

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 -

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 THIRD (3RD) 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;
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. On December 5, 2017, the Company filed an Application for the sale of the "Purchased Assets" described therein (the "**Purchased Assets**") to 10498700 Canada Inc. (the "**Purchaser**");
9. On December 5, 2017, the Company filed an Application for extension of the delay to file a proposal until January 25, 2018 (the "**Application for extension**");
10. On December 5, 2017, the Trustee filed its report on the state of the Company's business and affairs in regards with the second application for extension of the delay to file a proposal, along with a projected weekly cash flow for the period ending on January 26, 2016.
11. On December 6, 2017, the Court issued an "Approval and Vesting Order" authorizing the Company to sell the purchased Assets to the Purchaser (the "**vesting Order**").
12. On December 6, 2017, the Court granted the extension to file a proposal until January 25, 2018.
13. 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

14. 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**").
15. 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.
16. 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.

17. 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.
18. 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.
19. In order to operate the Business, the Company has a workforce of over 90 employees who work in various divisions of the Business as well as several independent contractors who rely on the Business as their source of work.
20. 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

21. 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.
22. 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 four landlords, relative to two stores located in Montreal and two others in Toronto;
23. As part of its restructuring plan, the Company had put in place a Sales and Solicitation Process 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 presented to this Court on December 6, 2017.

24. Since the issuance of the Vesting Order, the Trustee has not been in a position yet, to issue the Trustee's Certificate that would complete and confirm the sale of the Purchased Assets to the Purchaser. Only one condition remains presently to be fulfilled, being the repayment of the Interim Financing due to the Interim Lender.
25. Since the issuance of the Vesting Order, the Company has obtained the working capital necessary in order to obtain financing and as a result, has received a commitment from a Canadian lender. The Company and said lender are currently in the process of documenting the credit facilities. This process should be completed imminently which will allow the Company to execute the financing transaction and the repayment to the Interim Lender. This in turn, will enable the Trustee to issue the Trustee's Certificate.
26. Considering the above, the Company entered in to negotiations with the Interim Lender who has agreed to extend the maturity date under the Interim Financing from January 6, 2018 to January 31, 2018.
27. As a result, the Company was able to diligently maintain its manufacturing and store operations since the filing of the NOI, and the subsequent extensions granted by the Court. This included advertising special discounts in stores and on its internet site in order to promote sales in particular during the crucial holiday season.
28. Management has devoted a lot of efforts since the second extension was granted by this Court to seek the financing in order to complete the sale of the Business, negotiate and successfully obtain an extension from the Interim Lender, operate its stores during the very busy holiday season ,deal with suppliers and sub-contractors and more. For those reasons, the Company requires more time in order to prepare a proposal to its creditors.

CASH FLOW RESULTS RELATIVE TO PROJECTIONS

29. Cash receipts and disbursements for the period ended on January 19, 2018 as compared to the cash flow projections, are summarized in the following table:

For the weeks ended from November 25, 2017 to January 19, 2018	Total		
	Projections	Actuals	Variance
Interim Lender Indebtedness - beginning of period	(\$1 548 349)	(\$1 548 349)	\$0
Receipts			
Proceeds from sales	2 366 062	2 306 892	(59 171)
Total	2 366 062	2 306 892	(59 171)
Disbursements			
Purchases	239 981	501 129	261 148
Payroll/Group Insurance/Contractors	825 572	733 177	(92 395)
Rent	372 453	207 180	(165 273)
Insurance	17 062	10 413	(6 649)
Leases	8 700	6 610	(2 090)
Consultants/Legal/Accountants/Trustee	165 911	173 347	7 436
GST & QST	160 000	-	(160 000)
Credit cards	29 433	37 911	8 478
Other expenses	229 656	207 445	(22 212)
Interests and Capital	46 139	22 098	(24 041)
Total	2 094 907	1 899 309	(195 598)
Net Cash Flow	271 155	407 582	136 427
Interim Lender Indebtedness - end of period	(\$1 277 194)	(\$1 140 767)	\$136 427

30. As at January 19, 2018, net advances by the Interim Lender to m0851 totaled \$1,141,000 compared to a projection of \$1,277,000, representing a positive of \$136,000.
31. The main reasons for the positive net cash flow variance are summarized below:
- a) Total cash receipts during the period were lower than expected by \$59,000 representing only 2,5% of the total projected cash receipts
 - b) Payments for the purchases of raw material are made once confirmations are received from the overseas suppliers that the goods are ready to be shipped. Additional orders were received from clients and additional raw material were ordered to fulfill these orders.
 - c) Production was closed for a three week period resulting in reduced payroll.
 - d) The Company is negotiating so that a security deposit will be applied against total rents owed. The company has obtained lease rental reductions from other landlords.
 - e) The provisioned amount of GST/QST did not include a large return of merchandise due to a franchise closing, thus reducing the amount due. In addition, a payment has been postponed and included in the projected cash flow during the first week of February 2018.
 - f) 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.
32. 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

33. m0851 has prepared the updated cash flow projections for the period commencing January 20, 2018 and ending on March 16, 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 - for the period from January 20, 2018 to March 16, 2018	Total
Interim Lender Indebtedness - beginning of period	(\$1 140 767)
Receipts	
Proceeds from sales	1 481 108
Total	1 481 108
Disbursements	
Purchases	80 000
Payroll/Group Insurance/Contractors	820 000
Rent	284 612
Insurance	12 000
Leases	16 600
Consultants/Legal/Accountants/Trustee	75 000
GST & QST	95 000
Credit cards	20 000
Other expenses	134 121
Interests and Capital	42 000
Total	1 579 333
Net Cash Flow	(98 225)
Interim Lender Indebtedness - end of period	(\$1 238 992)


34. 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 a revised commitment letter governing the Interim Financing, the Interim Financing expires on January 31, 2018. In any event, once the Purchaser obtains its financing and the Trustee's certificate is issued, 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, net of cash on hand, as at January 20, 2018 was \$1,141,000;
 - c) The projected total cash receipts during the period are estimated at \$1,481,000;
 - d) The projected total cash disbursements during the period are estimated at \$1,579,000;
 - e) The Projected Cash Flow should result in a negative net cash flow during the period of \$98,000; and
 - f) The Projected Cash Flow reflects that the closing Interim Lender Indebtedness as at March 16, 2018 are estimated at \$1,239,000.

APPLICATION FOR EXTENSION

35. As appears from the Application for extension, the Company is seeking a third extension of delay until March 12, 2018 to file a proposal as it believes it will allow it to:
- a) Provide the time required in order for the Purchaser to finalize the financing transaction and thus enable the Company to make the repayment to the Interim Lender and the Trustee to issue the Trustee's Certificate;
 - b) 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.
36. 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, possibly compromising the financing transaction for the Purchaser,
 - d) Resulting in the loss of 90 jobs, and
 - e) The Company would lose the opportunity to assess the prospects of making a proposal.

All of which is respectively submitted this 23rd day of January 2018.

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:
 January 20, 2018 to March 16, 2018

Week ending	January 26	February 2	February 9	February 16	February 23	March 2	March 9	March 16	Total
Interim Lender Indebtedness - beginning of period	(\$1 140 767)	(\$1 016 424)	(\$1 249 584)	(\$1 334 768)	(\$1 315 148)	(\$1 178 969)	(\$1 128 358)	(\$1 172 382)	(\$1 140 767)
Receipts									
Proceeds from sales	217 623	133 744	105 331	243 920	187 459	321 648	108 692	162 690	1 481 108
Total	217 623	133 744	105 331	243 920	187 459	321 648	108 692	162 690	1 481 108
Disbursements									
Purchases	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	80 000
Payroll/Group Insurance/Contractors	15 000	175 000	20 000	190 000	20 000	180 000	25 000	195 000	820 000
Rent	2 280	44 946	94 516	-	2 280	46 075	94 516	-	284 612
Insurance	-	-	6 000	-	-	-	6 000	-	12 000
Leases	4 000	-	-	4 300	4 000	-	-	4 300	16 600
Consultants/Legal/Accountants/Trustee	25 000	25 000	25 000	-	-	-	-	-	75 000
GST & QST	-	85 000	-	-	-	10 000	-	-	95 000
Credit cards	-	5 000	-	5 000	-	5 000	-	5 000	20 000
Other expenses	15 000	21 959	15 000	15 000	15 000	19 962	17 200	15 000	134 121
Interests and Capital	22 000	-	20 000	-	-	-	-	-	42 000
Total	93 280	366 905	190 516	224 300	51 280	271 037	152 716	229 300	1 579 333
Net Cash Flow	124 343	(233 161)	(85 184)	19 620	136 179	50 611	(44 024)	(66 610)	(98 225)
Interim Lender Indebtedness - end of period	(\$1 016 424)	(\$1 249 584)	(\$1 334 768)	(\$1 315 148)	(\$1 178 969)	(\$1 128 358)	(\$1 172 382)	(\$1 238 992)	(\$1 238 992)

Dated January 23, 2018

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
Court N° : 500-11-053292-179
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SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF :

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**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 23rd day of January, 2018, consisting of the period from January 20, 2018 to March 16, 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 23rd day of January, 2018.

175413 CANADA INC.


Frédéric Mamarbachi

CANADA
PROVINCE OF QUEBEC
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Division N° : 01 - Montreal
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IN THE MATTER OF THE 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 23rd day of January, 2018, consisting of the period from January 20, 2018 to March 16, 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.

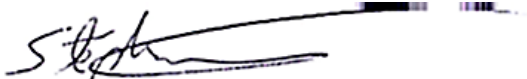
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

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 23rd day of January, 2018.

KPMG INC. – Licensed Insolvency Trustee

By :



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