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CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF QUEBEC  
DIVISION: 01- LONGUEUIL  
S.C.: 505-11-014522-176  
SUPER: 41-2225245

SUPERIOR COURT  
(Commercial Division)

IN THE MATTER OF THE NOTICE OF  
INTENTION TO MAKE A PROPOSAL  
OF:

**DENSI CORPORATION**, a corporation incorporated under the Canada Business Corporation Act, having its principal place of business at 1100 Parent Street, in the city of Saint-Bruno-de-Montarville, district of Longueuil, Québec, J3V 6L8

*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*

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### **Trustee's Report on a sale process, priority charges and other reliefs**

I, Maxime Codere, CPA, CA, CIRP, LIT, of KPMG Inc., in my capacity as Trustee under the Notices of Intention to make a Proposal filed by the Applicant, report to this honorable Court as follows.

#### **INTRODUCTION**

1. Densi Corporation ("**Densi**", the "**Applicant**", the "**Company**", or the "**Debtor**"), filed on March 6, 2017, a Notice of Intention to make a Proposal ("**NOI**") under the provisions of the BIA, and KPMG Inc. was named as Trustee to the NOI (in such capacity, the "**Trustee**"). The initial stay of proceedings triggered by the filing of the NOI is expiring on April 5, 2017;
2. The purpose of the present report is to provide this Honorable Court with information regarding the following:
  - a) Background information regarding the Applicant;
  - b) Overview of the Company's cash flow forecast filed in conjunction with the NOI;
  - c) The Sale Process;

- d) The proposed court-ordered charge sought by the Applicant including:
  - i) The Administration Charge;
  - ii) The KERP Charge; and
  - iii) The D&O Charge.

### **RESTRICTIONS AND SCOPE LIMITATIONS**

- 3. In preparing this report, the Trustee has been provided with and has relied upon, unaudited financial information, books and records prepared by certain senior management of the Applicant ("**Senior Management**"), and discussions with Senior Management (collectively, the "G"). Except as further described in this report:
  - a) The Trustee has reviewed the information for reasonableness, internal consistency and use in the context in which it was provided. However, the Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CASs**") pursuant to the Chartered Professional Accountants Canada Handbook and accordingly, the Trustee expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
  - b) Some of the information referred to in this report consists of financial forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.
- 4. Future oriented financial information referred to in this report was prepared based on Senior Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections. Even if the assumptions materialize, the variations could be significant;
- 5. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Applicant;
- 6. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is the Applicant's common reporting currency;

### **BACKGROUND INFORMATION**

- 7. This Report should be read in conjunction with the Application, which provides background and other information regarding the Applicant and the NOI proceedings. Capitalized terms not defined in this Report are used as defined in the Application;
- 8. Founded in 1979, Densi is a privately owned company and a wholesale manufacturer of imaging supplies and parts for business copiers, printers, multi-function printers and other imaging equipment;
- 9. Based in St-Bruno de Montarville, Densi acts as an intermediary between suppliers of imaging consumable products and active value resellers of imaging products, the majority of which are in Canada;

10. In recent years, a significant portion of Densi's revenues were generated through the sale of merchandise to such resellers via its online store, which allowed such resellers to search its entire inventory of products, see real-time pricing and availability and place orders 24 hours per day, seven days a week;
11. On average, Densi stocked several thousand types of imaging products which included a wide variety of ink and toner, cartridges, remanufacturing supplies, parts and peripherals, specialty items, as well as copiers and printers;

**Employees**

12. As of the date of this Application, Densi employs a total of twenty (20) non-unionized employees, of which eleven (11) are employed full time, three (3) are employed part time and six (6) are on temporary lay-off;
13. For the fiscal year 2016, according to Densi, the Company's gross payroll obligations amounted to approximately \$1,617,000;
14. Densi's employees are paid on a bi-weekly basis. Densi has been and will continue to remain current in the payment of salaries to its employees. Deductions from employee salaries are made, as required, and these deductions are remitted to the appropriate governmental authorities, where applicable, and are also current;

**Assets**

15. As at February 28, 2017, the principle tangible assets of Densi were as follows:

<b>Densi Corporation</b>	
<b>Assets</b>	
<b>As at February 28, 2017</b>	
<b>Category</b>	<b>Estimated book value (\$)</b>
Inventory	945 800
Trade Accounts Receivable	458 800
Government Receivable	144 000
Other Receivables	200 000
<b>Total</b>	<b>1 748 600</b>

16. In addition to the above, the Assets also include Densi's intellectual property, and, more specifically, its tradenames and trademark, which it intends to sell as part of the Sale Process;

**Indebtedness**

17. As appears from the List of Creditors to the NOI, as at March 3, 2017, the total indebtedness of Densi amounted to approximately \$3,552,000:

<b>Densi Corporation</b>	
<b>Creditors</b>	
<b>As at February 28, 2017</b>	
<b>Creditors</b>	<b>Amount (\$)</b>
Fonds de Solidarité des Travailleurs du Québec ("FSTQ")	1 950 000
Trade Payables	524 000
Shareholder loan	528 000
Balance of sale purchase price	550 000
<b>Total</b>	<b>3 552 000</b>

18. In addition to the foregoing, Densi is also party to various litigation proceedings (collectively, the "**Litigation Proceedings**") involving some of its former suppliers who were involved in Densi's 2015 re-branding project;
19. As things currently stand, an aggregate amount of close to \$2 million is currently being claimed by these suppliers as part of the Litigation Proceedings, which claims are contested by Densi who has, in fact, also filed claims of its own against some of these suppliers.

***The state of the applicant's business and financial affairs and the cause of its financial difficulties***

20. The NOI was filed in a context where, per the Company:
  - a) For the past few years, the printer consumable product market and aftermarket has seen an important downturn in Canada;
  - b) Such market trends, combined with increased competition, namely from foreign companies that have begun setting up shop locally in order to by-pass intermediaries such as Densi, have forced wholesalers and manufacturers of imaging supply products such as Densi to offer even more competitive pricing on their products, thereby reducing their profit margins, and increasing the pressure on their cash-flows;
  - c) Over the past three (3) years, the exchange rate between the Canadian dollar and the US dollar has varied and has had an immense impact on Densi's profitability, revenue stream and cash-flow given the fact that the majority if not all of its inventory is purchased in US dollars, whereas the majority of its customers are based in Canada;
  - d) In 2015, Densi proceeded with a re-branding by redesigning its product packaging with the objective of attracting more business from both new and existing customers. However, this project turned to be very costly and unprofitable; and
  - e) Despite Densi's efforts to minimize its costs and right-size its business in order to maintain profitability, including by reducing its workforce, it ultimately came to the realization that it was no longer able to compete as an intermediary in the printer consumable product and imaging supply aftermarket.
21. For the fiscal years ended December 31, 2016, Densi recorded a total net loss of approximately \$947,000;

**DENSI'S CASH FLOW FORECAST FILED IN CONJUNCTION WITH THE NOI**

22. The representatives of the Applicant, with the assistance of the Trustee, have prepared the cash flow (the "**Cash Flow**") for the period of March 6, 2017 to April 7, 2017 (the "**Cash Flow Period**"). A copy of the Cash Flow is attached to this Report as **APPENDIX A**;
23. The Cash Flow is presented on a weekly basis during the Cash Flow Period and represents Senior Management estimates of the projected cash inflows and outflows during the Cash Flow Period. The Cash Flow has been prepared by Senior Management using probable and hypothetical assumptions;

24. The Trustee has assessed the reasonableness of the Cash Flow as required by Section 50(6)b) et 50.4(2)b) of the BIA. Pursuant to this standard, the Trustee assessment of the Cash Flow consisted of inquiries, analytical procedures and discussion related to information supplied to it by certain key members of Senior Management and employees of the Company. The Trustee's procedures with respect to the Cash Flow Assumptions were limited to evaluating whether they were consistent with the purpose of the Cash Flow. The Trustee also reviewed the support provided by Senior Management for the Cash Flow Assumptions and the preparation and presentation of the Cash Flow;
25. Based on the Trustee's review, nothing has come to its attention that causes it to doubt, in all material respects that:
- a) The Cash Flow Assumptions are consistent with the purpose of the Cash Flow ;
  - b) As at the date of this Report, the Cash Flow Assumptions are suitably supported and consistent with the proposed plans for the Company and provide a reasonable basis for the Cash Flow given the Cash Flow Assumptions; or
  - c) The Cash Flow reflects the Cash Flow Assumptions.
26. Debtor's Company Report on Cash-Flow Statement and Trustee's Report on Cash-Flow Statement are attached to this Report at **APPENDIX B**.
27. A summary of the Cash Flow is set out in the table below and presents cash inflows, outflows and costs related to the NOI Proceedings:

Densi Corporation	
Projected Cash Flow Summary	
For the period March 6, 2017 to April 7, 2017	
	(\$)
<b>Receipts</b>	226 200
<b>Disbursements</b>	
Payroll	60 000
Insurance	6 139
Rent	36 309
Utilities	16 436
Utility deposits	10 000
Transport	6 000
Consultants	9 500
Restructuring	45 000
Travel and meetings in sale process	10 000
Interest and back charge	1 050
Other	20 402
<b>Total Disbursements</b>	<b>220 836</b>
<b>Excess of receipts over disbursements</b>	<b>5 364</b>
<b>Bank</b>	
Opening Bank Balance	219 088
Excess of receipts over disbursements	5 364
<b>Closing Bank Balance</b>	<b>224 452</b>

28. The Trustee notes the following with respect to the Cash Flow:
- a) As at March 6, 2017, the opening bank balance was approximately \$219,000; and

- b) The Cash Flow assumes that during the Cash Flow Period, the Debtor will have total receipts of approximately \$226,000 and total disbursements of approximately \$221,000, resulting in a net positive cash flow of approximately \$5,000.

## **SALE PROCESS**

- 29. Densi, with the assistance of the Trustee, intends to initiate a Sale Process starting in the week of March 6, 2017 and ending in the week of May 22, 2017. The different milestones are described in the Applicant's Motion, which mainly consist in the preparation and communication of a *teaser* and a confidential information memorandum, the discussion and meetings with potential purchasers and the opening at the deadline of the letters on intent received in the process;
- 30. During the Sale Process, Densi intends to maintain its ongoing operations in order to continue generating revenues and maximizing the value of its Assets and business, while, at the same time, minimizing, to the extent possible, its costs;
- 31. The Trustee is of the view that the proposed Sale Process is reasonable and appropriate under the circumstances, given the nature of the assets and the limited amount of Densi's liquidities;

## **COURT ORDERED CHARGES SOUGHT BY THE APPLICANT**

- 32. The Proposed Order provides for three charges (together, the "**Charges**"):
  - a) Administration Charge;
  - b) KERP Charge; and,
  - c) D&O Charge.

### ***Administration charge***

- 33. The Proposed Order provides for a priority charge on the Debtor's assets in favor of the legal counsel to the Applicant as well as the Trustee and its legal counsel (if necessary), as security for their respective fees and disbursements relating to services rendered in respect of the Applicant up to \$100,000 (the "**Administration Charge**");
- 34. Given the work to be performed, and the estimated costs associated thereto, the Trustee is of the view that the Administration Charge is reasonable and appropriate under the circumstances having regard to the anticipated work levels by Densi's legal counsels and the Trustee to conduct the Sale Process, to perform the monitoring duties and the size of similar charges in comparable cases;

### ***Key Employee Retention Plan ("KERP") charge***

- 35. Concurrently with the filing of the NOI, Densi entered into an employment contract (the "**Key Employment Contract**") with one employee (the "**Key Employee**"), to provide this Key Employee with an incentive to work toward certain strategic objectives in connection with the successful completion of the Sale Process and, potentially, the filing of a proposal;

36. Given this Key Employee's position, experience, in-depth knowledge of Densi's business and financial situation, and Densi's now limited workforce, the Key Employee implication is critical to assist Densi and the Trustee in preparing cash-flow, to manage the daily operations, to respond to creditors, to complete a successful Sale Process and to implement the proposal;
37. Densi wishes to ensure that the Participant remains an employee of Densi during the Sale Process and until a Proposal is accepted and implemented, or if no such Proposal is submitted or accepted, until Densi files for bankruptcy or is deemed to be bankrupted;
38. The Trustee is of the view that the KERP Charge of \$75,000 is reasonable and appropriate under the circumstances having regard to the risk that the Key Employee resigns in order to find employment elsewhere which could likely jeopardize the completion of the Sale Process and the implementation of any proposal, the whole to the detriment of Densi's creditors and stakeholders;

***D&O charge***

39. The Proposed Order provides for an indemnity in favour of the Applicant's sole director and officer in respect of any obligations or liabilities that they may incur as director or officer of the Applicants after the commencement of the filing of the NOI;
40. Densi currently maintains a directors' and officers' liability insurance (the "**D&O Insurance**") Densi currently expects that the D&O Insurance will provide coverage sufficient to protect the Director from most, if not all, of its obligations in such capacity. However, there can be no guarantee to that effect, especially in the context of insolvency proceedings, where Densi's insurer cannot be expected to readily agree to be bound to insure hypothetical claims before they are brought and where some exclusions and/or deductibles may apply.
41. Therefore, Densi submits that there may be a risk of a gap in the coverage otherwise provided by the D&O Insurance, which ultimately creates a degree of uncertainty for the Director.
42. Densi therefore requests a Court-ordered charge (the "**D&O Charge**") in the amount of \$50,000 over its assets, property and undertaking to indemnify him in respect of any liability which he may incur from and after the commencement of these proceedings – to the extent only that the D&O Insurance is inadequate.
43. The Trustee reviewed the calculation of the D&O Charge that was prepared by the Applicant taking into consideration the amount and timing of the Applicant's payroll, vacation pay and certain tax liabilities. The Trustee is of the view that the Director's Charge is reasonable and appropriate in the circumstances;

***Priority of charges***

44. The Proposed Order provides for the following priority of the Charges:
  - a) First – the Administration Charge;
  - b) Second – KERP Charge; and
  - c) Third – D&O Charge.

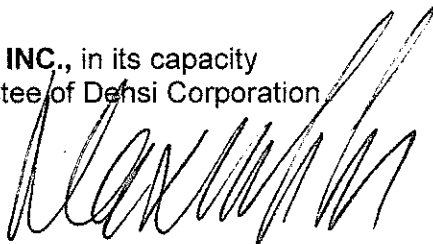
45. Under the Proposed Order, the Charges will grant a charge over all of the present and future assets, property or undertaking of the Debtor. The Charges will rank in priority to any and all other currently existing hypothecs and security interests over any or all of the Debtor's property in favor of the Secured Creditors, as well as any other "secured creditor" as defined by the Bankruptcy and Insolvency Act;

## **CONCLUSIONS**

46. The Trustee respectfully makes the following preliminary observations and comments to this Honourable Court:
- a) The Trustee has been involved in this matter for a limited period of time. However, in that time, KPMG has received certain amount of background information which has allowed it to ascertain the general status and financial circumstances of the Company; and
  - b) The Sale Process Process appear reasonable and appropriate under the circumstances, given the nature of the assets and the limited amount of Densi's liquidities;
  - c) The Charges appear reasonable and appropriate under the circumstances and, in the view of the Trustee, enhance the probability that the Company will be able to make a viable proposal;

All of which is respectively submitted this 6<sup>th</sup> of March, 2017.

**KPMG INC.**, in its capacity  
of Trustee of Densi Corporation



Per: Maxime Codere, CPA, CA, CIRP, LIT  
Vice-president



**APPENDIX A**  
**DENSI'S CASH FLOW FORECAST FILED**  
**IN CONJUNCTION WITH THE NOI**

CANADA  
 PROVINCE OF QUEBEC  
 DISTRICT OF QUEBEC  
 DIVISION: 01-Longueuil  
 S.C.:  
 SUPER.:

SUPERIOR COURT  
 COMMERCIAL DIVISION

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF:

DENSI CORPORATION  
 Debtor

Cash Flow for the period:  
 March 6 to April 7, 2017

Week ending	March 10	March 17	March 24	March 31	April 7	TOTAL
Bank Balance - beginning of week	219 088 \$	225 695 \$	236 969 \$	247 975 \$	273 609 \$	219 088 \$
<b>Receipts</b>						
Proceeds from sales	45 000 \$	59 700 \$	20 000 \$	85 000 \$	16 500 \$	226 200 \$
<b>Total</b>	<b>45 000 \$</b>	<b>59 700 \$</b>	<b>20 000 \$</b>	<b>85 000 \$</b>	<b>16 500 \$</b>	<b>226 200 \$</b>
<b>Disbursements</b>						
Payroll	- \$	30 000 \$	- \$	30 000 \$	- \$	60 000 \$
Insurance	- \$	3 627 \$	- \$	2 517 \$	- \$	6 139 \$
Rent	- \$	- \$	- \$	- \$	36 309 \$	36 309 \$
Utilities	8 568 \$	- \$	- \$	4 000 \$	3 868 \$	16 436 \$
Utility deposits	- \$	10 000 \$	- \$	- \$	- \$	10 000 \$
Transport	1 200 \$	1 200 \$	1 200 \$	1 200 \$	1 200 \$	6 000 \$
Consultants	- \$	- \$	2 000 \$	7 500 \$	- \$	9 500 \$
Restructuring	25 000 \$	- \$	- \$	10 000 \$	10 000 \$	45 000 \$
Travel and meetings in sale process	- \$	- \$	- \$	- \$	10 000 \$	10 000 \$
Interest and back charge	225 \$	200 \$	200 \$	200 \$	225 \$	1 050 \$
Other	3 400 \$	3 404 \$	5 644 \$	3 899 \$	4 055 \$	20 402 \$
<b>Total</b>	<b>38 393 \$</b>	<b>48 426 \$</b>	<b>9 044 \$</b>	<b>59 316 \$</b>	<b>65 657 \$</b>	<b>220 836 \$</b>
<b>Excess of receipts over disbursements</b>	<b>6 607 \$</b>	<b>11 274 \$</b>	<b>10 956 \$</b>	<b>25 684 \$</b>	<b>(49 157) \$</b>	<b>5 364 \$</b>
Bank Balance - end of week	225 695 \$	236 969 \$	247 975 \$	273 609 \$	224 452 \$	224 452 \$

Dated March 6, 2017

Densi Corporation

Per: Eric Meika

KPMG INC.

Per: Maxime Coderre, CPA, CA, CIRP, LIT

**APPENDIX B**  
**DEBTOR'S COMPANY REPORT ON CASH-FLOW STATEMENT**  
**AND TRUSTEE'S REPORT ON CASH-FLOW STATEMENT**



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CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF QUEBEC  
DIVISION: 01 - LONGUEUIL  
S.C.:  
SUPER.:

SUPERIOR COURT  
COMMERCIAL DIVISION

IN THE MATTER OF THE NOTICE OF INTENTION TO  
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**DENSI CORPORATION**, body politic and corporate, duly  
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principal place of business at 1100 Parent Street, in the city of  
Saint-Bruno-de-Montarville, district of Longueuil, province of  
Quebec J3V 6L8.

Debtor Company

- AND -

**KPMG INC.**

Trustee

**TRUSTEE'S REPORT ON CASH-FLOW STATEMENT**  
**(Paragraphs 50(6)(b) and 50.4(2)(b))**

The attached statement of projected cash-flow of DENSI CORPORATION, as of the 6<sup>th</sup> day of March, 2017, consisting of the period from March 6, 2017 to April 7, 2017, has been prepared by the management of the insolvent Debtor Company for the purpose of the current procedures.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the insolvent Debtor Company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the projection;
- b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the insolvent Debtor Company or do not provide a reasonable basis for the projections, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose of the current procedures notes and readers are cautioned that it may not be appropriate for other purposes.

Dated at Longueuil, this 6<sup>th</sup> day of March, 2017.

KPMG INC.

  
Per: Maxime Codere, CPA, CA, CFP, LIT

CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF QUEBEC  
DIVISION: 01 - LONGUEUIL  
S.C.:  
SUPER.:

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IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE  
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**DENSI CORPORATION**, body politic and corporate, duly  
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6L8.

Debtor Company

- AND -

**KPMG INC.**

Trustee

**DEBTOR'S COMPANY REPORT ON CASH-FLOW STATEMENT**  
(Paragraphs 50(6)(c) and 50.4(2)(c))

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The management of DENSI CORPORATION has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent Debtor Company, as of the 6th day of March, 2017 consisting of the period from March 6, 2017 to April 7, 2017.


The hypothetical assumptions are reasonable and consistent with the purpose of the projection, and the probable assumptions are suitably supported and consistent with the plans of the insolvent Debtor Company and provide a reasonable basis for the projection.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The projection has been prepared based on a set of probable and hypothetical assumptions. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Longueuil, this 6<sup>th</sup> day of March, 2017.

**DENSI CORPORATION**

  
Per: Eric Melka