

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
Division N°: 01- LONGUEUIL
Court N°: 505-11-014522-176
Estate N°: 41-2225245

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE 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

Debtor

- 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

Licensed Insolvency Trustee

**TRUSTEE'S REPORT ON THE AMENDED PROPOSAL
(PARAGRAPHS 50(10)(b) AND 50(5))**

The *Bankruptcy and Insolvency Act* (the "**BIA**") provides that a meeting be held so that the creditors may vote on the proposal of Densi Corporation (the "**Debtor**" or the "**Company**" or "**Densi**").

Pursuant to paragraphs 50(10)(b) and 50(5) of the BIA, and to assist the creditors in considering the proposal, KPMG Inc. (the "**Trustee**", "**KPMG**", or "**we**") is submitting its report on the financial situation of the Debtor and on the proposal.

We caution the reader that we have neither conducted an audit nor a verification of the books and records of the Debtor. Consequently, we cannot render an opinion on the accuracy of the information contained therein. The information discussed herein emanates from the books and records of the Debtor as well as from our discussions with the management of the Debtor.

All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the amended proposal filed with the Trustee on June 2, 2017 (the "**Amended Proposal**").

INTRODUCTION

On March 6, 2017, Densi filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to section 50.4 of the BIA, and KPMG was appointed as Trustee to the NOI.

On March 8, 2017, Densi was authorized by this Court to conduct, with the assistance and under the supervision of KPMG and of the Court, a sale process in order to sell its assets, outside of its ordinary course of business (the “**Sale Process**”).

On March 30, 2017, the Court granted an order extending the stay period until May 23, 2017 in order to allow the Company to complete the Sale Process.

On May 18, 2017, the Court granted an approval and vesting order approving the transaction contemplated in the offer to purchase submitted to Densi by 9098-5128 Québec Inc. (“**Nu-Tone**”) on May 5, 2017 as revised and specified on May 9 and 10, 2017 (the “**Nu-Tone Offer**”).

On May 18, 2017, the Court granted an order extending the stay period until May 26, 2017 in order to allow the Company to complete the transaction contemplated in the Nu-Tone Offer and to submit a proposal to its creditors.

On May 26, 2017, the Debtor filed a proposal with the Trustee.

On June 2, 2017, the Debtor filed the Amended Proposal with the Trustee. A copy of the Amended Proposal, the Statement of Affairs, a proof of claim form, a voting letter, a proxy as well as a notice which indicates the time and place of the meeting of creditors was sent by regular mail to the Company’s known creditors on June 2, 2017.

COMPANY BACKGROUND AND EVENTS LEADING TO THE FILING OF THE PROPOSAL

Founded in 1979, Densi is a privately owned company and a distributor of imaging supplies and parts for business copiers, printers, multi-function printers and other imaging equipment. Based in Saint-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.

The NOI was filed in a context where:

- 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 involving the redesign of 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;

- e) Despite Densi’s efforts to minimize its costs and right-size its business in order to maintain profitability, including reducing its workforce, it ultimately came to the realization that it was no longer able to compete as an intermediary in its market; and
- f) For the fiscal year ended December 31, 2016, Densi recorded a total net loss of approximately \$947,000.

Following the filing of the NOI and during the Sale Process, Densi continued 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 “go-dark”/bankruptcy scenario, where their value would be substantially depleted and in order to maintain the value of its intellectual property to be sold in the Sale Process.

Densi also sold some of its equipment in parallel with the Sale Process by contacting several parties potentially interested in purchasing its equipment. On May 18, 2017, the Court granted an order approving these sales.

All proceeds arising from the Nu-Tone transaction were remitted to the Trustee on May 25, 2017 and are currently kept in its trust account.

ASSETS

The following table presents the Debtor’s estimated value of assets as of May 26, 2017, as presented in the Statement of Affairs.

Densi Corporation	
Assets as of May 26, 2017	
	Estimated value
Cash in bank	231 000
Accounts receivable	
Accounts receivable from sales	85 000
Verisource	450 000
Inventory	20 000
Equipment	25 000
Total	811 000

Cash in bank

On May 26, 2017, Densi had on a book basis approximately \$76,000 in its bank accounts and \$155,000 in trust with KPMG. The amount of \$155,000 in trust consists of the proceeds from the transaction with Nu-Tone relating to the sale of Densi’s assets.

Accounts receivable

Although as at May 26, 2017, the total accounts receivable of Densi (excluding Verisource) amounted to approximately \$350,000, the following amounts have been deducted therefrom: (a) an amount of approximately \$120,000 is due by companies who also hold claims against the Densi and (b) approximately \$145,000 has been owed to Densi for more than 120 days. Accordingly, Densi currently expects that it will be able to collect from its accounts receivable an amount of approximately \$85,000.

DENSI CORPORATION

Report of the Trustee on the Amended Proposal

In addition of the foregoing, the Company has a \$450,000 claim against Verisource Ltd., payable in accordance with a license agreement. The Trustee, in consultation with the Litigation Advisory Committee, shall be authorized to prosecute or settle any Litigation Claim, including the Verisource Claim. At the date of this report, the Trustee has been advised by the Company's legal advisors that the Verisource Claim is well founded, and that they are not aware of any valid grounds for which such claim should not be paid to the Company. However, at this stage, the Trustee is not yet in a position to properly assess the amount that could be collected arising from the prosecution or the settlement of the Verisource Claim.

Inventory

Densi has approached 3 liquidators in order to sell its remaining inventory which mainly consist of: 1) chips; 2) bottles; 3) toner cartridges; 4) boxes; and 5) bulk toners. The realization value is estimated at \$17,000, based on the interest expressed by potential purchasers.

Equipment

Densi has approached 3 liquidators in order to sell its remaining equipment, which mainly consist of: 1) lift trucks and other warehouse equipment; and 2) toner filling equipment. The realization value is estimated at \$25,000, based on the interest expressed by potential purchasers.

SECURED CREDITORS

At the date thereof, Densi has no secured creditor, other than those creditors benefiting from court-approved charges.

PRIORITY CREDITORS

As at the date of the Amended Proposal, there were no known priority claims against the Company, other than the claims of Densi's landlord, which, as part of the Amended Proposal, would be waived.

UNSECURED CREDITORS

According to the Statement of Affairs, unsecured claims against the Company amount to approximately \$6,184,000, however, the Trustee was informed by the Company that prior to the filling of the NOI:

- The Company had started litigations against two (2) suppliers as a result of significant damages caused by the sale and delivery by the suppliers of defective packages; and
- A supplier had filed an action against the Company. However, the Company believes that the action is meritless and susceptible to serious claims against it.

Also, the Trustee was informed by another alleged creditor of its intention to file a claim of approximately \$487,000. Densi denies the validity of this claim.

If the above claims were to be accepted, the total amount of unsecured claim against the Company would increase by approximately \$2.4 million. However, given the Company's position, these claims were not taken into account in the Statement of Affairs.

THE AMENDED PROPOSAL

On June 2, 2017, the Debtor filed its Amended Proposal. We have summarized below the main terms of the Amended Proposal.

The following proceeds will be made available for distribution to the Creditors of the Company with Proven Claims:

- All of the Company's cash;
- All of the proceeds resulting from the collection of the Company's accounts receivable;
- All of the proceeds resulting from the Nu-Tone transaction that are related to the sale of the Company's assets,;
- All of the proceeds resulting from the liquidation of the Company's remaining assets after the Nu-Tone transaction;
- All of the Litigation Proceeds, including any and all proceeds arising from the Verisource Claim.

In addition, if the Amended Proposal is accepted and approved by the Company's creditors and by the Court, the following proceeds and contributions will also be made available for distribution to the Creditors of the Company with Proven Claims:

- The Melka Contribution of \$75,000; and
- The Management Contribution of \$37,500; and
- All dividends which would otherwise be payable to the Related Persons in respect their Claims (including their Post-Filing Claims, their Restructuring Claims and their Unsecured Claims) which are expected to exceed \$1.5 million, given these Related Person's agreement to renounce to these Claims as part of the Amended Proposal.

The Trustee will pay the following expenses and claims in priority to the unsecured claims against the Company:

- Professional Fees;
- Post-Filing Claims;
- Secured Claims;
- Employee Claims;
- Crown Claim; and
- Preferred Claims (other than the employee claims).

The proceeds available for distribution after payment of the above claims shall be distributed by the Trustee to the Company's Unsecured Creditors.

On the Effective Date, all Claims against the Company and Related Persons under its current ownership, shall be deemed to be fully and finally satisfied, settled and discharged.

The provisions of sections 95 to 101, inclusively, of the BIA and any similar provision of any federal or provincial statute, which deal with preferential and reviewable transactions, shall not apply to the Amended Proposal.

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Report of the Trustee on the Amended Proposal

The Amended Proposal provides for the formation of a Litigation Advisory Committee. The Trustee, in consultation with the Litigation Advisory Committee, shall be authorized to prosecute or settle any Litigation Claim, including the Verisource Claim.

Pursuant to the Amended Proposal, for a period of twelve (12) months or until the Litigation Advisory Committee has determined that there are no Litigation Claims remaining to be prosecuted by the Trustee, whichever is earlier, the Company and Eric Melka will provide their reasonable continued assistance to the Trustee in settling or prosecuting before the Court the Litigation Claims in the context of these proposal proceedings, in a timely and efficient manner.

REVIEWABLE TRANSACTIONS

As noted above, the Amended Proposal stipulates that sections 95 to 101 of the BIA (as well as any federal or provincial legislation with a similar objective) shall not apply.

Consequently, the Trustee has reviewed the Debtor's transactions that have occurred in the twelve months prior to the filing of the NOI (the "**Period**") which may potentially be subject to sections 95 to 101 of the BIA and sections 1631 and followings of the Civil Code of Quebec.

Based on the results of its review, the Trustee has not identified any preferential payment or transfer at undervalue.

The Trustee has noted however that during the Period, the Debtor has proceeded with a redemption of shares which were held by a related company, Densi Holding Inc., in the amount of approximately \$590,000.

Although this transaction could potentially be subject to a review under applicable legislations, after analysis of same, the Trustee is of the view that a recourse or legal proceedings in view of challenging such transaction presents a number of risks:

- The difficulties in demonstrating that the Company was insolvent at the time of the above-mentioned transaction;
- The difficulties in demonstrating that the Company did not act in a prudent and diligent manner at the time of the above-mentioned transaction;
- The costs to be incurred by legal professionals and other experts associated with initiating legal proceedings required to attempt to challenge the above-mentioned transaction, which costs would be funded by the proceeds of the Company;
- The delays inherent to legal proceedings and the uncertainty associated with enforcing a judgment.

Accordingly, the Trustee is of the opinion that the chance of success to recover proceeds from this transaction are limited.

ESTIMATED REALIZATION AND DISTRIBUTION

The table below summarizes the estimated realization and distribution to creditors in the context of an accepted/approved Amended Proposal as compared to a bankruptcy.

Densi Corporation			
Estimated Net Realisation, Unsecured Claims and Dividend % (Proposal vs. Bankruptcy)			
	Proposal	Bankruptcy	Note
Estimated Realization of Densi's Assets			
Realized Assets			
Cash in bank at end of operation	215 000	215 000	
Assets to be Realized			
Estimated proceeds from the collection the accounts receivables	55 000	55 000	
Estimated proceeds resulting of the liquidation of:			
Inventories	17 000	17 000	
Equipment	25 000	25 000	
Verisource Claim (subject to a litigation)	450 000	450 000	1
	547 000	547 000	
Potential Assets to be Realized			
H Shares Transactions	-	Undetermined	2
(-) Legal and consultant	-	Undetermined	2
	-	Undetermined	
Total Estimated Realization of Densi's Assets	762 000	762 000	
Contributions from third parties (only if Proposal is accepted)			
Management Contribution (KERP Renonciation)	-	(37 500)	
Related Persons Renonciation (Post-Filing Claims)	-	(30 000)	
Melka Contribution:			
Contribution from the Nu-Tone Transaction	50 000	-	
Additional Melka Contribution	25 000	-	
	75 000	(67 500)	
Total Estimated Realization	837 000	694 500	
Estimated Professional Fees			
Trustee	(30 000)	(30 000)	3
Legal advisor	(20 000)	(20 000)	3
Estimated Net Realization	787 000	644 500	
Estimated Unsecured Claims			
Unsecured Claims	6 184 000	6 184 000	4
Potential Equity Claim	(550 000)	(550 000)	
Renounced Claims	(1 617 000)	-	5
Total Estimated Unsecured Claims	4 017 000	5 634 000	
Estimated Dividend %	20%	11%	

Note 1: Verisource Claim

Pursuant to the Amended Proposal, for a period of twelve (12) months or until the Litigation Advisory Committee has determined that there are no Litigation Claims remaining to be prosecuted by the Trustee, whichever is earlier, the Company and Eric Melka will provide their reasonable continued assistance to the Trustee in settling or prosecuting before the Court the Litigation Claims in the context of these proposal proceedings, in a timely and efficient manner.

Note 2: Shares Transactions

As previously mentioned, in accordance with section *Reviewable Transactions*, the Trustee is to the opinion that the chance of success to recover proceeds from this transaction are limited.

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Note 3: Estimated Professional Fees

The Estimated Professional fees do not take into account the professional fees related to the collection of the Verisource Claim and the contestation by the Trustee of the Disputed Claims.

Note 4: Unsecured Claims

The Unsecured Claims are not taking into account the Disputed Claims which are related to litigations with suppliers of approximately \$2.4 million.

Note 5: Renounced Claims

In accordance with the Amended Proposal, all related parties agree to renounce to their claims against the Company if the Amended Proposal is approved by the creditors and the Court.

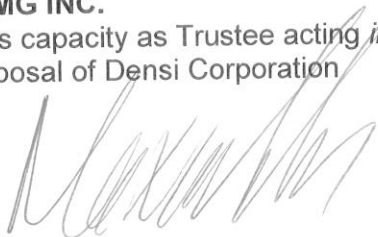
Estimated Dividend %

As noted in the above table, based on the Estimated Net Realization and Estimated Unsecured Claims, in the context of an accepted proposal, the unsecured creditors should receive an estimated dividend of approximately 20%, where as in the context of a bankruptcy, the estimated dividend would be of approximately 11%.

Dated in Montreal, this 2nd day of June, 2017.

KPMG INC.

In its capacity as Trustee acting *in re* the proposal of Densi Corporation



Maxime Codere, CPA, CA, CIRP, LIT