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C A N A D A

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

N° : 500-11-063165-233

SUPERIOR COURT
(Commercial Division)

**IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, C. C-36, AS AMENDED**

13517985 Canada Inc. (d/b/a Wholesale Express) a corporation incorporated under the Canada Business Corporations Act, having its head office at 101-501 Boulevard Laurier, Sainte-Marie-Madeleine, Province of Québec, J0H 1S0

Debtor

- and-

KPMG INC. a company incorporated under the laws of Canada, having a place of business at 600 De Maisonneuve Blvd. West, in the city of Montreal, Province of Quebec, H3A 0A3

Monitor

FIRST MONITOR'S REPORT
(For the Approval of the Proposed Transaction)

January 10, 2024



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A. INTRODUCTION

1. 13517985 Canada Inc., d/b/a Wholesale Express Inc. (the “**Company**” or “**Wholesale Express**” or the “**Debtor**”), is a private company with its head office in Sainte-Marie-Madeleine, Québec that operates an online trading platform for pre-owned cars. In short, the Company acts as an intermediary for the exchange of vehicles between sellers and buyers in order to facilitate and simplify transactions.
2. On November 20, 2023, the Debtor's first-secured ranking creditor, Highcrest Lending Corporation (“**HLC**” or the “**Secured Creditor**”) filed an application (the “**Application**”) before the Québec Superior Court (the “**Court**”) pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (as amended, the “**CCAA**”), seeking, at the time of the first day hearing, the issuance of an Initial Order.
3. On November 22, 2023, the Court postponed the Application and named KPMG as Information Officer (“**IO**”). The Court postponed the Application again on November 29, 2023 and maintained KPMG's role as IO.
4. On December 20, 2023, the Court issued an Initial Order providing for, *inter alia*, the appointment of KPMG as monitor (the “**Monitor**”) in respect of the Company as part of the CCAA proceedings.
5. On December 28, 2023, the Court issued an Amended and Restated Order extending the Stay Period until February 28, 2023.
6. On January 8, 2024, the Monitor notified an *Application for the Issuance of an Approval and Reverse Vesting Order* (the “**RVO Application**”). This report is filed in support of that RVO Application.
7. The purpose of this report (the “**Report**”) is to provide the following information to this Court:
 - a) Restrictions and Scope Limitations (section **B**);
 - b) The Urgency to Conclude a Transaction (Section **C**);
 - c) The Sales Processes (Section **D**);
 - d) The Proposed Transaction (Section **E**);
 - e) Impact of the Reverse Vesting Order (Section **F**);
 - f) The Necessity for a Reverse Vesting Order (Section **G**);
 - g) Factors to be Considered by the Court (Section **H**); and
 - h) Conclusions (Section **I**).

B. RESTRICTIONS AND SCOPE LIMITATIONS

8. In preparing this Report, the Monitor has relied solely on information and documents provided to it by Wholesale Express, the potential investor for the Proposed Transaction (the "**Potential Investor**"), and their respective advisors, including audited, unaudited, draft and/or internal financial information, financial projections prepared by Wholesale Express, discussions with the Company's management, discussions with management of Trade X, discussions with the Potential Investor (collectively, the "**Information**"). Except as further described in this Report:
- a) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor 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 IO 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.
9. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.
10. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Application.

C. THE URGENCY TO CONCLUDE A TRANSACTION

11. The Monitor understands that there is an urgency to conclude a transaction for the following reasons:
- a) As detailed in the Cash Flow Forecast submitted to the Court on December 20, 2023 (**Appendix A**), the Company is in a perilous liquidity situation. During these CCAA Proceedings, the Company drew on the majority of the interim financing granted in the Initial Order in order to pay its vendors and continue operations. Based on the flows of the Company's working capital, there is little room to maneuver should actual results not materialize as forecast. The Proposed Transaction would provide sufficient working capital to stabilize the Company and avoid a potential near-term liquidity crisis;
 - b) The nature of the business requires that vehicle dealers that buy and sell vehicles on the platform can trust that the Company will continue as a going concern. Management has informed the Monitor that certain dealers have stopped using the platform, and will only return to the platform once the Company exits these CCAA Proceedings. Accordingly, a longer insolvency process may result in continued negative stigma and a corresponding decrease in the volume of vehicle purchases and sales, which could further erode the value of the Company;

- c) The Monitor was informed by the Company's Chief Operating Officer that "*an extended CCAA proceeding would...demoralize and heighten the flight risk of key employees and management*" (**Appendix B**);
 - d) The Monitor understands that the Potential Purchaser's valuation of the Company was primarily based on a combination of (i) a multiple of the Company's trailing twelve-month ("**TTM**") earnings before interest, taxes, depreciation and amortization ("**EBITDA**"); and (ii) consideration of the forward-looking financial projections of Wholesale Express, which were prepared in May 2023. The TTM EBITDA has decreased in recent months, affecting the valuation. Should the TTM EBITDA continue with its current trending, then the valuation may further erode, negatively affecting the realization for all stakeholders;
 - e) As at the date of this Report, there is only one (1) potential purchaser or investor. Should a transaction not conclude in the near-term, it is uncertain whether (i) the Potential Investor would still be willing to acquire the Company, and (ii) the financing required to conclude a transaction would be available to the Potential Investor.
12. As a result of the items above, the Monitor is of the view that, should a transaction not be consummated in the near-term, there is a significant risk of a material erosion of the value of the Company. In addition, the Company may be unable to continue as a going-concern, resulting in the loss of value for all stakeholders, including the termination of employment for 55 individuals.

D. THE SALES PROCESSES

The Canaccord Sales Process

13. In its capacity as IO, KPMG spoke with Canaccord Genuity ("**Canaccord**"), a well-known investment banker engaged by the Company's parent company, Trade X Group of Companies Inc. ("**Trade X**") to sell the shares of Wholesale Express, regarding their sale process (the "**Canaccord Sales Process**"). The representative from Canaccord stated that:
- a) They conducted a robust sales process starting in the spring of 2023;
 - b) From their perspective, they canvassed the market and identified 40 parties, including strategics and investors, that could have been interested in purchasing the shares of the Company;
 - c) While 3 or 4 of the 40 targets showed serious interest in purchasing the shares of the Company, no offers were received by the Summer of 2023.
14. More specifically, the Monitor was informed that the Canaccord Sales Process essentially unfolded as follows:

40	Strategic and financial parties contacted
13	Parties who signed NDAs
8	Parties who entered the confidential data room
3-4	Parties who expressed serious interest
0	Number of offers received

15. Following the Canaccord Sales Process, the Potential Investor submitted an offer to purchase the shares of the Company.
16. From June 2023 to the onset of these CCAA Proceedings, the Potential Investor was working with Trade X Management to close a transaction to acquire the shares of the Company.
17. However, as a result of various factors, including disputes amongst the Company's and Trade X's creditors, a transaction was never concluded as various creditors could not agree on the distribution of proceeds.

The December 2023 Sales Process

18. During the postponement of the Application, there were two (2) groups who were attempting to purchase the shares of the Company. The first group was represented by the Potential Investor and the second group included related parties and contemplated a management buyout ("**MBO**").
19. Discussions ensued following the reasons issued by the Court upon the adjournment of the Application on November 29, 2023. By December 20, 2023, there was only one (1) group that remained prepared to acquire the Company. That group was lead by the Potential Investor, now in conjunction with a majority of the individuals behind the MBO.

Summary

20. Based on the results of the Canaccord Sales Process and the outcome of the limited December process involving the Potential Investor and the MBO, the Monitor is of the view that it is unlikely that further canvassing of the market would yield a higher realization to stakeholders than the Proposed Transaction.

E. THE PROPOSED TRANSACTION

21. The share subscription agreement (the "**Investment Agreement**") (**Exhibit R-2 to the RVO Application**) entered into between the Potential Investor and the Monitor, for and on behalf of the Company. contemplates the following:
 - a) The Potential Investor will subscribe to shares of the Company representing 100% of the post-restructuring equity, while the Company's current shares will be cancelled for no consideration
 - b) The Subscription Price is stated in the Investment Agreement and in **Appendix C** (filed under seal) and is to be satisfied as follows: i) a cash consideration to be paid at Closing, ii) the assignment and contribution of the "Trade X Shareholder Loan" (originally owed by Trade X to the principals of the Potential Investor, and iii) the issuance by the Potential Investor of a zero-interest promissory note in the amount of \$6,000,000 (the "**Promissory Note**") payable in full over a term of 3.5 years.
22. The Investment Agreement also contemplates the assumption of all known pre-filing trade obligations of the Company.

23. Closing of the transactions contemplated in the Investment Agreement (the “**Proposed Transaction**”) is conditional upon the issuance by the Court of a reverse vesting order (“**RVO**”) authorizing the Proposed Transaction and the related transaction structure. The RVO sought includes customary releases of the Company’s directors and officers which are acceptable to the Monitor.
24. The Proposed Transaction is also conditional upon the following financing transaction for which the Monitor has been informed that customary financing commitments have been received:
- a) Senior secured debt financing from the Canadian Imperial Bank of Commerce (“**CIBC**”). The Monitor understands that CIBC supports the Proposed Transaction; and
 - b) New cash equity from a combination of the Proposed Purchaser and HLC. The Monitor understands that key employees required to operate the business will obtain shares of the Company.
25. The Monitor has included a calculation of the cash subscription price as well as the sources and uses of funds in **Appendix C** (filed under seal).

F. IMPACT OF THE REVERSE VESTING ORDER¹

26. In practical terms, the Investment Agreement contemplates the following:
- a) The creation of two residual companies; the first for the Excluded Assets (“**ResidualCo 1**”), and the second for the Excluded Liabilities (“**ResidualCo 2**”).
 - b) ResidualCo 1 and ResidualCo 2 would be included as CCAA debtors in these CCAA Proceedings and the Monitor will be appointed as CCAA Monitor to both entities.
 - c) The cash portion of the Subscription Price would be remitted to ResidualCo 2.
 - d) The Promissory Note (one of the Excluded Assets) will be assigned to ResidualCo 2.
 - e) Following the transfer of \$6,000,000 to the Company for working capital, the balance of the Cash Subscription Price will be transferred to ResidualCo 2.
 - f) At closing, ResidualCo 2 will pay the professional fees and disbursements outstanding as at Closing for the professionals covered by the Administration Charge.
 - g) At closing, ResidualCo 2 will repay the Company’s first ranking secured lender, HLC, in full, including amounts disbursed pursuant to the interim financing. The Monitor has obtained an independent legal opinion confirming the validity and enforceability of HLC’s security.
27. Following the assignment of the Promissory Note to ResidualCo 2, there will be limited assets left in ResidualCo.1, with little to no value, from the perspective of the Monitor.

¹ Capitalized terms used in this section and not otherwise defined shall have the meanings ascribed to them in the Investment Agreement (Exhibit R-2 to the RVO Application).

28. The Promissory Note and any net proceeds from the Proposed Transaction, will ultimately be transferred to ResidualCo. 2, as will the interests, if any, of Wholesale Express in the Acquisition Agreement Claim (i.e. litigation with Groupe Gregor Inc. defined further in the Investment Agreement).
29. Excluded Liabilities, including the claims of creditors not assumed by the Potential Investor or otherwise paid at or prior to closing, will also be ultimately transferred to ResidualCo. 2.
30. In practical terms, the result for creditors is similar to that in a standard approval and vesting order (“**AVO**”) scenario; net proceeds of the Proposed Transaction will be available for distribution to creditors through ResidualCo 2, which will, along with ResidualCo 1., become a debtor in these CCAA Proceedings.
31. Assuming an RVO is granted and the Proposed Transaction closes, the Monitor intends to return to this Court to obtain an Order for the approval of a claims process in ResidualCo 2.
32. Residual assets, if any following the payment of all Wholesale Express creditors, may be subject to an equity claim.
33. The Monitor has included an estimate of net assets available in ResidualCo 2 in **Appendix D**.

G. THE NECESSITY FOR A REVERSE VESTING ORDER

34. The Proposed Transaction contemplates an RVO. The Monitor is of the view that an RVO is fair and appropriate to conclude the Proposed Transaction as:
 - a) The RVO structure does not prejudice any of the Company's creditors. The RVO contemplates that the creditors of Wholesale Express would receive the same realization that they otherwise would have received had the sale been completed with an AVO.
 - b) The Monitor understands that the Company's competitive advantage is that it is the sole online trading platform in Quebec to have a license with the *Société de l'assurance automobile du Québec* (“**SAAQ**”) which allows the Company to transact with dealers in 3 days as opposed to the 7-day industry standard. Should the Company be unable to transfer the license in AVO, it could take months before the Company is able to obtain the same SAAQ license. In this scenario it is likely that sales would decrease to the point where the Company would no longer be able to operate as a going concern.
 - c) The Company has debit agreements with approximately 2,000 car dealers, who are currently operating in the normal course of business. Seeking the transfer of all of these agreements through an AVO would require notifying each dealer and its financial institution, which is not feasible with the current resources and time constraints and may cause confusion and concern.
 - d) The Proposed Transaction contemplates an acquisition of the Company via a share subscription. An asset purchase would require additional delays to reformulate a transaction. As detailed in Section C, there is an urgency to conclude a transaction.

- e) The Potential Investor's lender has informed the Monitor that a vesting order or RVO is necessary to complete a transaction. However, the Monitor understands that the Potential Investor requires a share transaction and the lender has only approved a share transaction. The Monitor further understands that a transaction for the Company's assets would require the approval of the lender's credit group. Seeking an asset approval would likely result in delays in closing a transaction and could possibly jeopardize the transaction as a whole.

H. FACTORS TO BE CONSIDERED BY THE COURT

- 35. The Monitor submits that the factors normally considered by the Court in approving a transaction militate in favour of the issuance of the proposed RVO.
- 36. In particular, and as mentioned above, the sale process conducted by Canaccord in 2023 appears reasonable in the circumstances, however did not result in any meaningful offers. Moreover, the Monitor understands that, due to the specialized nature of the business, the market for such a business is comprised of a limited number of parties. In this regard, continuing to canvass the market is unlikely to generate any further offers.
- 37. In addition, the Proposed Transaction is more beneficial to the creditors than a sale in a bankruptcy as the assets of the Company are comprised primarily of accounts receivable, cash, goodwill and intangibles. In a bankruptcy, the Trustee would likely only be able to realize the cash and accounts receivable, whereby the value would be substantially lower than the proceeds of sale from the Proposed Transaction.
- 38. The Debtor's sole secured lender, HLC, as well as certain other creditors (or potential creditors) have been advised of the Proposed Transaction. HLC is supportive of the Proposed Transaction.
- 39. The Proposed Transaction will allow for a greater realization value and is a more advantageous option to the Debtor's stakeholders than a liquidation scenario.
- 40. The Monitor is of the view that the consideration to be received is reasonable and fair given that no offers were received during the prior canvassing of the market.

I. CONCLUSIONS

- 41. Therefore, for the reasons set out above, the Monitor recommends that the Court approve the Proposed Transaction and grant the RVO Application.



All of which is respectfully submitted this 10th day of January 2024.

KPMG Inc.

In its capacity as Monitor of Wholesale Express Inc.

And not in its personal capacity

Per:

A handwritten signature in blue ink, appearing to read 'David Malin', written in a cursive style.

David Malin, CPA, CIRP, LIT
Senior Vice President



APPENDIX A DECEMBER 20 CASH FLOW

Projected 13 week cash flow	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
Presented in \$CAD	1	2	3	4	5	6	7	8	9	10	11	12	13		
Week ending	12/23/2023	12/30/2023	1/6/2024	1/13/2024	1/20/2024	1/27/2024	2/3/2024	2/10/2024	2/17/2024	2/24/2024	3/2/2024	3/9/2024	3/16/2024	13 weeks	
Collections															
Customer receipts	5,223,220	3,482,147	2,553,574	5,958,340	8,125,009	8,125,009	8,086,318	8,060,525	8,060,525	8,060,525	8,176,596	8,253,977	8,253,977	90,419,743	
Interim financing	900,000	-	-	-	-	-	-	-	-	-	-	-	-	900,000	
	6,123,220	3,482,147	2,553,574	5,958,340	8,125,009	8,125,009	8,086,318	8,060,525	8,060,525	8,060,525	8,176,596	8,253,977	8,253,977	91,319,743	
Disbursements															
Payments for purchases	4,993,840	3,884,098	2,378,120	4,660,917	7,768,195	7,768,195	7,754,204	7,706,543	7,706,543	7,706,543	7,791,196	7,891,500	7,891,500	85,901,393	
Payroll expense	130,350	-	-	130,350	-	130,350	-	130,350	-	130,350	-	130,350	-	782,100	
Payment of commissions	-	-	-	-	228,615	-	-	-	266,717	-	-	-	317,520	812,852	
Sales, administrative and general expenses	16,827	16,827	19,631	58,536	19,631	19,631	23,371	23,371	62,276	23,371	29,914	29,914	68,819	412,119	
IT related expenses	-	-	128,000	-	-	-	-	128,000	-	-	-	128,000	-	384,000	
Sales tax remittances	-	-	-	-	-	-	50,940	-	-	-	231,892	-	-	282,831	
Interest expense - Interim financing	-	-	-	7,788	-	-	-	-	-	-	-	-	-	7,788	
Repayments of Interim financing	-	-	-	900,000	-	-	-	-	-	-	-	-	-	900,000	
Professional fees	280,860	75,000	75,000	75,000	75,000	75,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	1,005,860	
Company legal counsel	-	-	-	-	166,714	-	-	-	-	-	-	-	-	166,714	
Contingency	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	650,000	
	5,471,876	4,025,924	2,650,751	5,882,592	8,308,155	8,043,176	7,928,515	8,088,263	8,135,536	7,960,263	8,153,002	8,279,764	8,377,840	91,305,658	
Net cash flow	651,344	(543,778)	(97,177)	75,748	(183,146)	81,833	157,804	(27,738)	(75,011)	100,262	23,595	(25,787)	(123,862)	14,086	
Net cash (shortfall) - Beginning	218,754	870,097	326,320	229,142	304,891	121,744	203,577	361,381	333,643	258,632	358,893	382,488	356,701	218,754	
Net cash (shortfall) - Ending	870,097	326,320	229,142	304,891	121,744	203,577	361,381	333,643	258,632	358,893	382,488	356,701	232,839	232,839	



**APPENDIX B LETTER FROM WE'S CHIEF OPERATING
OFFICER (UNDER SEAL)**



APPENDIX C SOURCES & USES (UNDER SEAL)



APPENDIX D ESTIMATED NET ASSETS IN RESIDUALCO 2 (UNDER SEAL)
