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	60 LEEK CRESCENT				RICHMOND HILL	ON	L4B 1H1		
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>								
	TRANSCONTINENTAL 2005 G.P.								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	C/O TRANSCONTINENTAL INC., SHARE SERVICE				SAINT-LAURENT	PQ	H4N 1S2		
<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
		X	X	X	X	X			
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>			<b>Model</b>	<b>V.I.N.</b>			
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
<b>Registering Agent</b>	<b>Registering Agent</b>								
	GOWLING LAFLEUR HENDERSON LLP								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	SUITE 1600, 100 KING STREET WEST				TORONTO	ON	M5X 1G5		

CONTINUED

<b>Type of Search</b>	Business Debtor						
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.						
<b>File Currency</b>	06JUN 2011						
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>
	634398876	2	5	7	13	17APR 2012	
<b>FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN</b>							
	<b>Caution</b>		<b>Total</b>	<b>Motor Vehicle</b>		<b>Registered</b>	<b>Registration</b>

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<b>File Number</b>	<b>Filing</b>	<b>Page of</b>	<b>Pages</b>	<b>Schedule</b>	<b>Registration Number</b>	<b>Under</b>	<b>Period</b>		
634398876		002	002		20070417 1139 1862 4045				
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			
<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>								
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			
	CENTRE, 395 LEBEAU BOULEVARD								
<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>			<b>Model</b>	<b>V.I.N.</b>			
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
<b>Registering Agent</b>	<b>Registering Agent</b>								
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>			

END OF FAMILY

<b>Type of Search</b>	Business Debtor								
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.								
<b>File Currency</b>	06JUN 2011								
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>		
	649495971	3	5	8	13	27OCT 2012			

**FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN**

<b>File Number</b>	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule</b>	<b>Registration Number</b>	<b>Registered Under</b>	<b>Registration Period</b>
649495971		001	2		20081027 1059 6005 0463	P PPSA	04
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>	
	24JUL1930	HAROLD				WINE	
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>	
	<b>Address</b>			<b>City</b>	<b>Province</b>	<b>Postal Code</b>	
	60 LEEK CRESCENT			RICHMOND HILL	ON	L4B 1H1	

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<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>					
	19JUL1958	MITCHELL		WINE					
<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>					
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>					
	60 LEEK CRESCENT		RICHMOND HILL	ON   L4B 1H1					
<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>								
	NATIONAL LEASING GROUP INC. L# 2432568								
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>					
	1558 WILLSON PL		WINNIPEG	MB   R3T 0Y4					
<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
			X						
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>	<b>Model</b>		<b>V.I.N.</b>				
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
	ALL COMPUTER SYSTEMS, SOFTWARE, PRINTERS, LABELS OF EVERY NATURE OR KIND DESCRIBED IN LEASE NUMBER 2432568 BETWEEN THE SECURED PARTY, AS LESSOR AND THE DEBTOR AS LESSEE, AS AMENDED FROM TIME TO TIME,								
<b>Registering Agent</b>	<b>Registering Agent</b>								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		

CONTINUED

<b>Type of Search</b>	Business Debtor						
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.						
<b>File Currency</b>	06JUN 2011						
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>
	649495971	3	5	9	13	27OCT 2012	

**FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN**

<b>File Number</b>	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule</b>	<b>Registration Number</b>	<b>Registered Under</b>	<b>Registration Period</b>
649495971		002	2		20081027 1059 6005 0463		

<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>
<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>
	BRUSHSTROKES FINE ART INC			
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>
	60 LEEK CRESCENT		RICHMOND HILL	ON   L4B 1H1

<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>
<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>

<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>			
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>

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<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>		<b>Model</b>		<b>V.I.N.</b>			
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
	TOGETHER WITH ALL ATTACHMENTS, ACCESSORIES AND SUBSTITUTIONS.								
<b>Registering Agent</b>	<b>Registering Agent</b>								
	<b>Address</b>					<b>City</b>	<b>Province</b>	<b>Postal Code</b>	

END OF FAMILY

<b>Type of Search</b>	Business Debtor								
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.								
<b>File Currency</b>	06JUN 2011								
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>		
	660565863	4	5	10	13	14APR 2020			

**FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN**

<b>File Number</b>	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule</b>	<b>Registration Number</b>	<b>Registered Under</b>	<b>Registration Period</b>
660565863		001	2		20100414 1542 1140 0038	P PPSA	10

<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>

<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>	
	BRUSHSTROKES FINE ART INC.				
	<b>Address</b>		<b>City</b>	<b>Province</b>	<b>Postal Code</b>
	60 LEEK CRESCENT		RICHMOND HILL	ONT	L4B 1H1

<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>

<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>	
	<b>Address</b>		<b>City</b>	<b>Province</b>	<b>Postal Code</b>

<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>				
	1450714 ONTARIO INC.				
	<b>Address</b>		<b>City</b>	<b>Province</b>	<b>Postal Code</b>
	1 POST ROAD, SUITE 112		TORONTO	ONT	M3B 3R4

<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
		X	X	X	X				X

<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>		<b>Model</b>		<b>V.I.N.</b>			

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<b>General Collateral Description</b>	<b>General Collateral Description</b>			
	GENERAL SECURITY AGREEMENT			
<b>Registering Agent</b>				
ALEKSANDR G. BOLOTENKO, BARRISTER & SOLICITOR				
<b>Address</b>		<b>City</b>	<b>Province</b>	<b>Postal Code</b>
225 KING STREET, EAST,		OSHAWA	ONT	L1H 1C5

CONTINUED

<b>Type of Search</b>	Business Debtor						
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.						
<b>File Currency</b>	06JUN 2011						
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>
	660565863	4	5	11	13	14APR 2020	

**FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN**

<b>File Number</b>	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule</b>	<b>Registration Number</b>	<b>Registered Under</b>	<b>Registration Period</b>
660565863		002	2		20100414 1542 1140 0038		

<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>

<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>

<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>	<b>Initial</b>	<b>Surname</b>

<b>Business Debtor</b>	<b>Business Debtor Name</b>			<b>Ontario Corporation No.</b>
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>

<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>			
	HARVEY KALEF			
	<b>Address</b>		<b>City</b>	<b>Province</b> <b>Postal Code</b>
	1 POST ROAD, SUITE 112,		TORONTO	ONT   M3B 3R4

<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>

<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>	<b>Model</b>	<b>V.I.N.</b>

<b>General Collateral Description</b>	<b>General Collateral Description</b>			

<b>Registering Agent</b>				
<b>Address</b>		<b>City</b>	<b>Province</b>	<b>Postal Code</b>

CONTINUED

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Type of Search	Business Debtor									
Search Conducted On	BRUSHSTROKES FINE ART INC.									
File Currency	06JUN 2011									
	File Number	Family	of Families	Page						of Pages
	660565863	4	5	12						13
<b>FORM 2C FINANCING CHANGE STATEMENT / CHANGE STATEMENT</b>										
	Caution Filing	Page of	Total Pages	Motor Vehicle Schedule Attached	Registration Number			Registered Under		
		001	1		20100414 1557 1140 0039					
Record Referenced	File Number	Page Amended	No Specific Page Amended	Change Required			Renewal Years	Correct Period		
	660565863			D ASSGNMT						
Reference Debtor/ Transferor	First Given Name			Initial	Surname					
	Business Debtor Name									
	BRUSHSTROKES FINE ART INC.									
Other Change	Other Change									
Reason / Description	Reason / Description									
Debtor/ Transferee	Date of Birth	First Given Name			Initial	Surname				
	Business Debtor Name								Ontario Corporation No.	
	Address				City		Province	Postal Code		
Assignor	Assignor									
	HARVEY KALEF									
Secured Party	Secured Party/ Lien Claimant/ Assignee									
	ESTATE OF HARVEY KALEF									
	Address				City		Province	Postal Code		
	C/O BARRY EVANS, 208-419 KING ST.W.,				OSHAWA		ONT	L1J 2K5		
Collateral Classification	Consumer Goods	Inventory	Equipment	Accounts	Other	Motor Vehicle Included	Amount	Date of Maturity or	No Fixed Maturity Date	
Motor Vehicle Description	Year	Make			Model		V.I.N.			
General Collateral Description	General Collateral Description									
Registering Agent	Registering Agent or Secured Party/ Lien Claimant									
	ALEKSANDR G. BOLOTENKO, BARRISTER & SOLICITOR									
	Address				City		Province	Postal Code		
	225 KING STREET, EAST,				OSHAWA		ONT	L1H 1C5		
END OF FAMILY										

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<b>Type of Search</b>	Business Debtor								
<b>Search Conducted On</b>	BRUSHSTROKES FINE ART INC.								
<b>File Currency</b>	06JUN 2011								
	<b>File Number</b>	<b>Family</b>	<b>of Families</b>	<b>Page</b>	<b>of Pages</b>	<b>Expiry Date</b>	<b>Status</b>		
	666597861	5	5	13	13	16DEC 2015			
<b>FORM 1C FINANCING STATEMENT / CLAIM FOR LIEN</b>									
<b>File Number</b>	<b>Caution Filing</b>	<b>Page of</b>	<b>Total Pages</b>	<b>Motor Vehicle Schedule</b>	<b>Registration Number</b>	<b>Registered Under</b>	<b>Registration Period</b>		
666597861		001	001	X	20101216 0855 1031 6264	P PPSA	05		
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	BRUSHSTROKES FINE ART INC.								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	60 LEEK CRESCENT				RICHMOND HILL	ON	L4B 1H1		
<b>Individual Debtor</b>	<b>Date of Birth</b>	<b>First Given Name</b>			<b>Initial</b>	<b>Surname</b>			
<b>Business Debtor</b>	<b>Business Debtor Name</b>					<b>Ontario Corporation No.</b>			
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
<b>Secured Party</b>	<b>Secured Party / Lien Claimant</b>								
	H.M.Q. IN THE RIGHT OF ONTARIO REPRESENTED BY THE MINISTER OF REVENUE								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	200-5 PARK HOME AVE				NORTH YORK	ON	M2N 6W8		
<b>Collateral Classification</b>	<b>Consumer Goods</b>	<b>Inventory</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Other</b>	<b>Motor Vehicle Included</b>	<b>Amount</b>	<b>Date of Maturity or</b>	<b>No Fixed Maturity Date</b>
		X	X	X	X	X	38250		
<b>Motor Vehicle Description</b>	<b>Year</b>	<b>Make</b>			<b>Model</b>	<b>V.I.N.</b>			
	2004	CHEVROLET			VTR	1GNDX13E64D248737			
<b>General Collateral Description</b>	<b>General Collateral Description</b>								
	BN# 899835300TE001								
	MOR# 13402-05530 (352)								
<b>Registering Agent</b>	<b>Registering Agent</b>								
	MINISTRY OF REVENUE, REVENUE COLLECTIONS, 768 (890)								
	<b>Address</b>				<b>City</b>	<b>Province</b>	<b>Postal Code</b>		
	200-5 PARK HOME AVE				NORTH YORK	ON	M2N 6W8		

LAST PAGE  
 Note: All pages have been returned.

BACK TO TOP





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**CONTACT US | ACCESSIBILITY | PRIVACY | HELP**  
**WOULD YOU LIKE TO RATE OUR SERVICE?**

**© QUEEN'S PRINTER FOR ONTARIO, 2008 | IMPORTANT NOTICES**  
**LAST MODIFIED: APRIL 11, 2011**

## APPENDIX "N"



**IRA SMITH**  
TRUSTEE & RECEIVER INC.  
STARTING OVER, STARTING NOW

167 Applewood Cres. Suite 6, Concord, ON L4K 4K7  
Phone: 905.738.4167  
Fax: 905.738.9848  
irasmithinc.com

**Ira Smith**  
Phone: 905.738.4167 ext. 111  
Email: ira@irasmithinc.com

June 22, 2011

HAND DELIVERED

TO: [INSERT NAME OF BRUSHSTROKES EMPLOYEE]

We are writing to you again in our capacity as Receiver of the assets, properties and undertakings of Brushstrokes Fine Art Inc. ("Brushstrokes"), pursuant to the Order of the Ontario Superior Court of Justice (Commercial List) dated June 6, 2011. In our letter dated June 10, 2011, a copy of which is enclosed for your convenience, we advised you that the Receiver was reviewing the affairs of Brushstrokes Fine Art Inc. ("Brushstrokes"), and attempting to identify strategies that would permit the continuation of Brushstrokes business and preserve opportunities for long-term employment. Since that time, the Receiver has reviewed Brushstrokes books and records, and has met with Brushstrokes' key customer and senior lender, as well as with various employees.

Unfortunately, the Receiver has been unable to identify a business plan for Brushstrokes that satisfies its senior lender's criteria for advancing additional funds to maintain substantially all of Brushstrokes' operations in Ontario. Accordingly, Brushstrokes will be unable to finance payment of your wages and other compensation past today, and is hereby terminating your employment, effective immediately. You should not return to work.

You will shortly be provided with your Record of Employment. In accordance with our letter to you dated June 10, 2011, your final wages and any related vacation pay for the period of the receivership will be deposited into your account on the next normal pay day, being June 30, 2011.

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We confirm that you have a claim against Brushstrokes in respect of any amounts owing to you by Brushstrokes as at the date of our appointment as Receiver on June 6, 2011, and as a result of the termination of your employment (such as, for example, pay in lieu of notice). In this regard, we note that the Receiver's investigation of the employment claims identified in our letter dated June 10, 2011, is ongoing. However, you should immediately contact and register with Service Canada under the Wage Earner Protection Program ("WEPP") to maximize your recovery of the amounts owing to you by Brushstrokes. Service Canada will advise you how to claim under WEPP.

We wish to thank you for your cooperation, contributions and understanding.

Yours truly,

IRA SMITH TRUSTEE & RECEIVER INC.  
solely in its capacity as Court-appointed Interim Receiver and  
Receiver of the assets, properties and undertakings of  
Brushstrokes Fine Art Inc.

Per:

Ira Smith  
President

Encl.

COPY



**IRA SMITH**  
TRUSTEE & RECEIVER INC.  
STARTING OVER, STARTING NOW

## APPENDIX "O"



167 Applewood Cres. Suite 6, Concord, ON L4K 4K7  
Phone: 905.738.4167  
Fax: 905.738.9848  
irasmithinc.com

**Brandon Smith**  
Phone: 905.738.4167 ext. 113  
Email: brandon@irasmithinc.com

June 10, 2011

**DELIVERED**

**TO THE CURRENT EMPLOYEES OF  
BRUSHSTROKES FINE ART INC.**

As you know, by Order of the Ontario Superior Court of Justice (Commercial List) dated June 6, 2011 (the "Appointment Order"), Ira Smith Trustee & Receiver Inc. was appointed Interim Receiver and Receiver (the "Receiver") over the assets, properties and undertakings of Brushstrokes Fine Art Inc. ("Brushstrokes"). As our Messrs. Ira and Brandon Smith have advised you in a staff meeting, the Receiver is currently reviewing the affairs of Brushstrokes and in particular, attempting to identify strategies that will permit the continuation of Brushstrokes' business and preserve opportunities for long-term employment.

Paragraph 13 of the Appointment Order confirms that all employees of Brushstrokes remain employees of the company in receivership. A number of issues with respect to your ongoing employment by Brushstrokes have been brought to our attention. In particular, it has been suggested to us that:

1. amounts earned by and owing to employees in respect of certain pay periods predating our appointment as Receiver remain unpaid;
2. certain employees may have outstanding claims for expenses incurred on behalf of Brushstrokes prior to our appointment as Receiver that have not been reimbursed; and,
3. prior to our appointment as Receiver, Brushstrokes deducted amounts from employee wages on account of premiums owing in respect of Brushstrokes' medical and insurance benefits plan, at a time when the plan had been cancelled by the insurer and there was no coverage.

We take these claims very seriously and we are investigating them.

As our review of the matters described above progresses, we will hold additional staff meetings to provide you with our conclusions and the steps that we propose to take in light of those conclusions.

In the meantime, we confirm our advice that the Receiver is making funds available for Brushstrokes to allow the company to continue your employment arrangement with the company and to pay you for work performed by you for Brushstrokes during pay periods ending after the Receiver's appointment on June 6, 2011, in accordance with your normal employment arrangements with the company. The receivership has not altered your employment contract or arrangements with Brushstrokes and you continue to remain an employee of Brushstrokes.

In keeping with the foregoing, we enclose a cheque representing your net pay for the two week pay period ending June 17, 2011. This amount has been calculated as your normal gross earnings, less normal statutory deductions. If you are an hourly employee, the amount has been calculated using an estimate of a normal pay period. To the extent the actual amount due to you differs from this estimate, the difference will either be paid with or deducted from the next normal payroll. In order to provide you with these funds as quickly as possible, the cheques have been prepared outside of the company's normal payroll processing program. A statement indicating how this amount was calculated will be provided to you with the next pay issued to you by the company.

We wish to thank you for your cooperation and contributions in this first week of the receivership.

Yours truly,

**IRA SMITH TRUSTEE & RECEIVER INC.**  
solely in its capacity as Court-appointed Interim Receiver and Receiver of the assets, properties and undertakings of Brushstrokes Fine Art Inc.

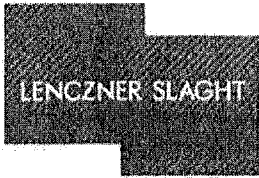
Per:

Brandon Smith  
Senior Vice-President

Encl.

## APPENDIX "P"





BARRISTERS

DIRECT LINE: (416) 865-3553  
DIRECT FAX: (416) 865-2879  
EMAIL: sodonnell@litigate.com

July 8, 2011

**VIA FACSIMILE & EMAIL**

Max Starnino  
Paliare Roland  
Barristers  
250 University Avenue  
Suite 501  
Toronto, ON M5H 3E5

Dear Mr. Starnino:

**Re: Brushstrokes Fine Art Inc. claim against IKEA**

Further to our recent discussion regarding Brushstrokes' potential claim against IKEA, I have set out herein the factual underpinnings for and nature of the claim. Many of the facts noted herein are contained within Mr. Mitchell Wine's affidavit sworn on May 26, 2011 with regard to the Application for the appointment of your client, Ira Smith, as receiver at Brushstrokes.

As you will be aware from Mr. Wine's affidavit, Brushstrokes has supplied art reproductions to IKEA since 2004 pursuant to a long-term volume agreement (the "IKEA Agreement"). The current IKEA Agreement expires in 2013. IKEA is Brushstrokes' key customer, accounting for approximately 80% of Brushstrokes' business.

In or about February of 2009, IKEA approached Brushstrokes with a view to re-negotiating the terms of the IKEA Agreement, such that the termination of the IKEA Agreement would be extended from 2011 to 2013 and approximately \$4 million would be added to the volume of sales over those years, although the minimum annual volume of sales would be decreased. As a result of the decline in minimum annual sales, IKEA provided Brushstrokes with a three year low interest working capital loan in the approximate amount of \$1.2 million (the "IKEA Loan Agreement"). The IKEA Loan Agreement provided IKEA with a right of set-off against payment of Brushstrokes' invoices by IKEA in the event of default under the loan.

From the commencement of re-negotiations with IKEA, Mr. Wine made it clear to IKEA that it could not take security against Brushstrokes as Greenfield Commercial Credit Inc. and later 2251263 Ontario Ltd. (referred to herein as "Greenfield") had already taken security over all of Brushstrokes'

Max Starnino

July 8, 2011

assets. Indeed, when Mr. Wine forwarded the IKEA Loan Agreement to Greenfield in or about June of 2009, Greenfield did not approve of IKEA's right of set-off, as this would prevent Greenfield from lending against Brushstrokes' IKEA accounts receivable, which was and is the key asset that Brushstrokes possesses to borrow against.

The loan from IKEA to Brushstrokes was funded in July of 2011 but IKEA still refused to address Brushstrokes' concerns regarding the set-off clause. Throughout the month of July and August, Mr. Wine continued to protest the inclusion of the set-off clause within the IKEA Loan Agreement, which concerns were not accepted by IKEA. Although Greenfield did not initially approve of the set-off clause, it continued to lend money to Brushstrokes.

Had IKEA indicated in February of 2009 that it intended to include the set-off provision within the IKEA Loan Agreement, Brushstrokes would have refused such a provision and would have insisted on strict adherence to the minimum sales volumes provided for in the original IKEA Agreement. While re-negotiations were ongoing between Brushstrokes and IKEA, IKEA did not meet their previous sales volume commitments and prolonged the re-negotiations such that Brushstrokes was in such a dire financial situation that it was forced to accept the IKEA Loan Agreement, under duress. Mr Wine therefore takes the position that the re-negotiated IKEA Agreement is therefore unenforceable. Brushstrokes suffered consequent damages including lost profits arising from a reduction in guaranteed sales volumes from February of 2009 until the expiry of the original IKEA Agreement in 2011.

In addition, the inclusion of the set-off clause in the IKEA Loan Agreement prevented Brushstrokes from finding any other financial institution that would lend to Brushstrokes. The failure to secure additional funding led to Greenfield's decision to have a receiver appointed. Had IKEA honoured their commitment in February of 2009 not to obtain security over Brushstrokes' assets, Brushstrokes would have been able to secure sufficient financing to avoid the appointment of a receiver.

As you are aware, the limitation period in this matter will lapse in the near future and it is therefore important that we meet as soon as possible to discuss your client's willingness to bring this claim on behalf of Brushstrokes, or in the alternative for Mr. Wine to bring this claim.

I trust that the above is satisfactory and I look forward to hearing from you regarding a meeting with our respective clients forthwith.

Yours very truly,  
LENCZNER SLAGHT ROYCE  
SMITH GRIFFIN LLP

Per: 

Sean J. O'Donnell

/sjod

cc: Ronald G. Slaght

## APPENDIX "Q"

## AGENDA FOR MEETING WITH MITCHELL WINE

JULY 15 2011

1. Assets:
  - a. Registered Patents
  - b. Mexican Operations
    - i. Discussion regarding the Receiver's understanding that Brushstrokes Fine Art de Mexico, S. de R.L. de C.V. is a Maquilladora
    - ii. Assets in Mexico
  - c. Ikea Contract
  - d. Dispute with Ikea
    - i. Where are the Ikea agreements?
    - ii. What are the wrongs committed by Ikea?
      - (1) Challenge to the supply contract
      - (2) Challenge to the loan agreement
      - (3) Challenge to the set-off provision
    - iii. When were these wrongs committed?
    - iv. What steps were taken by Brushstrokes to dispute Ikea's action
    - v. Why didn't Brushstrokes sue Ikea?
  - e. Other
2. Marketing and Realization
  - a. What steps were taken over the past two years to address Brushstrokes cash crisis?
    - i. Search for investors
    - ii. Search for buyers

- b. What steps should the Receiver be taking to market the assets?
    - i. Potential buyers
    - ii. Places to advertise
    - iii. Other
  - e. Other
3. M. Wine access to the Brushstrokes Richmond Hill premises to make an inventory of items he believes to be his personal property.

## APPENDIX "R"



BARRISTERS

Jeffrey Larry  
T 416.646.4330 Asst 416.646.7404  
F 416.646.4331  
E jeff.larry@paliareroland.com  
[www.paliareroland.com](http://www.paliareroland.com)

File 19710

July 22, 2011

VIA EMAIL

- Chris G. Paliare
- Ian J. Roland
- Ken Rosenberg
- Linda R. Rothstein
- Richard P. Stephenson
- Nick Coleman
- Margaret L. Waddell
- Donald K. Eady
- Gordon D. Capern
- Lily I. Harmer
- Andrew Lokan
- John Monger
- Odette Soriano
- Andrew C. Lewis
- Megan E. Shortreed
- Massimo Starnino
- Karen Jones
- Robert A. Centa
- Nini Jones
- Jeffrey Larry
- Kristian Borg-Olivier
- Emily Lawrence
- Denise Sayer
- Danny Kastner
- Tina H. Lie
- Jean-Claude Killey
- Jodi Martin
- Michael Fenrick
- Susan Brown
- Nasha Nijhawan
- Jessica Latimer

Sean J. O'Donnell  
Lenczner Slaght Royce Smith Griffin LLP  
Suite 2600  
130 Adelaide St. W.  
Toronto, ON M5H 3P5

Dear Mr. O'Donnell:

**Re: Brushstrokes Fine Art Inc. ("Brushstrokes")**

I refer to your July 8, 201 letter to Mr. Starnino of our office.

In your letter, you described the nature and background for Brushstrokes' potential claim against Ikea, its most significant customer. I also understand that you and your client, Mitchell Wine, met last Friday on a with prejudice basis with Mr. Starnino and the Receiver, Ira Smith Trustee and Receiver Inc. (by phone) to discuss, among other things, this potential claim.

In speaking with Mr. Starnino and on the basis of our earlier conversation today, I confirm that your client understands the Receiver's rationale for not advancing any potential claim against Ikea given the prospect for a sale of all or part of Brushstrokes' business and the desire to continue Brushstrokes' beneficial relationship with this customer.

Do not hesitate to contact me if you have any further questions or concerns.

Yours very truly,  
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

Jeffrey Larry  
JL:ss

HONORARY COUNSEL

Ian G. Scott, Q.C., O.C.  
(1934 - 2006)

795354\_1.DOC

## APPENDIX "S"



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Notes from meeting 7<sup>th</sup> July, 2011 concerning future co-operation between Brushstrokes Fine Art Inc, Ira Smith (Receiver) and IKEA Supply AG following Brushstrokes receivership.

- 1) New Power of Attorney shall be issued and signed from the Receiver giving Paul Luksha the signing rights on behalf of Brushstrokes
- 2) IKEA is fully committed to supporting and continuation of Brushstrokes under the Direction and Management of Greenfield Financial Group Inc ("Greenfield") representative direction of Paul Luksha (new CEO of Brushstrokes).
- 3) IKEA is committed in respecting the order of the court under receivership with IRA Smith (as the receiver). Receiver to give IKEA the escrow account details. Monies owed by IKEA to be paid into Escrow account, less any deductions according to the agreements.
- 4) IKEA'S obligations are subject to Brushstrokes fulfilling all its obligations towards IKEA including but not limited to the fulfilment by Brushstrokes of the requirements stated in IKEA way on purchasing Home Furnishing Products (IWAY), Quality Level, Delivery security and Prices.
- 5) IKEA acknowledges the intention of Brushstrokes to wind down the Canadian operation and keeping production in Mexico. As previously discussed, this would be on the condition that the relevant stock is built up in order to support the move so as not to disturb supply.
- 6) Before transition starts, IKEA will confirm that the appropriate 'ready-made' stock of the vac form printed sheets are available
- 7) IKEA request that the Volume Agreement (as previously discussed) be signed and both parties operate accordingly. This is under the condition that the loan will be fully repaid as per the original due date, 25.09.2012 and not as per Loan Amendment No 1. Dated 01.01.2010. Brushstrokes confirm the Balance of the loan being \$880,998.85 as at 7<sup>th</sup> June, 2011.
- 8) Brushstrokes shall fill out loan amendment form and cash flow projections as per the tools submitted by IKEA.
- 9) The undertaking shall, unless otherwise agreed in writing, be valid up and until 22.12.2012, on which date it shall automatically terminate and expire and IKEA shall have no further obligations hereunder.
- 10) IKEA is always entitled to set off any amount due by Brushstrokes to IKEA or any of its related parties from any payment to be made by IKEA to Brushstrokes.
- 11) Volume calculated as being the Volume that is ordered by IKEA irrespective of cancellations made by Brushstrokes.
- 12) IKEA accepts Brushstroke's proposal to settle the outstanding claims of \$150,781.36 as follows:
 

Week 26	\$20,000.00
Week 31	\$20,000.00
Week 35	\$40,000.00/month onwards until claim reaches 0 balance.

There will be no revision of this claim agreement.

IKEA Supply AG	Grüssenweg 15	Tel. ++41(0)58 853 56 00	SE-Bank, SE-106 40 Stockholm
	CH-4133 Pratteln	Fax ++41(0)58 853 56 01	SWIFT: ESSESESS
	Switzerland	MWST-Nr. 115 554	IBAN: SE26 5000 0000 0594 7820 0712 (EUR)

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- 13) In Agreeing and having support info for point 7) 8) 9)10) 11) and 12 and 14) ,IKEA will not seek to set off more money than the agreed amounts provided that Brushstrokes fulfil its obligations towards IKEA and that business relations and performance are kept as agreed.
- 14) All invoices/monies owed to IKEA designated suppliers, including 'Royalties' or Publishing Houses shall be settled by Brushstrokes according to the terms thereof and be kept up to date and current.
- 15) It is IKEA's wish to see Brushstrokes out of receivership ASAP and to continue normal business relations during the term of the Volume Agreement.
16. This Agreement shall cease if the Receiver is no longer in possession or control of the assets, properties and undertakings of Brushstrokes Fine Art Inc., for any reason, including having been discharged and /or by the issuance of an Order of the Ontario Court.

IKEA Supply AG

  
Brushstrokes Fine Art Inc.

*Paul J Luksha*

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IKEA Supply AG	Grüssenweg 15	Tel. ++41(0)58 853 56 00	SE-Bank, SE-106 40 Stockholm
	CH-4133 Pratteln	Fax ++41(0)58 853 56 01	SWIFT: ESSESESS
	Switzerland	MWST-Nr. 115 554	IBAN: SE26 5000 0000 0594 7820 0712 (EUR)



## APPENDIX "T"

BRUSHSTROKES FINE ART INC  
 BUDGET W/E JULY 15 2011, - SEPT 30, 2011  
 WITH COMPARISONS TO ACTUAL TO THE  
 WEEK ENDED JULY 29, 2011

	BUDGET		BUDGET		BUDGET		BUDGET	BUDGET	BUDGET	BUDGET		
	15-Jul	Actual	22-Jul	Actual	29-Jul	Actual	5-Aug	12-Aug	19-Aug	26-Aug	SEPT	
<b>Sales</b>												
Opening cash	89,141											
Greenfield Advances		25,000		130,000		65,000						
IKEA	0		0	0	0		175,069	0	73,397	100,940	600,000	
Other Retail	5,000	11,750	5,000	3,177	5,000	9,245		45,000	50,000	5,000	123,000	
HST Refund							46,461					
Portraits and Art	0	5,000	3,925	5,000	4,283	0	5,000	5,000	5,000	5,000	0	
	<u>89,141</u>	<u>10,000</u>	<u>40,675</u>	<u>10,000</u>	<u>137,460</u>	<u>5,000</u>	<u>74,245</u>	<u>231,530</u>	<u>50,000</u>	<u>128,397</u>	<u>110,940</u>	<u>723,000</u>
<b>Direct Expenses</b>												
ROYALTIES	2,572	2,572									10,000	
CONTINGENCY							5,000		5,000		5,000	
INSURANCE											1,500	
Klockner							17,628		43,878		14,458	
Ti Group	8,831	8,831	19,493				19,493			26,000	15,060	
Vacforming	3,000		0	0	0		0	0	0	0	17,009	
Horton Components			32,520	32,520	0		16,260	32,520		32,520	81,180	
Maderas	12,000		12,000	12,500			19,609	12,000	12,000	12,000	48,400	
Rapid Pallets	4,500	5,166	4,500	1,520			11,312	8,147	5,500	5,500	22,000	
Halltech							0		4,000		4,400	
Rexcel - Coating			3,000				0	4,500			3,300	
Nova Distex	7,207	7,198					11,982		7,207	7,207	12,100	
Freight Re Glue							800		800		880	
Repairs & Maintenance							750	750	750	750	2,750	
Plant Supplies	5,000			5,332	304	3,635	4,581	1,250	1,250	1,250	5,500	
Mexican Payroll and Overhead	10,000	7,027	15,000	9,166	20,000	20,000	15,000	15,000	15,000	15,000	60,000	
Mexican Rent	5,000	5,000	5,000		10,000	10,000	5,000	5,000	5,000	5,000	20,000	
Utilities				4,812	0			5,000			10,000	
Loan repayment	0		0	0			68,400				34,200	
Claim repayment							40,000				40,000	
Holmes Freight	1,200			650			1,200		1,200		1,200	
IWAY payments re employees						4,808	4,808				12,500	
Pat Hofacre	6,732	6,732						6,732		4,808	12,500	
Shipping	11,700	11,709	1,500	1,500			2,750	1,250	1,250	1,250	20,000	
Mexican Accountant	15,000							15,000	1,500		1,500	
Interest on new loans										4,875	7,500	
Professional fees											10,000	
Ikea Administration	1,500	0	1,500	0	1,500		1,500	1,500	1,500	1,500	5,000	
<b>Total IKEA Cost</b>	<u>0</u>	<u>94,242</u>	<u>54,235</u>	<u>94,513</u>	<u>68,000</u>	<u>36,612</u>	<u>42,442</u>	<u>241,264</u>	<u>108,649</u>	<u>105,835</u>	<u>176,860</u>	<u>465,437</u>
Rent Richmond Hill				32,137		12,857	38,565	12,855	12,855	12,855	38,565	
Payroll Richmond Hill	31,674	34,861			35,000	33,651		33,000		28,000	0	
Insurance		1,172										
Printers Parts - Ink			3,800								0	
Woolfit's - Paint												
UPS - courier	17,500		20,000		7,500	9,223	0	7,500	7,500			
Powerstream - Electricity	17,500	0		4,545				7,500				
Enbridge - Gas							1,500	2,500				
Bell Canada - Phone rental												
International Telephone - Long distance					650							
MTS Allstream - Internet		316						316				
Shop Supplies							1,142	2,864				
Shipping Supplies							500	500				
Klockner	2,200				3,394		3,394					
Accuwrap - Frames			7,500		7,220		3,610				3,610	
Stetcher Bars			7,500		19,334		9,667				9,667	
Larson Juhl/Michaelangelo - frames	1,500		500	1,580			1,500	6,520	1,500			
Office expenses						1,470	1,250	1,250	1,250	1,250		
Sales Expenses	0	0	0	0	0	0	650	8,500	750	0		
<b>Total Richmond Hill Cost</b>	<u>0</u>	<u>70,690</u>	<u>36,033</u>	<u>39,300</u>	<u>38,262</u>	<u>73,098</u>	<u>57,201</u>	<u>61,778</u>	<u>83,305</u>	<u>23,855</u>	<u>42,105</u>	<u>51,842</u>
<b>Net</b>	<u>89,141</u>	<u>-154,933</u>	<u>-49,593</u>	<u>-123,813</u>	<u>31,198</u>	<u>-104,710</u>	<u>-25,399</u>	<u>-71,512</u>	<u>-141,953</u>	<u>-1,293</u>	<u>-108,025</u>	<u>205,721</u>
<b>Cumulative</b>	89,141	-87,791	39,548	-211,604	70,746	-33,964	45,347	-26,165	-168,118	-169,412	-277,437	-71,716

NOTE: For budgeting purposes CDN & US dollars at treated as par

## APPENDIX "U"

**IRA SMITH TRUSTEE & RECEIVER INC. AS INTERIM RECEIVER & RECEIVER OF  
BRUSHSTROKES FINE ART INC.  
STATEMENT OF RECEIPTS AND DISBURSEMENTS  
FOR THE PERIOD JUNE 6, 2011 TO JULY 31, 2011**

<b>RECEIPTS</b>	CDN \$	US \$
Receiver's Certificate Borrowings	\$107,000	\$407,000
Pre-Receivership A/R Collection	40,896	163,629
Post Receivership A/R Collection		4,587
Transfer from US \$ Royal Bank A/C	<u>110,596</u>	
	258,492	<u>575,216</u>
 <b>DISBURSEMENTS</b>		
 <b>MEXICAN OPERATIONS</b>		
Labour		147,302
Purchases- Frames		97,540
Purchasrs-Stretcher Bars		36,565
Rent		30,000
Freight Costs		27,538
Purchases - Styrene		26,258
Purchases - Packaging		13,728
Purchases - Canvas		14,406
Purchases - Print Costs	7,290	
Utilities		9,112
Royalties		2,572
Purchases - Other		<u>8,634</u>
	<u>7,290</u>	413,654
 <b>RICHMOND HILL OPERATIONS</b>		
Transfer to Cdn \$ Royal Bank A/C		117,855
Payroll Expenses	166,504	
Rent - Richmond Hill	39,816	
Courier & Shipping	8,511	3,502
Foreign Exchange	7,338	
Utilities	4,022	
HST paid	7,568	
Printing	3,479	
Insurance	2,843	
Sales Expense	2,167	
Frames	1,398	
Miscellaneous expenses	<u>2,413</u>	
	246,059	<u>121,357</u>
 <b>BANK BALANCE JULY 31, 2011</b>	 <u><u>\$5,143</u></u>	 <u><u>\$40,204</u></u>

## APPENDIX "V"

Court File No. CV-11-9233-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**AFFIDAVIT OF IRA SMITH  
(Sworn August 4, 2011)**

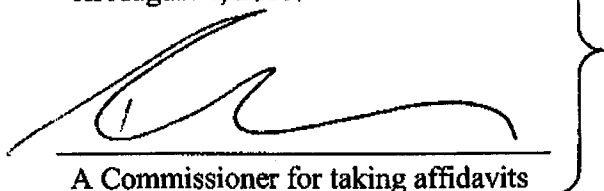
I, Ira Smith, of the City of Vaughan, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the President of Ira Smith Trustee & Receiver Inc. ("ISI"), the court-appointed interim receiver and receiver (the "**Receiver**") of Brushstrokes Fine Art Inc. (the "**Debtor**"). As such, I have knowledge of the matters hereinafter deposed to, except where stated to be on information and belief and whereso stated I verily believe it to be true.
2. ISI was appointed Receiver of all of the assets, properties and undertakings of the Debtor pursuant to an Order of the Ontario Superior Court of Justice dated June 6, 2011 (the "**Receivership Order**").
3. Pursuant to paragraph 18 of the Receivership Order, the Receiver and its legal counsel are required to pass their accounts from time to time.

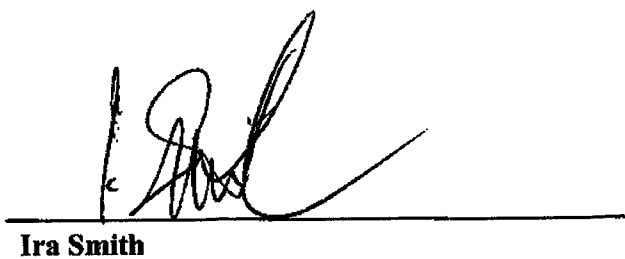


4. Attached hereto and marked as **Exhibit "A"** to this my Affidavit is a summary of the fees charged and accounts rendered by the Receiver in respect of the proceedings (the "**Accounts Summary**") for the period from May 24, 2011 to July 31, 2011 (the "**Time Period**"). A copy of the invoice rendered by the Receiver and referenced in the Accounts Summary are attached to this my Affidavit as **Exhibit "B"**.
5. The Receiver has filed its First Report with this Honourable Court, which outlines, among other things, the Receiver's overall actions and activities since June 6, 2011, the date of the Receivership Order.
6. A total of 485.6 hours were expended by the Receiver in connection with this matter during the Time Period, giving rise to fees totaling \$173,237.50 (excluding HST) for an average hourly rate of \$356.75 and allocated approximately as outlined in the Accounts Summary.
7. To the best of my knowledge, the rates charged by the Receiver throughout the course of these proceedings are comparable to the rates charged by other accounting firms in the Greater Toronto Area for the provision of similar services.
8. The hourly billing rates outlined on the Accounts Summary are the normal hourly rates charged by the Receiver for services rendered in relation to similar proceedings.
9. I verily believe that the Receiver's accounts are fair and reasonable in the circumstances.
10. Attached as Exhibit "A" to the Affidavit of Kenneth Rosenberg sworn August 4, 2011 and filed in support of the within motion are copies of the accounts rendered by Paliare Roland Rosenberg Rothstein LLP ("**Paliare**"), counsel to the Receiver, for the period from June 2, 2011, to July 31, 2011.
11. Paliare has rendered services throughout these proceedings consistent with instructions from the Receiver, the Receiver has approved all such accounts and I verily believe that the fees and disbursements of Paliare are fair and reasonable in the circumstances.
12. The said Affidavit is sworn in connection with the Receiver's motion to have, among other things, its fees and disbursements approved by this Honourable Court and for no improper purpose.

SWORN BEFORE ME at the City of  
Vaughan, in the Province of Ontario,  
on August 4, 2011.



A Commissioner for taking affidavits



Ira Smith

**Brandon Smith, a Commissioner,  
etc., Province of Ontario, for Ira  
Smith Trustee & Receiver Inc.,  
Trustee in Bankruptcy. Expires  
May 2, 2014.**

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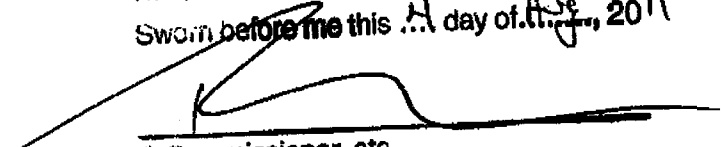
EXHIBIT "A"

IRA SMITH TRUSTEE & RECEIVER INC.  
INTERIM RECEIVER AND RECEIVER OF  
BRUSHSTROKES FINE ART INC.

MAY 24, 2011 -- JULY 31, 2011

Staff Member	Title	Total Hours	Hourly Rate (\$/hr)	Amount Billed (\$/CDN)
Ira Smith MBA, CA•CIRP, Trustee	President	145.4	425.00	61,795.00
Brandon Smith BA	Senior Vice-President	145.7	350.00	50,995.00
Martin Wolfe CA	Senior Consultant	178.7	325.00	58,077.50
Cheryl Deshane	Associate	<u>15.8</u>	150.00	<u>2,370.00</u>
<b>Total</b>		<b><u>485.6</u></b>	<b>Average hourly rate of \$356.75</b>	<b>173,237.50</b>
<b>Disbursements</b>				<b>4,905.41</b>
<b>Net Fees and Disbursements (excluding HST)</b>				<b><u>178,142.91</u></b>

This Exhibit A referred to in the Affidavit of IRA SMITH sworn before me this 11 day of Aug, 2011

  
A Commissioner, etc.

Brandon Smith, a Commissioner, etc., Province of Ontario, for Ira Smith Trustee & Receiver Inc., Trustee in Bankruptcy. Expires May 2, 2014.

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EXHIBIT "B"



167 Applewood Cres. Suite 6, Concord, ON L4K 4K7  
Phone: 905.738.4167  
Fax: 905.738.9848  
irasmithinc.com

R-BRUSHSTROKES

GST/HST # 86236 5699

August 4, 2011

IN THE MATTER OF THE RECEIVERSHIP OF  
BRUSHSTROKES FINE ART INC.

For professional services rendered for the period from May 24, 2011 to July 31, 2011 inclusive, in acting as Receiver of Brushstrokes Fine Art Inc. in accordance with the Order of the Ontario Superior Court of Justice (Commercial List) dated June 6, 2011 as follows (detail attached):

<u>Staff</u>	<u>Hourly rate</u>	<u>Hours</u>	
I. Smith, President and Trustee	\$425	145.4	
B. Smith, BA, Senior Vice-President	\$350	145.7	
M. Wolfe, CA, Senior Consultant	\$325	178.7	
C. Deshane, Associate	\$150	15.8	
		<u>485.6</u>	\$ 173,237.50

Disbursements (May 24 to July 26, 2011):

Phone/Long Distance/Fax/Webhosting	\$1,236.62	
Postage	258.60	
Parking/Mileage/Travel	3,258.19	
PPSA and VIN searches	20.00	
Courier	<u>132.00</u>	
		<u>4,905.41</u>

This Exhibit B referred to in the Affidavit of IRA SMITH  
 Sworn before me this 4 day of Aug, 2011

HST 23,158.58  
\$ 201,301.49

A Commissioner, etc.  
 Brandon Smith, a Commissioner, etc., Province of Ontario, for Ira Smith Trustee & Receiver Inc., Trustee in Bankruptcy. Expires May 2, 2014.

Account Due When Rendered

Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Date	Employee	Hours	Remark	Amount
Brushstrokes					
				Full Estate Name In the Matter of the Receivership of Brushstrokes Fine Art Inc.	
	24/05/2011	Ira Smith	2.1	Meeting w. AOJ and Paul Luksha to get introduced to Brushstrokes mandate and to discuss options	892.50
	25/05/2011	Ira Smith	1.8	Review of documents, prep of eng letter, telcons w. P. Luksha re possible receivership, issuance of draft eng letter and wire instructions	765.00
	26/05/2011	Ira Smith	0.6	Rvw of docs re Court application	255.00
	26/05/2011	Ira Smith	2.4	Telcons w. P. Luksha and D. Yinga re draft eng letter, changes to draft eng letter for finalization and issuance, receipt of signed engagement letter, issuance of wire instructions re retainer funds, prep of Consent and issuance to AOJ	1,020.00
	02/06/2011	Ira Smith	7.1	Travel to and from and attend in Court for appointment application and various discussions with legal counsel	3,017.50
	03/06/2011	Brandon Smith	2.0	travel to from and attend at Richmond hill premises re changing locks and mtg w/ Paul & Mario	700.00
	06/06/2011	Brandon Smith	7.0	travel to from and attend at brushstrokes, whole day meetings with Paul, Greg and others	2,450.00
	06/06/2011	Ira Smith	9.2	Rcpt and rvw of Court Orders, planning for receivership, travel to Brushstrokes upon appt, telcons w. AOJ and MS, attendance at site and meet with P. Luksha, controller, H. Wine, staff, begin receivership	3,910.00
	07/06/2011	Brandon Smith	7.2	TC w/ HSBC confirming account freeze, fwd insurance docs to FCA for opinion, rvw docs being sent by Greg, travel to from and attend at Brushstrokes; for meetings w/ M. Wolfe, H Wine, Paul, Greg etc; conf call w/ greenfield and Ikea	2,520.00

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Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		07/06/2011	Brandon Smith	0.5	run ppsa search, TC w/ M. Wolfe; tc w/ Sia at canam re appraisal; tc w/ Paul re tomorrow; run vin search on co owned vehicle	175.00
		07/06/2011	Ira Smith	1.8	Rvw of information provided re IKEA, rvw of information provided by Greg and Paul re costs, email to IKEA re Court Order, emails from and to Gary Graver re RBC accounts	765.00
		07/06/2011	Ira Smith	0.9	Telcon w. J. Rye, G. Grave (Greenfield), Paul Luksha, Mark (Brushstrokes), Brandon, Dev of IKEA re IKEA relationship	382.50
		07/06/2011	Ira Smith	0.3	Telcon w. John Rye, Paul Luksha, Brandon Smith post IKEA call	127.50
		07/06/2011	Martin Wolfe	6.5	meet with B Smith, review and summarize leases, prepare memo, review minute book, summarize & prepare memo, meet with Greg	2,112.50
		08/06/2011	Brandon Smith	8.5	meetings on site with I. Smith & Paul, Mitch Wine, Sia (for inventory and appraisal), Mario, Greg, Entire "Executive Team"; TC w/ creditor Horton; Draft 245/246 report; instruct Cheryl re creds mail merge; banking re deposit a/r	2,975.00
		08/06/2011	Ira Smith	0.8	Rvw of payroll, GL, internal financial statement info provided by controller	340.00
		08/06/2011	Ira Smith	2.6	Brushstrokes senior management meeting, dealing with P. Luksha and B. Smith on operational issues	1,105.00
		08/06/2011	Ira Smith	1.6	Operations issues dealing with Paul Luksha, Brandon Smith, Mark Kalef	680.00
		08/06/2011	Ira Smith	1.3	Travel to Brushstrokes, meeting w. Paul L and Brandon S. to go over issues, meet with Sia Mizrahi Can-am Appraisal re inventory testing	552.50
		08/06/2011	Ira Smith	1.4	Meeting w. Mitchell Wine and Brandon Smith	595.00

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Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname  
Brushstrokes

Full Estate Name  
In the Matter of the Receivership of Brushstrokes Fine Art Inc.

Date	Employee	Hours	Remark	Amount
09/06/2011	Brandon Smith		9.5 meetings on site w/ Paul; tc and ltr to insurance co; TC's w/ G. grave re banking arrangements; emails and TC's w/ TD re banking arrangements; conf call w/ Gary, Paul and ire re Mexico and Ikea; conf call w/ Paul, pat and ire re Mexico and Ikea; process pay	3,325.00
09/06/2011	Cheryl Deshane		3.4 Preparation of creditors list	510.00
09/06/2011	Ira Smith		0.3 Review and changes to 245 draft report	127.50
09/06/2011	Ira Smith		0.3 Telcon w. Nancy Kirakos, former employee of Brushstrokes	127.50
09/06/2011	Ira Smith		0.6 June 17 payroll advance prep, rww and signing of cheques	255.00
09/06/2011	Ira Smith		1.2 Conference call w. Pat Hofacre, Paul Luksha, Greg C., Brandon Smith re Mexican ops and needs for IKEA production	510.00
09/06/2011	Ira Smith		0.8 Rvw of Max Starnino changes to employee letter and 245 report, finalization of same	340.00
09/06/2011	Ira Smith		1.2 Conference call w. Greenfield and Paul re IKEA discussions today and needs to start IKEA production again	510.00
09/06/2011	Ira Smith		0.9 Drafting employee letter, email to RBC, email of draft employee letter to Max Starnino, email of draft 245 report to Max Starnino	382.50
09/06/2011	Martin Wolfe		4.8 Commence disbursement review	1,560.00
09/06/2011	Martin Wolfe		0.5 Travel time to Client	162.50
10/06/2011	Brandon Smith		2.0 travel to and attend at site for meetings w/ p. Luksha and distribute payroll	700.00
10/06/2011	Cheryl Deshane		6.2 Creditor mailing, listings, labels, mailing	930.00
10/06/2011	Ira Smith		0.6 Email to lawyers and David Vinga with update from this week w. attachments, email to AOJ re pot purchaser	255.00
10/06/2011	Ira Smith		0.3 Telcon w. Paul Luksha and Greg C. re Mexican funding and IKEA	127.50

Ira Smith Trustee & Receiver Inc.  
 Detail Time Sheet  
 Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	10/06/2011	Ira Smith		0.2 Received Cert no 2 and email to Greenfield	85.00
		10/06/2011	Ira Smith		1.2 Emails to and from P. Luksha, telcon w. P. Luksha, letter to M. Wine and issuance thereof	510.00
		10/06/2011	Martin Wolfe		7.0 Disbursement review	2,275.00
		10/06/2011	Martin Wolfe		0.2 Spoke with employee(Naiman) re his enquiry O/S payroll	65.00
		11/06/2011	Brandon Smith		1.0 emails and tc w/ p. Luksha, make travel arrangements for meetings in El Paso	350.00
		13/06/2011	Cheryl Deshane		0.2 creditor call, disc. with B. Smith same re: dealing with creditors	30.00
		13/06/2011	Ira Smith		0.3 Payroll cheque distribution and confirmation	127.50
		13/06/2011	Ira Smith		6.1 Attend all day at Brushstrokes and meetings w. P. Luksha, C. Domingo, G. Carkner re assets and operations	2,592.50
		13/06/2011	Ira Smith		0.4 Telcons w. B. Smith re operational issues and his trip w. P. Luksha to El Paso today	170.00
		13/06/2011	Ira Smith		2.1 Rvw of report of Accrual Corporate Valuations & Advisory Services re inventory	892.50
		13/06/2011	Martin Wolfe		4.8 complete disbursement review and prepare memo	1,560.00
		13/06/2011	Martin Wolfe		1.4 review GL, A/R for familiarization and discuss with G Carkner	455.00
		14/06/2011	Cheryl Deshane		0.1 Creditor correspondence	15.00
		14/06/2011	Ira Smith		3.4 Various meetings at Brushstrokes to deal with all operational issues	1,445.00
		14/06/2011	Martin Wolfe		1.8 review payroll from Ceridian records	585.00
		14/06/2011	Martin Wolfe		4.3 commence review of historical balance sheet to determine realizable values	1,397.50
		14/06/2011	Martin Wolfe		0.4 emails and make payment to restore security alarm	130.00
		14/06/2011	Martin Wolfe		0.3 identify and deal with health and safety issues	97.50
		14/06/2011	Martin Wolfe		0.5 other discussions with staff	162.50

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Ira Smith Trustee & Receiver Inc.  
 Detail Time Sheet  
 Period from: 24/05/2011 to 31/07/2011

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Keyname	Date	Employee	Hours	Full Estate Name	Remark	Amount
Brushstrokes	15/06/2011	Brandon Smith	34.0	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	From June 13 to June 15 - travel to from and attend in El Paso TX w/ P. Luksha, 2 meetings with Dev (Ikea), 2 meetings El Paso Warehouse Inventory, meetings w/P Hofacre (not incl non-travel downtime)	11,900.00
	15/06/2011	Cheryl Deshane			0.2 Tele call with OR re: Notice, email same	30.00
	15/06/2011	Cheryl Deshane			0.1 Creditor call	15.00
	15/06/2011	Cheryl Deshane			0.2 fax to OR	30.00
	15/06/2011	Ira Smith			0.4 Telcon w. UPS re o/s amount and issues to reinstate account	170.00
	15/06/2011	Ira Smith			0.4 Banking	170.00
	15/06/2011	Ira Smith			0.1 Signing of revised Receiver's 245/246 Report for OR	42.50
	15/06/2011	Ira Smith			2.1 Various emails re o/s amounts, operational issues, PINS from B. Smith re El Paso visit	892.50
	15/06/2011	Martin Wolfe			5.5 review balance sheet accounts in detail	1,787.50
	16/06/2011	Brandon Smith			6.0 update banking records, produce cheques, email corresp w/ P. Hofacre and G. Carkner; TC's w/ creditors; Mtg w/ I Smith; memo re trip to Elpaso	2,100.00
	16/06/2011	Cheryl Deshane			0.2 Creditor calls	30.00
	16/06/2011	Ira Smith			0.7 Meeting w. B. Smith to get summary of Texas trip and accomplishments with. IKEA	297.50
	16/06/2011	Ira Smith			0.7 Emails re various operational issues	297.50
	16/06/2011	Ira Smith			0.4 Telcon w. J. Rye and G. Greve of Greenfields re Texas trip and secured creditor funding for go forward	170.00
	16/06/2011	Ira Smith			0.3 Telcon w. M. Wolfe re his FS review and requests of G. Carkner	127.50
	16/06/2011	Ira Smith			3.6 Travel to and attend Brushstrokes to review with M. Wolfe work, discs w. Christine Domingo, Paul Luksha and ADJ re business issues, staff meeting re unpaid wages	1,530.00

Ira Smith Trustee & Receiver Inc.  
 Detail Time Sheet  
 Period from: 24/05/2011 to 31/07/2011

Keyname	Date	Employee	Hours	Full Estate Name	Remark	Amount
Brushstrokes				In the Matter of the Receivership of Brushstrokes Fine Art Inc.		
	16/06/2011	Ira Smith		0.2 Telcon w. C. Domingo re certain factory labour issues		85.00
	16/06/2011	Ira Smith		0.2 Telcon w. peer1 and payment by CC re network continuing to operate		85.00
	16/06/2011	Martin Wolfe		1.4 prepare summary of certain assets and carrying values		455.00
	16/06/2011	Martin Wolfe		review accounts receivable, determine balance @ June 7, analyze balances of corporate accounts over 120 days		-
	16/06/2011	Martin Wolfe		3.6 and meet with Greg & Mark to determine accuracy and collectability		1,170.00
	16/06/2011	Martin Wolfe		1.6 review financial statements from 2003-2010 for information		520.00
	16/06/2011	Martin Wolfe		0.5 miscellaneous discussions and info requests		162.50
	17/06/2011	Brandon Smith		3.0 conf call w/ P Luksha and Greenfield; rw appraisal and memo from canam fwd to Paul, corresp w/ Sia; corresp w/ unsec cred; corresp w/ 30d goods claimant; corresp w/ RBC; TC w/ P Hofacre		1,050.00
	17/06/2011	Cheryl Deshane		0.1 Creditor call		15.00
	17/06/2011	Ira Smith		0.6 Conf call w. Greenfield, Paul Luksha, Brandon and AOJ re issues and plan for going forward		255.00
	17/06/2011	Ira Smith		0.4 Follow up phone call with AOJ re issues and next steps flowing from conference call		170.00
	17/06/2011	Martin Wolfe		0.8 obtain and review corporate documentation of Mexico co.		260.00
	17/06/2011	Martin Wolfe		0.7 attend at Royal Bank to sign account documentation		227.50
	17/06/2011	Martin Wolfe		1.1 review details of corporate accounts receivable with Anton		357.50
	17/06/2011	Martin Wolfe		3.3 review accounts payable as updated		1,072.50
	17/06/2011	Martin Wolfe		1.2 examine BluePay credit card clearing arrangement, agreement & correspondence		390.00
	20/06/2011	Brandon Smith		0.3 creditor correspondence		105.00

Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

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Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		20/06/2011	Brandon Smith		2.0 travel to from and attend at mtg w/ RBC and Paul/Greg /Marty& ira at Brushstrokes	700.00
		20/06/2011	Brandon Smith		0.2 email from Mitch re missing creds, respond	70.00
		20/06/2011	Brandon Smith		0.3 letter to Paul and Marty for signing re supplier pmt.	105.00
		20/06/2011	Brandon Smith		0.7 TC w/ RBC re wire and on-line access; rvw email and banking docs, execute same	245.00
		20/06/2011	Ira Smith		0.8 Travel back to office and issuance of Rec. Cert no. 3	340.00
		20/06/2011	Ira Smith		3.6 Attendance at Brushstrokes and dealing with all review matters for books and records w. Marty Wolfe, dealing with operational matters with Paul Lukshaw and discs w. Mitch Wine	1,530.00
		20/06/2011	Martin Wolfe		1.7 additional work to value balance sheet items	552.50
		20/06/2011	Martin Wolfe		5.0 travel to Buffalo to receive mail and revive account	1,625.00
		21/06/2011	Brandon Smith		0.4 respond to telephone and email queries from creditors; advise BFI that we will post June 6th service	140.00
		21/06/2011	Brandon Smith		3.7 travel to form and attend at brushstrokes for mtg w/ Paul and Greg, attend with Paul at RBC for wire transfers	1,295.00
		21/06/2011	Brandon Smith		0.3 VM from Greg, TC w/ RBC and emails re wire	105.00
		21/06/2011	Ira Smith		2.4 Various operating issues w. C. Domingo and P. Lukshaw	1,020.00
		21/06/2011	Ira Smith		3.2 Operational matters with Mario, Paul, employee termination letters and matters with Christine Domingo, emails and telcons re same, issuance of termination letters	1,360.00
		21/06/2011	Martin Wolfe		3.5 assist onsite with receivership and operational matters	1,137.50
		22/06/2011	Brandon Smith		3.0 emails w/ Greg and Christine re payroll and other matters; activate RBC online banking	1,050.00
		22/06/2011	Brandon Smith		1.0 emails/TCS w/ unsec creds; emails and letters re insurance; issue pmt for June premium	350.00

Ira Smith Trustee & Receiver Inc.  
 Detail Time Sheet  
 Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		22/06/2011	Cheryl Deshane	0.1	Updating creditor list Master	15.00
		22/06/2011	Cheryl Deshane	0.1	Emails with Marty re: additional creditors	15.00
		22/06/2011	Cheryl Deshane	0.4	Creditor call and correspondence	60.00
		22/06/2011	Martin Wolfe	0.8	review credit insurance policy	260.00
		22/06/2011	Martin Wolfe	1.2	determine additional creditors and advise	390.00
		22/06/2011	Martin Wolfe	1.4	balance sheet review	455.00
		22/06/2011	Martin Wolfe	1.5	analysis of prepaid	487.50
		22/06/2011	Martin Wolfe	2.3	organize file	747.50
		23/06/2011	Brandon Smith	3.0	emails and telephone calls w/ Paul/Greg/Christine cut cheques for suppliers; have chq for Ceridian certified and send	1,050.00
		23/06/2011	Brandon Smith	1.0	tc's and emails w fr employees, unsec creds and Christine	350.00
		23/06/2011	Cheryl Deshane	0.9	Updating Master Creditor listing per B. Smith	135.00
		23/06/2011	Cheryl Deshane	0.1	Creditor call	15.00
		23/06/2011	Cheryl Deshane	1.0	Sending (Fax/email) notices to creditors per M. Wolfe	150.00
		23/06/2011	Martin Wolfe	0.8	review bank statements of July 2010 and obtain responses	260.00
		23/06/2011	Martin Wolfe	0.8	review file items with I Smith	260.00
		23/06/2011	Martin Wolfe	0.3	advise B Smith of cancellation of Continental Insurance policy	97.50
		23/06/2011	Martin Wolfe	1.5	prepare list of cash requirements and review with P Luksha	487.50
		24/06/2011	Brandon Smith	1.0	emails from Paul re Ikea, conf call and return poa for customs broker	350.00
		24/06/2011	Brandon Smith	1.0	emails w/ D. more re 30 day goods, emails re patent renewal; TC re insurance coverage to replace Continental transport policy	350.00
		24/06/2011	Brandon Smith	1.0	instructions to Christine re vacation days and calculating weppa	350.00
		24/06/2011	Ira Smith	0.7	Email report to Greenfield as lender to Receiver and cc legal counsel et al	297.50

Ira Smith Trustee & Receiver Inc.  
Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	24/06/2011	Ira Smith		4.9 Travel to and from and meeting at Brushstrokes, discs w. M. Wolfe, P. Lukshaw and C. Domingo, nrw of B/S nrw of book to estimated actual	2,082.50
		24/06/2011	Ira Smith		2.1 Rvw of emails re outstanding issues, C. Domingo emails re employees and WEPPA, telcon w. P. Luksha re most recent Ikea email, Email to P. Luksha re points to follow up on, Prep of power of attorney and email to Dev at Ikea and others re giving P. Luksha POA	892.50
		27/06/2011	Brandon Smith		2.0 emails re misc matters w/ creds, suppliers, Paul & Marty	700.00
		27/06/2011	Cheryl Deshane		0.3 Creditor call and emails	45.00
		27/06/2011	Cheryl Deshane		0.1 Creditor corresp	15.00
		27/06/2011	Martin Wolfe		1.3 budgeting and cash flow discussions	422.50
		27/06/2011	Martin Wolfe		1.5 decide on accounting system and install QuickBooks	487.50
		27/06/2011	Martin Wolfe		1.0 discuss with Greg & Christine royalty issues for review	325.00
		28/06/2011	Brandon Smith		1.0 EMAILS W/ MARTY RE BANKING AND QB; EMAIL TO SIA; TCS W/ UNSEC CRED	350.00
		28/06/2011	Brandon Smith		1.5 emails re June 30 payroll and issue chq to Ceridian; issuance of small residual amounts to terminated employees	525.00
		28/06/2011	Cheryl Deshane		0.2 Creditor correspondence	30.00
		28/06/2011	Ira Smith		2.4 various emails re ops, telcon w. J Rye and G Grave, emails w P Luksha, travel to and from and meet w P Luksha and M Wolfe, emails re payroll this week	1,020.00
		28/06/2011	Martin Wolfe		0.6 order cheques for Brushstrokes	195.00
		28/06/2011	Martin Wolfe		0.4 emails to P Luksha re terminated employees on premises	130.00
		28/06/2011	Martin Wolfe		0.8 assistance with Payroll preparation	260.00
		28/06/2011	Martin Wolfe		1.2 assistance with budget preparation	390.00

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Ira Smith Trustee & Receiver Inc.  
Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		28/06/2011	Martin Wolfe	1.5	additional balance sheet analysis	487.50
		29/06/2011	Brandon Smith	1.5	corresp w/ ins. Companies re confirming and revising coverage; corresp. w/ Sia re liquidation proposal, corresp w/ Christine re employees, payroll and termination letters, amend termination ltr for laid off employees not being called back	525.00
		29/06/2011	Ira Smith	0.4	Transmittal letter for Ceridian Canada, rvw of emails re opinion	170.00
		29/06/2011	Martin Wolfe	1.3	banking and wire transfers and setting up templates	422.50
		29/06/2011	Martin Wolfe	0.8	meet with Anton re receivables	260.00
		29/06/2011	Martin Wolfe	2.6	attend office obtain payroll cheque to certify at TD and take to Ceridian	845.00
		29/06/2011	Martin Wolfe	0.6	dealing with internet not operational	195.00
		30/06/2011	Brandon Smith	1.5	travel to from and attend at site for discussion w/ m. Wolfe, c. Domingo, g. Carkner; rvw files in M. Wine's office; corresp w/ artists/unsec creds	525.00
		30/06/2011	Cheryl Deshane	0.1	Creditor corresp.	15.00
		30/06/2011	Martin Wolfe	2.3	begin review of intangible assets	747.50
		30/06/2011	Martin Wolfe	0.9	make wire transfers and review banking	292.50
		04/07/2011	Brandon Smith	0.1	TC w/ Adamo - Ikea artists ad advised we are still awaiting agreement w/ Ikea before we know about arrears or go-forward	35.00
		04/07/2011	Brandon Smith	0.5	issue pmts; corresp re A/R stop pmt	175.00
		04/07/2011	Brandon Smith	0.4	corresp re replacement transport insurance	140.00
		04/07/2011	Cheryl Deshane	0.3	Creditor correspondence X3	45.00
		04/07/2011	Martin Wolfe	1.4	operational issues reviewed with Greg & Paul	455.00
		04/07/2011	Martin Wolfe	3.6	review intangible asset files\	1,170.00
		05/07/2011	Brandon Smith	0.4	emails w/ Marty/Greg/unsec creds/Mitch wine	140.00

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**Ira Smith Trustee & Receiver Inc.**  
**Detail Time Sheet**  
**Period from: 24/05/2011 to 31/07/2011**

Keyname	Date	Employee	Hours	Remark	Amount
Brushstrokes	05/07/2011	Martin Wolfe	1.3	update budget and cash flow	422.50
	05/07/2011	Martin Wolfe	0.6	inventory/royalty discussion with Greg & Christine	195.00
	05/07/2011	Martin Wolfe	3.2	review intangible asset files	1,040.00
	05/07/2011	Martin Wolfe	0.4	additional cash flow discussion	130.00
	05/07/2011	Martin Wolfe	0.3	wire transfers	97.50
	05/07/2011	Martin Wolfe	0.3	enquire about National Leasing leased equip	97.50
	05/07/2011	Martin Wolfe	5.0	emails/telephone calls/discussions w/ M. Wolfe, I. Smith, G. Carkner, C. Domingo, P. Hofacre, J. Ordon; travel to form and attend at brushstrokes for mtg w. Danbury	1,750.00
	06/07/2011	Brandon Smith	0.1	creditor correspondence	15.00
	06/07/2011	Cheryl Deshane	2.1	Mtg w. Brandon to go over royalty issues, mtg. w. M. Wolfe re Balance sheet review and other operational matters	892.50
	06/07/2011	Ira Smith	0.5	meet with Anton re receivables	162.50
06/07/2011	Martin Wolfe	3.0	review intangible asset files	975.00	
06/07/2011	Martin Wolfe	0.8	review accounting records with Greg	260.00	
07/07/2011	Martin Wolfe	3.5	emails re Ikea and conf calls w/ Paul, Dev, Ira and greenfield; emails w/ Greg et al re ops, mail and Ikea	1,225.00	
07/07/2011	Brandon Smith	1.2	Conf call w. Greenfield, Paul Luksha, Dev Isemeyer of Ikea	510.00	
07/07/2011	Ira Smith	0.7	communications re new Ikea claims	227.50	
07/07/2011	Martin Wolfe	0.6	arrangements for wires	195.00	
07/07/2011	Martin Wolfe	0.7	communications re maintenance of accounting system	227.50	
07/07/2011	Martin Wolfe	1.8	budgeting cash needs and payment priorities	585.00	
07/07/2011	Martin Wolfe	0.6	discussion & emails re maintain EDC insurance policy	195.00	
07/07/2011	Martin Wolfe	0.8	Telcon w. AOJ re issues	340.00	
08/07/2011	Ira Smith	0.3	Rvw of Ikea Brushstrokes Proposal, amendments thereto and email to Dev et al	127.50	

Ira Smith Trustee & Receiver Inc.  
Detail Time Sheet  
Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	08/07/2011	Ira Smith	0.2	Rvw of email from Brandon S. re Orlando Corp position	85.00
		08/07/2011	Martin Wolfe	2.8	continue reviewing intangible asset files	910.00
		08/07/2011	Martin Wolfe	1.2	establish PO log and determine future liabilities	390.00
		08/07/2011	Martin Wolfe	0.6	discussions on holding back new purchase orders	195.00
		08/07/2011	Martin Wolfe	0.6	monitor banking and arrange account transfers	195.00
		08/07/2011	Martin Wolfe	2.2	review and update budget, cash vs. budget schedules and make recovered for borrowing requirements	715.00
		08/07/2011	Martin Wolfe	0.7	discussion with P Luksha of necessity for controls in Mexico purchases and system to implement	227.50
		11/07/2011	Ira Smith	0.6	Telcon w. M. Starnino re sales process and S. O'Donnell communication re Ikea litigation	255.00
		11/07/2011	Ira Smith	1.3	Rvw of O'Donnell letter, research on sale approval issues re intangibles and email cases to M. Starnino, email IKEA docs to M. Starnino	552.50
		11/07/2011	Ira Smith	0.4	Telcon w. M. Wolfe re cash flow	170.00
		11/07/2011	Martin Wolfe	0.5	discussion with I Smith re budget and cash requirements	162.50
		11/07/2011	Martin Wolfe	0.4	email request P Hofacre and review details for wire transfers	130.00
		11/07/2011	Martin Wolfe	3.5	organize file in a suitable format and transfer to Brushstrokes on server	1,170.00
		11/07/2011	Martin Wolfe	0.6	review receivables with Anton	195.00
		11/07/2011	Martin Wolfe	2.8	complete current value balance sheet and submit to I Smith for review	910.00
		12/07/2011	Brandon Smith	2.0	TCs emails, calculations for cash flow and borrowing needs	700.00
		12/07/2011	Ira Smith	1.7	Dealing with various operational issues including Ikea, go-forward funding and this week's payroll needs, including emails to P. Luksha, M. Wolfe and C. Domingo	722.50

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Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

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Keyname	Date	Employee	Hours	Full Estate Name	Remark	Amount
Brushstrokes				In the Matter of the Receivership of Brushstrokes Fine Art Inc.		
	12/07/2011	Ira Smith			0.6 Letter to M. Wine re attendance at property, Mexican entity and Ikea meeting	255.00
	12/07/2011	Ira Smith			0.2 Telcon w. M. Starnino re S. O'Donnell request for meeting on Ikea	85.00
	12/07/2011	Ira Smith			0.6 Telcon w. AOJ re Greenfield agreement to stalking horse bid process	255.00
	12/07/2011	Ira Smith			0.9 Conf call w. AOJ, Jay Matthews and Max Starnino re potential options for sales process	382.50
	12/07/2011	Ira Smith			0.3 Telcon w. M. Wolfe re cash flow needs	127.50
	12/07/2011	Martin Wolfe			0.8 review financial requirements	260.00
	13/07/2011	Brandon Smith			1.0 email re payroll, maries car and wires; telephone calls emails re creditors and power stream	350.00
	13/07/2011	Ira Smith			0.6 Various emails w. P. Luksha, M. Wolfe, B. Smith re funds on hand and funds needs	255.00
	13/07/2011	Ira Smith			0.1 Emails w. M. Wine re meeting tomorrow and Mexico issue	42.50
	13/07/2011	Martin Wolfe			0.4 royalty discussion with Christine re "Rosenstein"	130.00
	13/07/2011	Martin Wolfe			1.3 review and update new versions of budget and cash flow with Greg & Paul	422.50
	13/07/2011	Martin Wolfe			0.8 arrange bank transfer and wires	260.00
	13/07/2011	Martin Wolfe			2.3 review intangible asset files	747.50
	13/07/2011	Martin Wolfe			0.6 review current cash needs with P Luksha	195.00
	14/07/2011	Brandon Smith			3.0 emails and telephone calls w/ creds; prep weppa qualification schedule; review weppa legislation and TC w/ svc Canada; determine non terminated employees ineligible and apply for extension; attend at power stream re discussion re sec deposit	1,050.00

Ira Smith Trustee & Receiver Inc.  
Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		14/07/2011	Ira Smith	0.4	Telcon w. P. Luksha re funding needs, telcon w. G. Greve re new Rec's Cert, prep and issuance of Rec's Cert	170.00
		14/07/2011	Ira Smith	1.6	Mtg w. M. Starnino to go over issues prior to mtg tomorrow w. M. Wine and S. O'Donnell	680.00
		14/07/2011	Ira Smith	0.7	telcon w. M. Wolfe, emails w. P. Luksha re opinion, emails w. M. Starnino and S. O'Donnell re mtg today and amending to tomorrow	297.50
		14/07/2011	Martin Wolfe	0.6	finalize budget and cash flow for discussion	195.00
		14/07/2011	Martin Wolfe	0.5	review A/R with Anton	162.50
		14/07/2011	Martin Wolfe	2.4	update memos re balance sheet items	780.00
		14/07/2011	Martin Wolfe	0.6	advise Christine on preparation of Royalty schedule	195.00
		15/07/2011	Brandon Smith	0.5	emails re insurance, issue installment pmnt	175.00
		15/07/2011	Ira Smith	1.8	Participate by telephone in meeting with M. Wine, M. Starnino, S. O'Donnell re Ikea and other matters	765.00
		15/07/2011	Ira Smith	0.7	Prep for meeting this afternoon w. M. Wine, M. Starnino, S. O'Donnell	297.50
		15/07/2011	Ira Smith	0.8	Rvw of cash flow w. M. Wolfe prior to his conf call w. Greenfield, email reply to Ikea re o/s issues, email from M. Wolfe re Greenfield telcon	340.00
		15/07/2011	Martin Wolfe	0.8	conference call G Greve, P Luksha, G Carkner and M Wolfe re budget	260.00
		15/07/2011	Martin Wolfe	0.6	review updated budget based on G Greve recommendations	195.00
		15/07/2011	Martin Wolfe	1.6	review bank statements of Mexican account	520.00
		15/07/2011	Martin Wolfe	1.4	review intangible asset files	455.00
		18/07/2011	Brandon Smith	0.3	tc w/ Lucy at weppa re confirming extension	105.00
		18/07/2011	Brandon Smith	0.5	corresp re WEPPA, landlord's demand and insurance on van	175.00

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Ira Smith Trustee & Receiver Inc.  
 Detail Time Sheet  
 Period from: 24/05/2011 to 31/07/2011

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Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	18/07/2011	Brandon Smith		0.2 tc w. A. Maerov at McMillan - lawyer for Orlando	70.00
		18/07/2011	Ira Smith		2.8 Attend at premises, discs w. M. Wolfe and P. Luksha re opinion, meet with M. Wine re Mexico and Ikea, disc w. G. Carkner re cash flow	1,190.00
		18/07/2011	Martin Wolfe		1.2 review intangible asset files	390.00
		18/07/2011	Martin Wolfe		1.5 assist Greg and review actual to budget and update budget	487.50
		18/07/2011	Martin Wolfe		0.3 review analysis of Michael's receivable	97.50
		18/07/2011	Martin Wolfe		0.5 discussion with Christine re preparation of outstanding Royalties	162.50
		19/07/2011	Brandon Smith		0.5 TCs and emails w/ Landlord's lawyer; class w/ unsec creds; emails re inventory	175.00
		19/07/2011	Cheryl Deshane		0.2 Bank reconciliation	30.00
		19/07/2011	Ira Smith		3.6 Rvw of cash flow budget, prep of letter to Greenfield, issuance of letter re funding	1,530.00
		19/07/2011	Martin Wolfe		1.4 add additional Brushstroke items to server	455.00
		19/07/2011	Martin Wolfe		1.6 review o/s purchase orders, prepare schedule for funding requirements and advise I Smith	520.00
		20/07/2011	Brandon Smith		3.0 Numerous emails, TCs, discussions re brushstrokes - unsec creds/financing/potential purchasers/appraisals/pmt of post June 6th obligations	1,050.00
		20/07/2011	Martin Wolfe		0.7 review and approve wire payments to suppliers	227.50
		20/07/2011	Martin Wolfe		0.6 review with P Luksha funding requirements	195.00
		20/07/2011	Martin Wolfe		0.8 confirm payment due date for various patents	260.00
		20/07/2011	Martin Wolfe		3.0 assist with operational matters	975.00
		20/07/2011	Martin Wolfe		0.8 review A/R	260.00

Ira Smith Trustee & Receiver Inc.  
Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		21/07/2011	Brandon Smith		2.0 rww revised insurance docs, rww danbury auction proposal, corresp w/ lawyer for landlord, banking re ic funds from receiver cert 5, issue pmts to landlord and hydro	700.00
		21/07/2011	Cheryl Deshane		0.8 Drafting let to WSIB per B. Smith, edits, faxing and emailing same	120.00
		21/07/2011	Ira Smith		0.6 Telcon w. Paul Luksha re budget, cash flow and spending of funds received yesterday	255.00
		21/07/2011	Ira Smith		0.9 Email from and reply to P. Luksha re budget, cash flow, potential for new cash flow to be prepared, his request for a conference call	382.50
		21/07/2011	Ira Smith		0.2 Disc w. M. Wolfe re cash flow issues and budget	85.00
		21/07/2011	Ira Smith		0.4 Canon issues and telcon w. Canon in-house legal and operating people	170.00
		21/07/2011	Martin Wolfe		1.1 communications with P Luksha re funds availability and calculations and report thereon	357.50
		22/07/2011	Ira Smith		0.2 Rvw of Adam Maerov's email re potential 9:30 on behalf of Orlando, forward and comments to J. Larry to deal with it	85.00
		22/07/2011	Ira Smith		0.3 Rvw of J. Larry's draft letter to S. O'Donnell, suggested changes and email to J. Larry	127.50
		22/07/2011	Ira Smith		0.2 Disc w. M. Wolfe and G. Carkner in our office	85.00
		22/07/2011	Martin Wolfe		0.3 meet with Greg to sign cheques	97.50
		22/07/2011	Martin Wolfe		0.4 review of PO log to determine o/s items	130.00
		25/07/2011	Brandon Smith		1.0 rww emails re cred corresp; rtn call from from employee re weppa, discussion w/ Wolfe re budget; email to Greg June GL for updating	350.00
		25/07/2011	Cheryl Deshane		0.1 Creditor correspondence	15.00

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Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		25/07/2011	Ira Smith		0.3 Rvw of P. Luksha emails re funding, rvw of M. Wolfe proposed reply, disc w. M. Wolfe	127.50
		25/07/2011	Ira Smith		2.1 Rvw of draft Notice of Motion, Terms and Conditions of Sale, changes thereto, email draft to J. Larry with comments for tomorrow's meeting	892.50
		25/07/2011	Ira Smith		0.4 Telcon w. J. Larry re meeting tomorrow and first draft of sale process docs	170.00
		25/07/2011	Ira Smith		0.4 Telcon w. G. Greve re budget and go forward, court date	170.00
		25/07/2011	Ira Smith		0.6 Disc w. M. Wolfe re his telcons and emails w. P. Luksha and G. Carkner re need for revised cash flow/budget, cash needs, planning for tomorrow	255.00
		25/07/2011	Martin Wolfe		0.4 discussion with Christine re royalties	130.00
		25/07/2011	Martin Wolfe		1.2 overseeing issuing of Pos with reference to budget and available cash	390.00
		25/07/2011	Martin Wolfe		0.8 discuss budget and cash requirements with P Luksha	260.00
		25/07/2011	Martin Wolfe		1.7 review several drafts of actual to budget and prepare new budget	552.50
		26/07/2011	Brandon Smith		1.2 emails re 3rd party assets; emails w/ Greg re trust acct position; discussion w/ M. Wolfe re budget and payroll shortfall	420.00
		26/07/2011	Ira Smith		7.1 Travel to and from and attend meeting w. Jeff Larry et al re sales process and APA draft	3,017.50
		26/07/2011	Ira Smith		0.1 Email reply to AOJ et al re 9:30 attendance	42.50
		26/07/2011	Ira Smith		0.4 Conf call w. M. Wolfe, B. Smith, P. Luksha re cash flow and PO's	170.00
		26/07/2011	Ira Smith		0.4 Disc w. M. Wolfe and B. Smith re operating issues	170.00
		26/07/2011	Martin Wolfe		0.5 follow up and advise on Michael's receivable	162.50

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Ira Smith Trustee & Receiver Inc.  
 Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.					
		26/07/2011	Martin Wolfe		1.5 implement additional controls on purchase and advise relevant parties	487.50
		26/07/2011	Martin Wolfe		0.8 series of comments to Greg on budget and cash flow	260.00
		27/07/2011	Brandon Smith		3.5 corresp w/ unsec cred; emails re Dunbar and Weppa; rww w/ Christine her wip of commission schedule, TC w/ Christine; further telephone calls w/ M Wolfe, G Carkner re current matters and commission calculations	1,225.00
		27/07/2011	Cheryl Deshane		0.2 Creditor correspondence, dealing with same	30.00
		27/07/2011	Ira Smith		0.2 Prep of and issuance of Rec's Cert no. 6	85.00
		27/07/2011	Ira Smith		1.8 Rvw of next version from J. Larry of Bid Procedures, amendments thereto, backline copy and email back to J. Larry for comments	765.00
		27/07/2011	Ira Smith		0.8 Rvw of Receiver's backline to APA provided by J. Larry and email to J. Larry re same	340.00
		27/07/2011	Ira Smith		0.4 Telcon w. G. Greve and D. Vinga re current status of operations and Ikea and clarification for them on expectation of Ontario Court in receivership process	170.00
		27/07/2011	Martin Wolfe		1.6 pick up trust cheque from office to deposit funds at co account to cover payroll	520.00
		27/07/2011	Martin Wolfe		0.6 obtain invoices owing to UPS and advise Greg to pay	195.00
		27/07/2011	Martin Wolfe		0.8 focus on costs for Dayspring order	260.00
		28/07/2011	Brandon Smith		2.0 prepare talking points/agenda for mtg w/ P. Luksha; further emails re Mex expenses, issue wires	700.00

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Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	28/07/2011	Brandon Smith	2.0	mtg w/ M. Wolfe, discussion of budget/cash flow/operational issues, rcv funds from received cert 6, pay mex landlord & p Hofacre; emails w/ Greg re payables; rvw memo from P. Luksha re operational issues/suppliers	700.00
		28/07/2011	Ira Smith	0.4	Emails and discs w. B. Smith and M. Wolfe re Ikea and cash flow issues	170.00
		28/07/2011	Ira Smith	2.3	Review of all files and prep of notes for the writing of the First Report to Court	977.50
		28/07/2011	Ira Smith	2.7	Continue file review and prep of notes for writing of the First Report to Court	1,147.50
		28/07/2011	Martin Wolfe	2.4	review of Mexico overheads, comparison to budget and queries and discuss by email re discrepancies	780.00
		28/07/2011	Martin Wolfe	0.5	arrange for wire transfer payments by Michaels	162.50
		28/07/2011	Martin Wolfe	1.3	detail review of A/R and list items to consider sending for collection	422.50
		28/07/2011	Martin Wolfe	2.0	meet with B Smith on financial and operational issues	650.00
		29/07/2011	Brandon Smith	2.5	Rvw P. Luksha memos re Ikea and El Paso; rvw banking position and discussion w/ M. Wolfe; issue partial pmt to landlord and related corresp; issue pmt to UPS and corresp	875.00
		29/07/2011	Brandon Smith	2.0	Mtg w/ p Luksha, I Smith & M Wolfe re cash flow and operational status	700.00
		29/07/2011	Cheryl Deshane	0.1	Creditor correspondence	15.00
		29/07/2011	Ira Smith	1.8	Meeting w. P. Luksha, B. Smith, M. Wolfe to go over all issues as per Agenda of meeting today	765.00
		29/07/2011	Ira Smith	3.2	Writing of First Report to Court	1,360.00

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Ira Smith Trustee & Receiver Inc.

Detail Time Sheet

Period from: 24/05/2011 to 31/07/2011

Keyname	Full Estate Name	Date	Employee	Hours	Remark	Amount
Brushstrokes	In the Matter of the Receivership of Brushstrokes Fine Art Inc.	29/07/2011	Ira Smith	0.2	Rvw and changes to transmittal letter to Orlando re RH partial July rent, signing of cheque for partial July rent payment	85.00
		29/07/2011	Martin Wolfe	0.7	review banking position and discussion w/ B Smith; issue prmt to UPS	227.50
		29/07/2011	Martin Wolfe	0.5	review P Luksha memo of El Paso trip	162.50
		29/07/2011	Martin Wolfe	0.2	communication with supplier	65.00
		29/07/2011	Martin Wolfe	0.7	commence preparation of R&D	227.50
		29/07/2011	Martin Wolfe	2.6	summarize sales June 6- July 27	845.00
		29/07/2011	Martin Wolfe	0.8	summarize Ikea statement of outstanding invoices and credits taken by Ikea	260.00
		29/07/2011	Martin Wolfe	2.0	meeting with I Smith, P Luksha & B Smith re financial, operational and personnel issues	650.00
		30/07/2011	Ira Smith	8.3	Writing of First Report to Court	3,527.50
		30/07/2011	Martin Wolfe	0.6	review draft of First Court Report and comment	195.00
		31/07/2011	Brandon Smith	1.5	Rvw of Ira's 1st draft and respond with comments and information to fill in blanks	525.00
				<b>485.6</b>		<b>173,237.50</b>
			<b>Employee</b>	<b>Hours</b>		<b>Amount</b>
			Ira Smith	145.4		61,795.00
			Brandon Smith	145.7		50,995.00
			Martin Wolfe	178.7		58,077.50
			Cheryl Deshane	15.8		2,370.00
				<b>485.6</b>		<b>173,237.50</b>
			<b>Average Hourly Rate:</b>	<b>\$</b>	<b>356.75</b>	

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2251263 ONTARIO INC.

And

BRUSHSTROKES FINE ART INC.

Applicants

Respondent

Court File No.: CV-11-92333-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
- COMMERCIAL LIST -**

Proceeding commenced at Toronto

**AFFIDAVIT OF IRA SMITH  
(Sworn August 4, 2011)**

**Ira Smith Trustee & Receiver Inc.**  
167 Applewood Crescent, Suite 6  
Concord, ON L4K 4K7

Ira Smith CA●CIRP  
Tel: 905-738-4167  
Fax: 905-738-9848

Court-appointed interim receiver and receiver of  
Brushstrokes Fine Art Inc.

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## APPENDIX "W"

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Court File No. CV-11-9233-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**BETWEEN:**

**2251263 ONTARIO INC.**

Applicant

- and -

**BRUSHSTROKES FINE ART INC.**

Respondent

**AFFIDAVIT OF KENNETH T. ROSENBERG**

**(Sworn August 4, 2011)**

I, **Kenneth T. Rosenberg**, barrister and solicitor, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY:**

1. I am a partner in the law firm of Paliare Roland Rosenberg Rothstein LLP ("Paliare Roland") and I sit on Paliare Roland's Executive Committee. As such, and by virtue of having played a consultative role in connection with these proceedings (although I have not docketed any time), I have personal knowledge of the matters to which I hereinafter refer.

2. Pursuant to the order of the Honourable Mr. Justice Morawetz dated June 6, 2011 (the "Appointment Order"), Ira Smith Trustee & Receiver Inc. ("ISI") was appointed the receiver (the "Receiver") of all the property, assets, and undertakings of the Respondent.

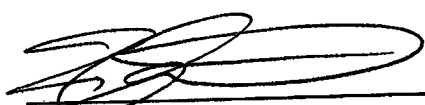
3. Pursuant to the Appointment Order, Paliare Roland has provided services to and incurred disbursements on behalf of the Receiver. The detailed invoices attached hereto and marked as Exhibit "A" (the "Dockets") set out Paliare Roland's fees and disbursements from June 6, 2011 to August 31, 2011.

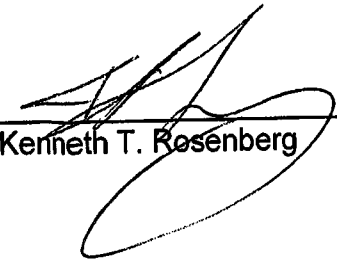
4. The Dockets are a fair and accurate description of the services provided and the amounts charged by Paliare Roland.

5. The following is a summary of the professionals whose services are reflected in the Dockets, including hourly rates, fees billed, hours billed and the average hourly rate charged by Paliare Roland. The hourly rates charged are the usual hourly rates charged by Paliare Roland for the listed professionals.

Professional	Hourly Rate	Hours Billed	Fees Billed
Massimo Starnino, Partner, 1998 Call	\$535/hr	21.7	\$11,609.50
Jeff Larry, Partner, 2001 Call	\$525/hr	23.9	\$12,547.50
Patrick Senson, Articling Student	\$175/hr	2.7	\$472.50
Total		48.3	\$24,629.50
Average Rate			509.93

SWORN BEFORE ME, at the City of Toronto, in the Province of Ontario this 4<sup>th</sup> day of August, 2011.

  
\_\_\_\_\_  
A commissioner, etc.  
M. STARNINO 410486

  
\_\_\_\_\_  
Kenneth T. Rosenberg



Ira Smith, Trustee & Receiver Inc.  
167 Applewood Cres.  
Suite 6  
Concord, Ontario  
L4K 4K7

Ira Smith, President

249  
Suite 501  
250 University Ave.  
Toronto, Ontario  
Canada M5H 3E5

This is Exhibit A referred to in the  
affidavit of Kenneth T. Broberg  
sworn before me, this 4th  
day of August 2011

Tel: (416) 646-4300  
Fax: (416) 646-4301

A COMMISSIONER FOR TAKING AFFIDAVITS

July 31, 2011

INVOICE NUMBER 44946

Our Matter: 19710

Receivership of Brushstrokes Fine Art Inc.  
TO OUR FEE:

Date	MS	HRS	Rate	Total	Description
02/06/11	MS	1.70	\$535.00/HR	909.50	Telephone attendances with A. Jacques re: urgent return of motion to appoint receiver; reviewing various emails from A. Jacques;
03/06/11	MS	4.30	\$535.00/HR	2,300.50	Preparing for and attending at court re: motion to appoint a receiver; related settlement discussions; drafting terms of settlement; reviewing correspondence sent by A. Jacques to PPSA registrants;
09/06/11	MS	2.00	\$535.00/HR	1,070.00	Email from I. Smith re: bank accounts; email from I. Smith and B. Smith attaching draft letter to employees and s. 245 report; editing and revising same and recirculating to B. Smith; follow-up email exchange with I. Smith;
10/06/11	MS	0.50	\$535.00/HR	267.50	Email from A. Jacques re: Transcontinental; telephone attendance with I. Smith re: progress of the receivership; reviewing progress report sent by I. Smith;
20/06/11	MS	1.00	\$535.00/HR	535.00	Editing draft employee termination letter; circulating to D. Kastner for review; circulating to client; email from A. Jacques and reply;
24/06/11	MS	0.20	\$535.00/HR	107.00	Email from I. Smith providing status report;
30/06/11	MS	0.10	\$535.00/HR	53.50	Email from A. Jacques;
08/07/11	MS	2.20	\$535.00/HR	1,177.00	Telephone conversation with S. O'Donnell re: potential action against Ikea; follow-up vmail and email exchange with I. Smith re: same; follow-up telephone call with A. Jacques and applicant re: same; email to S. O'Donnell; letter from S. O'Donnell;

PER

Max Starnino

ERRORS AND OMISSIONS EXCLUDED

TERMS: DUE UPON RECEIPT

INTEREST AT THE RATE OF 1.30% PER ANNUM WILL BE  
CHARGED ON ALL AMOUNTS NOT PAID WITHIN ONE MONTH  
FROM THE DATE OF THIS INVOICE.

HARMONIZED SALES TAX  
REGISTRATION NUMBER

88366 4518 RT 0001

DATE July 31, 2011

AMOUNTS ARE STATED IN CANADIAN DOLLARS UNLESS OTHERWISE INDICATED.

July 31, 2011

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250

11/07/11	MS	1.40	HRS	\$535.00/HR	749.00
Reviewing email from S. O'Donnell; email exchange with I. Smith and A. Jacques re: same; email from A. Jacques re: proposed credit bid and considering same; telephone call with I. Smith re: credit bid and proposed litigation; reviewing documents;					
12/07/11	MS	1.60	HRS	\$535.00/HR	856.00
Email from A. Jacques attaching guarantee claim against Wines; meeting with A. Jacques and I. Smith re: potential credit bid by Applicant and related issues; follow-up meeting with A. Jacques and I. Smith re: same; telephone attendance with S. O'Donnell re: meeting; email from I. Smith re same;					
13/07/11	MS	2.00	HRS	\$535.00/HR	1,070.00
Considering issues in connection with potential credit bid by Applicant; office attendance with J. Larry re: motion to approve sales process; scheduling meeting with S. O'Donnell and M. Wine to review Ikea claim and other issues; reviewing respondent's motion materials;					
14/07/11	MS	2.40	HRS	\$535.00/HR	1,284.00
Office attendance with J. Larry re: next steps in the receivership; reviewing precedent stalking horse processes; telephone attendance with J. Matthews re: sales process and assignment of responsibilities; email exchange with J. Matthews; attending to retention of solicitor in anticipation of sale transaction; preparing for meeting with M. Wine; attending to rescheduling of meeting with M. Wine; office attendance with I. Smith re: sales process issues, meeting with M. Wine, claim against Ikea and other matters;					
15/07/11	MS	2.30	HRS	\$535.00/HR	1,230.50
Preparing for meeting with M. Wine and counsel; drafting agenda; email exchange with I. Smith re: agenda and re: Mexican operations; attending at meeting; follow-up attendance with I. Smith; email exchange with I. Smith; inquiries re: Mexican counsel for security opinion;					
15/07/11	PS	1.80	HRS	\$175.00/HR	315.00
Client meeting and note taking;					
18/07/11	PS	0.90	HRS	\$175.00/HR	157.50
Reviewing notes and cleanup;					
19/07/11	JL	0.90	HRS	\$525.00/HR	472.50
Review file; email correspondence;					
20/07/11	JL	0.30	HRS	\$525.00/HR	157.50
Various telephone calls with receiver, counsel; review file; drafting materials; consider issues; draft letter to Lenzner;					
20/07/11	JL	1.80	HRS	\$525.00/HR	945.00
Various meetings and conference calls; draft correspondence; consider timetable and documents; review file and minutes of meeting; email with M. Starnino;					
21/07/11	JL	2.10	HRS	\$525.00/HR	1,102.50
Telephone call with S. O'Donnell; telephone call with I. Smith; email correspondence with I. Smith;					
22/07/11	JL	0.50	HRS	\$525.00/HR	262.50
Correspondence with I. Smith; review agreements; review materials; draft letter; telephone call with counsel;					

ERRORS AND OMISSIONS EXCLUDED

AMOUNTS ARE STATED IN CANADIAN DOLLARS UNLESS OTHERWISE INDICATED

July 31, 2011

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25/07/11	JL	3.00	HRS	\$525.00/HR	1,575.00
	Revising Notice of Motion and Bid Procedures; draft letter to S. O'Donnell; telephone call with I. Smith; correspondence with McMillan Binch;				
26/07/11	JL	7.10	HRS	\$525.00/HR	3,727.50
	Attend meeting with I. Smith and A. Jacques; revising agreements;				
27/07/11	JL	5.20	HRS	\$525.00/HR	2,730.00
	Drafting orders; revise Agreement of Purchase and Sale and bid procedures; telephone call with S. O'Donnell; correspondence;				
27/07/11	JL	1.00	HRS	\$525.00/HR	525.00
	Further revisions to agreements and orders;				
28/07/11	JL	1.20	HRS	\$525.00/HR	630.00
	Revise orders; telephone call with I. Smith; email correspondence;				
31/07/11	JL	0.80	HRS	\$525.00/HR	420.00
	Revise Agreement of Purchase and Sale; review and comment on draft receiver's report;				
	Total Fees for Professional Services				<u>\$24,629.50</u> =====

Fee Summary

JL	Jeffrey Larry
MS	Max Starnino
PS	Patric Senson

DisbursementsTAXABLE COSTS

Laser Copies	183.50
Photocopies	0.50
Search Disbursement	38.50
TOTAL Taxable Costs	<u>\$222.50</u>
TOTAL Non-Taxable Costs	\$0.00
Sub-Total Disbursements	<u>\$222.50</u> =====

Matter Summary

Fees for Professional Services	24,629.50
Harmonized Sales Tax on Fees	3,201.84
TOTAL Fees	<u>27,831.34</u>

ERRORS AND OMISSIONS EXCLUDED

AMOUNTS ARE STATED IN CANADIAN DOLLARS UNLESS OTHERWISE INDICATED

INVOICE NUMBER 44946

July 31, 2011 4

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Disbursements for Professional Services  
Harmonized Sales Tax

222.50  
28.93

251.43

TOTAL Invoice

\$28,082.77

PLEASE REMIT TOTAL INVOICE BALANCE DUE

\$28,082.77

ERRORS AND OMISSIONS EXCLUDED

AMOUNTS ARE STATED IN CANADIAN DOLLARS UNLESS OTHERWISE INDICATED



251263 ONTARIO INC.

- and - BRUSHSTROKES FINE ART INC.

Applicant

Respondent

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**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
Proceeding commenced at TORONTO

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**MOTION RECORD**

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**PALIARE ROLAND ROSENBERG**  
**ROTHSTEIN LLP**

Barristers  
250 University Ave.  
Suite 501  
Toronto, ON M5H 3E5

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Tel: (416) 646-4330  
Fax: (416) 646-4301  
Lawyers for the Receiver