

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 NOTICE OF
INTENTION TO MAKE 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 -

DRAFT

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 SECOND (2ND) APPLICATION FOR EXTENSION OF THE DELAY TO FILE A PROPOSAL

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A 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 Company 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 Company'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, the Company filed an Application for extension of the delay to file a proposal until December 11, 2017 (the "**Application for extension**");
6. On October 26, 2017, the Trustee filed its report on the state of the Company's business and affairs in regards with the first application for extension of the delay to file a proposal, along with a projected weekly cash flow for the period ending on December 29, 2017.
7. On October 26, 2017, the Court granted the extension to file a proposal until December 11, 2017.
8. The Trustee developed an internet micro-site, where the Applications and Orders described above are available for creditors to review.
9. As part of its restructuring, the Company has mandated the Trustee to assist with initiating and pursuing a sale and solicitation process in order to market and solicit offers for the Business and assets relating thereto, as presented in the October 24, 2017 Application for extension (hereinafter the "**SSP**").
10. On December 1, 2017, the Company filed an application for the approval by this Court of the Offer received for the purchase of the assets of m0851 ("**Proposed Purchaser**").
11. 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 the extension.

BACKGROUND INFORMATION

12. 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**").
13. The design, manufacturing, wholesale, warehousing and administrative divisions of the Business operate from the Company's leased head office premises in Montreal at 5555, avenue Casgrain, Suite 201.
14. The Company 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 Company and the respective landlord.
15. In addition to its own Canadian operations, the Company has entered into agreements whereby it licenses selling rights to parties operating retail outlets which exclusively offer the Company'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.

16. Additionally, the Company 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**"). As a result of the liquidation of the Subsidiaries' inventories by or for the benefit of TD Bank, the Subsidiaries have no assets of significant value.
17. In order to operate the Business, the Company has a workforce of over 90 employees who work in various divisions of the Business.
18. 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 Company 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 Company to file the NOI and enter into a formal restructuring process.

M0851'S ACTIVITIES SINCE THE FILING OF THE NOI

19. 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 partial reimbursement of its Canadian line of credit and as such, the interim financing was executed.
20. The Company 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. Pursuant to the issuance of these disclaimers, lease amendments were concluded with the respective landlords;
 - b) In order to reduce its operating costs, the Company has met with other landlords and as a result has obtained additional lease amendments from two landlords, relative to a store located in Montreal and another one in Toronto;
 - c) Discussions are currently being held with two landlords, relative to another store in Montreal and another in Toronto, in order to renegotiate the lease.
21. The interim financing provided under the agreement between m0851 and the Interim Lender is discretionary and becomes due on the earlier of demand, default or January 6, 2018.
22. The Company diligently maintained its manufacturing and store operations since the filing of the NOI, including advertising special discounts in stores and on its internet site in order to promote sales.
23. As part of its restructuring plan, the Company has put in place a SSP to sell all of its assets with the assistance and under the supervision of the Trustee in order to market and solicit offers for the Business and assets relating thereto, the whole as fully described in the Application to sell certain assets of the Company presentable to this Court on December 6, 2017. On November 24, 2017, the Company received an offer for the purchase of the assets of m0851.

CASH FLOW RESULTS RELATIVE TO PROJECTIONS

24. Cash receipts and disbursements for the 34 day period ended on November 24, 2017 as compared to the cash flow projections, are summarized in the following table:

For the weeks ended from October 27 to November 24, 2017	Total		Total Variance
	Projections	Actuals	
Interim Lender Indebtedness - beginning of period	(\$1 660 013)	(\$1 660 013)	-
Receipts			
Proceeds from sales and collection of accounts receivables	1 606 956	1 313 970	(292 986)
Disbursements			
Purchases	150 000	83 961	(66 039)
Payroll/Group Insurance /Contractors	559 973	580 400	20 427
Rent	266 080	204 625	(61 455)
Insurance	6 000	10 264	4 264
Leases	22 200	13 216	(8 984)
Consultants/Legal/Accountants/Trustee	79 000	104 508	25 508
GST & QST	130 000	63 228	(66 772)
Credit Cards	55 000	32 434	(22 566)
Other expenses	141 000	109 670	(31 330)
Interests and Capital	30 114	-	(30 114)
	1 439 367	1 202 306	(237 061)
Net Cash Flow	167 589	111 664	(55 925)
Interim Lender Indebtedness - end of period	(\$1 492 424)	(\$1 548 349)	(55 925)

25. As at November 24, 2017, net advances by the Interim Lender to m0851 totaled \$1,548,000 (\$1,667,000 less cash in Bank of \$118,000) compared to a projection of \$1,492,000, representing a negative variance of \$56,000. As of November 29, 2017 the debt owed to the Interim Lender was \$1,724,000.
26. The negative net cash flow during the period was \$56,000 greater than projected. The main reasons for the net cash flow variance are summarized below:
- Total cash receipts during the period were lower than expected by \$293,000. This variance is for the most part related to the decision made by management to delay to December, the sample and liquidation sales.
 - Payments for the purchases of raw material are made only once confirmations are received from the overseas suppliers that the goods are ready to be shipped.
 - Payments of commissions to sales representatives at the stores were higher than the amounts projected.
 - A landlord has not yet cashed its rent for November 2017 and the company has obtained a lease reduction from another landlord.
 - The payment of the GST/QST will be made at month-end on November 30, 2017.
 - As part of its restructuring efforts, the Company has been able to reduce certain operating expenses, thus resulting in lower cash disbursements. Certain other cash disbursements were lower than forecasted due to timing differences.
27. 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

28. m0851 has prepared the updated cash flow projections for the period commencing November 25, 2017 and ending on January 26, 2018 (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 November 25, 2017 to January 26, 2017	
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Interim Lender Indebtedness - beginning of week	(\$1 548 349)
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Receipts	
Proceeds from sales	2 584 562
Total	2 584 562
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Disbursements	
Purchases	269 981
Payroll/Group Insurance/Contractors	856 974
Rent	372 453
Insurance	17 062
Leases	8 700
Consultants/Legal/Accountants/Trustee	170 911
GST & QST	160 000
Credit cards	44 433
Other expenses	258 656
Interests and Capital	46 139
Total	2 205 309
Net Cash Flow	379 253
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Interim Lender Indebtedness - end of week	(\$1 169 096)
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29. The Trustee notes the following with respect to the Projected Cash Flow:
- a) The Projected Cash Flow assumes that the Interim Financing remains available to the Company however, under the commitment letter governing the Interim Financing, the Interim Financing expires on January 6, 2017. In any event, once the transaction occurs with respect to the Offer made by the Proposed Purchaser, there will be no operations of the Debtor to fund and as such, no need for financing. The Debtor will exist at such time in order to assess the possibility of making or make a proposal to its creditors;
 - b) The Company opening Interim Lender Indebtedness as at November 24, 2017 was \$1,548 349;
 - c) The projected total cash receipts during the period are estimated at \$2,584,000;
 - d) The projected total cash disbursements during the period are estimated at \$2,205,000;
 - e) The Projected Cash Flow should result in a positive net cash flow during the period of \$379,000; and
 - f) The Projected Cash Flow reflects that the closing Interim Lender Indebtedness as at January 26, 2018 are estimated at \$1,169,000.

APPLICATION FOR EXTENSION

30. As appears from the Application for extension, the Company is seeking a second extension of delay of 45 days to file a proposal as it believes it will allow it to:
- a) Complete the sale of the assets of m0851 to the Proposed Purchaser;
 - b) The Proposed Purchaser has secured the working capital required in order to obtain one or more commitments from lenders in order to support the operation of the Business. These commitments should be obtained imminently.
 - c) Asses the prospects of a proposal to be made to its creditors. There is a possibility that the Company has accumulated tax losses which can be the subject of a proposal however, only an additional period of time will allow for such assessments to be made.
31. The Trustee supports the relief sought by the Company in its Application for extension for the following reasons:
- a) The Company 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, compromising the sale of m0851 to the Proposed Purchaser, and
 - d) The Company's would lose the opportunity to assess the prospects of making a proposal.

All of which is respectively submitted this 5th day of December 2017.

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


Stéphane De Broux, CPA, CA, CIRP, LIT

APPENDIX A
CASH-FLOW STATEMENT,
DEBTOR'S COMPANY REPORT ON CASH-FLOW STATEMENT
AND TRUSTEE'S REPORT ON CASH-FLOW STATEMENT

CANADA
 PROVINCE OF QUEBEC
 DISTRICT OF QUEBEC
 DIVISION: 01-Montreal
 S.C.: 500-11-053292-179
 SUPER.: 41-2297864

SUPERIOR COURT
 COMMERCIAL DIVISION

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF: **175413 CANADA INC. (doing business under the name of m0851)**, body politic and corporate, duly incorporated according to Law, and having its head office and principal place of business at 201-5555, Casgrain Street, in the city of Montreal, province of Quebec, H2T 1Y1.

Debtor

Cash Flow for the period:
 November 25, 2017 to January 26, 2018

Projected Cash Flow - for the period from November 25, 2017 to January 26, 2018	December 1	December 8	December 15	December 22	December 29	January 5	January 12	January 19	January 26	Total
Interim Lender Indebtedness - beginning of week	(\$1 548 349)	(\$1 489 241)	(\$1 626 458)	(\$1 256 195)	(\$1 240 113)	(\$1 171 127)	(\$1 372 601)	(\$1 256 703)	(\$1 277 194)	(\$1 548 349)
Receipts										
Proceeds from sales	285 040	378 896	477 865	265 073	303 688	218 500	218 500	218 500	218 500	2 584 562
Total	285 040	378 896	477 865	265 073	303 688	218 500	218 500	218 500	218 500	2 584 562
Disbursements										
Purchases	29 981	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	269 981
Payroll/Group Insurance/Contractors	31 402	174 991	31 402	174 991	31 402	174 991	31 402	174 991	31 402	856 974
Rent	72 487	149 983	-	-	-	149 983	-	-	-	372 453
Insurance	5 062	6 000	-	-	-	6 000	-	-	-	17 062
Leases	-	-	2 200	-	4 300	-	2 200	-	-	8 700
Consultants/Legal/Accountants/Trustee	45 911	30 000	15 000	15 000	35 000	10 000	10 000	5 000	5 000	170 911
GST & QST	-	70 000	-	-	90 000	-	-	-	-	160 000
Credit cards	14 433	-	-	-	15 000	-	-	-	15 000	44 433
Other expenses	26 656	29 000	29 000	29 000	29 000	29 000	29 000	29 000	29 000	258 656
Interests and Capital	-	26 139	-	-	-	20 000	-	-	-	46 139
Total	225 932	516 113	107 602	248 991	234 702	419 974	102 602	238 991	110 402	2 205 309
Net Cash Flow	59 108	(137 217)	370 263	16 082	68 986	(201 474)	115 898	(20 491)	108 098	379 253
Interim Lender Indebtedness - end of week	(\$1 489 241)	(\$1 626 458)	(\$1 256 195)	(\$1 240 113)	(\$1 171 127)	(\$1 372 601)	(\$1 256 703)	(\$1 277 194)	(\$1 169 096)	(\$1 169 096)

Dated December 5, 2017

175413 CANADA INC.

Per: Frédéric Mamarbachi

KPMG INC.

Per: Stéphane De Broux, CPA, CA, CIRP, LIT

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
Division N° : 01 - Montreal
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SUPERIOR COURT
(Commercial Division)

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

175413 CANADA INC. (doing business under the name of **m0851**), body politic and corporate, duly incorporated according to Law, and having its head office and its principal place of business at 201-5555, Casgrain Street, in the City of Montreal, province of Quebec, H2T 1Y1.

**REPORT ON CASH-FLOW STATEMENT
BY THE PERSON MAKING THE PROPOSAL
(Paragraph 50(6)(c) and 50.4(2)(c) of the Act)**

The management of 175413 CANADA INC. has developed the assumptions and prepared the attached statement of projected cash-flow of the insolvent person, as of the 5th day of December, 2017, consisting of the period from November 25, 2017 to January 26, 2018.

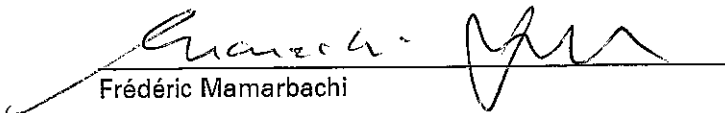
The hypothetical assumptions are reasonable and consistent with the purpose of the projection with regards to these proceedings, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection.

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

The projection has been prepared solely with regards to these proceedings, using a set of hypothetical and probable assumptions. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal, this 5th day of December, 2017.

175413 CANADA INC.


Frédéric Mamarbachi

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
Division N° : 01 - Montreal
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SUPERIOR COURT
(Commercial Division)

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

175413 CANADA INC. (doing business under the name of m0851), body politic and corporate, duly incorporated according to Law, and having its head office and its principal place of business at 201-5555, Casgrain Street, in the City of Montreal, province of Quebec, H2T 1Y1.

**TRUSTEE'S REPORT ON CASH-FLOW STATEMENT
(Paragraphs 50(6)(b) et 50.4(2)(b) of the Act)**

The attached statement of projected cash flow of 175413 CANADA INC., as of the 5th day of December, 2017, consisting of the period from November 25, 2017 to January 26, 2018, has been prepared by the management of the insolvent person for the purpose these proceedings, using the probable and hypothetical assumptions set out in the Notes.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided 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 are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

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

The projection has been prepared solely for the purpose of these proceedings, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal, this 5th day of December, 2017.

KPMG INC. – Licensed Insolvency Trustee

By :



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