

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: 01- Montreal
S.C.: 500-11-063292-179
SUPER: 41-2297864

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

175413 CANADA INC. (doing business under the name of **m0851**), body, a corporation incorporated under the *Canada Business Corporation Act*, having its principal place of business at 201-5555, Casgrain Street, in the City of Montreal, province of Quebec, H2T 1Y1

Applicant

- and -

KPMG INC., a corporation duly incorporated under the *Canada Business Corporations Act* (Canada), having a place of business at 600, boul. De Maisonneuve Blvd. West, Suite 1500 Montreal, QC, H3A 0A3

Trustee

**TRUSTEE'S REPORT ON THE STATE OF
THE INSOLVENT PERSON'S BUSINESS AND FINANCIAL AFFAIRS
(paragraphs 50.4(7)(b) and 50.4(9)) IN REGARDS WITH THE DEBTOR'S FIRST (1st) APPLICATION FOR
EXTENSION OF THE DELAY TO FILE A PROPOSAL**

IN THE MATTER OF THE PROPOSAL OF **175413 CANADA INC.**:

I, Stéphane De Broux, CPA, CA, CIRP, LIT of the firm KPMG Inc. ("**KPMG**" or the "**Trustee**"), the trustee under the Notice of Intention to Make a proposal filed by **175413 CANADA INC.** (hereinafter "**m0851**" or the "**Company**"), hereby report to the Court as follows.

INTRODUCTION

1. On September 27, 2017, m0851 filed a Notice of Intention to Make a Proposal (the "**NOI**") pursuant to section 50.4 of the *Bankruptcy and Insolvency Act* (the "**BIA**"), and KPMG was appointed as Trustee to the NOI. As a result of the filing of the NOI, all proceedings against the Company and its assets were stayed until October 27, 2017 (the "**Stay Period**");
2. On October 6, 2017, the Trustee filed with the official receiver (i) a projected cash-flow statement for the period of October 2, 2017 to November 10 2017, (ii) the Company's report on its cash flow statement and (iii) The trustee report on said cash flow statement, in accordance with section 50.4(2) of the BIA and on October 4 , 2017, the Trustee sent a copy of the NOI to all known creditors of m0851;

3. On October 6, 2017, the Company filed a motion, and the Court issued an Order, for the authorization to provide interim credit facilities by Continental Capital Investments Inc. (the "Interim Lender") to the Debtor in order to execute its restructuring and operate the "Business" (hereinafter defined) and approval for granting charges in favour of the Interim Lender (the "Interim Financing Charge") ranking in priority to the security interests currently held by the Debtor's secured lenders.
4. On October 12, 2017, the Trustee issued its certificate rendering the senior ranking Interim Financing Charge effective in favor of the Interim Lender.
5. On October 24, 2017, m0851 filed an Application for extension of the delay to file a proposal until December 11, 2017 (the "**Application for extension**");
6. The purpose of this report is to provide this Honourable Court with information regarding:
 - a) Background information on m0851;
 - b) m0851's activities since the filing of the NOI;
 - c) The Trustee's recommendation with respect to m0851's Application for extension.

BACKGROUND INFORMATION

7. Founded in 1987, m0851 is a privately owned company and operates a vertically integrated Montreal based business which designs and manufactures high-quality and functional leather and fabric goods sold at the wholesale level, to franchised stores internationally and at its own retail stores in Canada and through its e-commerce site (the "Business").
8. The design, manufacturing, wholesale, warehousing and administrative divisions of the Business operate from the Debtor's leased head office premises in Montreal at 5555, avenue Casgrain, Suite 201.
9. The Debtor operates seven (7) retail stores in Canada with four (4) in the province of Québec and three (3) in Ontario. Each such store is the object of a lease between the Debtor and the respective landlord.
10. In addition to its own Canadian operations, the Debtor has entered into agreements whereby it licenses selling rights to parties operating retail outlets which exclusively offer the Debtor's products. In Canada, two (2) such outlets are located in the province of Québec and two (2) in the greater Vancouver area. In Japan, four (4) such outlets exist and the licensee thereof operates a distinct e-commerce site.
11. Additionally, the Debtor has two wholly owned subsidiaries, m0851 Products and Architectural Design Inc. and m0851 Trading (Beijing) Co. Ltd., which operate stores in the United States and Beijing (collectively the "Subsidiaries").
12. In order to operate the Business, the Debtor has a workforce of 94 employees who work in various divisions of the Business.
13. The NOI was filed in a context where:
 - a) The distressed North American retail market and the fierce competition in the niche market of exclusive leather and lifestyle goods has caused the Debtor to experience a great degree of difficulty.
 - b) As a result of the above, the Business has been negatively impacted and its performance has decreased to the point of insolvency.
 - c) Consequently, on September 12, 2017, TD Bank issued a notice pursuant to Section 244 *BIA* of its intention to enforce its security on all or substantially all of the Property and has demanded repayment of such loans.

- d) Given its defaults under the TD Bank credit facilities and its insolvency, it was determined that it was in the best interests of the Debtor to file the NOI and enter into a formal restructuring process.

M0851'S ACTIVITIES SINCE THE FILING OF THE NOI

- 14. After the Motion was granted to the Interim Lender, on October 6, 2017, an agreement was reached between the Interim Lender and the TD Bank for the reimbursement of its Canadian line of credit and as such, the interim financing was executed.
- 15. The Debtor has made certain changes to its retail operations:
 - a) Lease disclaimers were issued to two landlords on October 10, 2017, pursuant to subsection 65.2 (1) of the BIA, relative to a store located in Montreal and another one in Toronto. These stores will be closed in early November 2017, unless more favourable lease terms are negotiated. The Debtor and such landlords are currently in negotiations;
 - b) In order to reduce its operating costs, the Debtor has met with other landlords in order to renegotiate leases.
- 16. The Agreement between m0851 and the Interim Lender is for a period of 90 days. The Debtor has started the process to seek financing from other lenders in order to finance its operations in the future.
- 17. The Debtor continues to elaborate its restructuring plan;
- 18. As part of its turnaround / restructuring plan, the Debtor has commenced to prepare a solicitation process to sell all of its assets (the "**Sale Process**") with the assistance and under the supervision of the Trustee in order to market and solicit offers for the Business and assets relating thereto.
- 19. The Solicitation Process is in its early stages and the most crucial steps have yet to be completed. An extension of the NOI Delay would allow the Debtor and the Trustee to properly conduct the Sales Process in a fulsome manner.

CASH FLOW RESULTS RELATIVE TO PROJECTIONS

20. Cash receipts and disbursements for the 21 day period ended on October 20, 2017 as compared to the cash flow projections, are summarized in the following table:

For the weeks ended October 2 to October 20, 2017	Projections Total	Actuals Total	Variance Total
Bank advances - beginning of period	(\$1 727 500)	(\$1 746 061)	(\$18 561)
Receipts			
Proceeds from sales and collection of accounts receivable	654 696	585 056	(69 640)
Total	654 696	585 056	(69 640)
Disbursements			
Purchases	-	75 259	(75 259)
Payroll/Group insurance/Contractors	252 750	281 508	(28 758)
Rent	175 640	88 065	87 575
Insurance	5 062	5 062	-
Leases	2 200	2 200	-
Consultants/Legal/Accountants/Trustee	30 000	-	30 000
GST & QST	45 000	-	45 000
Credit cards	20 000	18 970	1 030
Other Expenses	62 000	27 944	34 056
Interests and Capital	6 500	-	6 500
	599 152	499 008	100 144
Net Cash Flow	55 544	86 048	30 504
Bank advances - end of period	(\$1 671 956)	(\$1 660 013)	\$11 943

21. As at October 20, 2017, m0851's bank advances totaled \$1,660,000 compare to a projection of \$1,672,000, representing a favorable variance of \$12,000.
22. The positive net cash flow during the period was approximately \$31,000 greater than projected. The main reasons for the favorable net cash flow variance are summarized below:
- a) Total cash receipts during the period were lower than expected by \$70,000. This variance is for the most part related to a timing issue.
 - b) Purchases of raw material were advanced in order to maintain the workload in manufacturing.
 - c) Payments to contractors were higher than expected but this resulted in additional finished goods received.
 - d) The Landlords for certain locations, including the head office and the store on St-Laurent Street, have not yet cashed their rent for October 2017.
 - e) The actual amount of GST/QST due has been reduced to approximately \$20,000. The automatic payment was not taken by the government in the Debtor's bank account pursuant to the filing of the statutory declaration. Management is in contact with a representative of the government to investigate this matter so that the payment can be processed.
 - f) Certain other cash disbursements were lower than forecasted mainly due to timing differences.
23. m0851 has paid, and continues to pay for any goods and services received subsequent to the date of the filing of the NOI, including payroll, rent and new purchases.

UPDATED CASH FLOW PROJECTIONS

24. m0851 has prepared the updated cash flow projections for the period commencing October 21, 2017 and ending on December 29, 2017 (hereinafter the "**Projected Cash Flow**"). The Projected Cash Flow is summarized in the following table. A copy of the Projected Cash Flow as well as the statutory reports of the Company and the Trustee are attached to this report as **APPENDIX A**.

Projected Cash Flow -	Total
for the period from October 21, 2017 to December 29, 2017	
Bank advances - beginning of period	(\$1 660 013)
Receipts	
Proceeds from sales	3 233 301
Total	3 233 301
Disbursements	
Purchases	550 000
Payroll/Group Insurance/Contractors	982 455
Rent	414 520
Insurance	12 000
Leases	34 400
Consultants/Legal/Accountants/Trustee	129 000
GST & QST	200 000
Credit cards	105 000
Other expenses	286 000
Interests and Capital	73 893
Total	2 787 268
Net Cash Flow	446 034
Bank advances - end of period	(\$1 213 979)

25. The Trustee notes the following with respect to the Projected Cash Flow:
- a) The Company opening bank advances as at October 21, 2017 was \$1,660,000;
 - b) The projected total cash receipts during the period are estimated at \$3,233,000;
 - c) The projected total cash disbursements during the period are estimated at \$2,787,000;
 - d) The Projected Cash Flow should result in a positive net cash flow during the period of \$446,000; and
 - e) The Projected Cash Flow reflects that the closing bank advances as at December 29, 2017 are estimated at \$1,214,000.
26. Based on the Projected Cash Flow, the Company has sufficient liquidity to fund its operating activities during the First Extension Period. In addition, the Company has access to the Interim Financing facility to fund its operations.

APPLICATION FOR EXTENSION

27. As appears from the Application for extension, the Company is seeking a first extension of delay of 45 days to file a proposal as it believes it will allow it to:
- a) Seek and secure refinancing;
 - b) Initiate the sale process;
 - c) Continue to sell its inventory in the ordinary course of business in order to maximize their value as opposed to simply liquidating them in the context of a bankruptcy scenario, where their value would be substantially depleted; and
 - d) Complete negotiations to reduce costs with various suppliers and landlords.
28. The Trustee supports the relief sought by the Debtor in its Application for extension for the following reasons:
- a) The Debtor has acted, and is acting in good faith and with due diligence;
 - b) No creditor would be materially prejudiced if the extension being applied for were granted;
 - c) To the contrary, if the extension is not granted, an immediate bankruptcy will ensue, 90 jobs would be lost and the Company's ability to market and solicit offers for the operations would be greatly diminished; and
 - d) The Company's ability to make a viable proposal to its creditors depends on the outcome of the Debtor's restructuring efforts described herein including its lease negotiations, current sales efforts, obtaining refinancing as well as the outcome of the sales process.

All of which is respectively submitted this 25th day of October 2017.

KPMG INC., in its capacity
of Trustee of 175413 Canada Inc.



Stéphane De Broux, CPA, CA, CIRP, LIT