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CANADA
DISTRICT OF QUEBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-060795-222
FILE NO.: 41-2807913

S U P E R I O R   C O U R T
"In Bankruptcy and Insolvency"

IN THE MATTER OF THE PROPOSAL OF:

193641 CANADA INC.,

Formerly Les Entreprises Amira Inc.

(the "Debtor" or "641")

-and-

RAYMOND CHABOT INC., (SR0163)
Jean Gagnon, CPA, CA, CIRP, SAI
Trustee in charge

Licensed Insolvency Trustee

SECOND REPORT OF THE TRUSTEE ON THE STATE OF THE DEBTOR'S BUSINESS AND FINANCIAL AFFAIRS

(Subsection 50.4(7)b) of the *Bankruptcy and Insolvency Act*)

PREAMBLE

In accordance with subsection 50.4(7)b) of the *Bankruptcy and Insolvency Act* ("BIA"), we are filing our second report to the Court on the Debtor's business and financial affairs in connection with the Debtor's application to extend the delay to make a Proposal.

Signed in Montreal on March 22, 2022.

RAYMOND CHABOT INC.
Licensed Insolvency Trustee

Jean Gagnon, CPA, CA, CIRP, SAI
Trustee in charge

1. BACKGROUND AND CAUSES OF THE DIFFICULTIES

1.1. 193641 Canada Inc., formerly Les Entreprises Amira Inc., is a privately-owned company governed by the *Canada Business Corporation Act*. Its sole director is Ms. Ragaa Boulos.

1.2. The Debtor is conducting its business from its distribution and processing center located in Ville St-Laurent, Montreal, and has sales representatives throughout the province of Quebec, as well as in Ottawa, Toronto, Calgary, Edmonton, Vancouver, in New Brunswick and in Prince Edward Island.

1.3. It specializes in the import and distribution of grocery products from the Middle East.

1.4. Prior to the beginning of the present restructuring proceedings, the Debtor employed approximately 29 employees. Considering its financial situation, it employs 12 employees as of the date hereof.

1.5. Management attributes the financial decline of its business to the following:

- Significant increases in logistics costs;
- Significant increase in product acquisition;
- Downward pressure on consumer-facing pricing;
- Increased competition for shelf space in retail stores; and
- Loss of certain clients to the competition.

1.6. This situation has been exacerbated by the effects of the COVID-19 pandemic, which include an exorbitant increase in transportation costs.

1.7. As at the date of the NOI (as defined below), 641's credit facilities with the Royal Bank of Canada were overdrawn and it was facing an imminent liquidity shortfall. The Royal Bank of Canada is the first ranking secured creditor of the Debtor.

1.8. On February 21, 2022, 641 filed an application to allow Raymond Chabot Inc. to act as Trustee, pursuant to Section 13.3 of the BIA. On February 22, 2022, the Court authorized Raymond Chabot Inc. to act as Trustee.

1.9. Since it was no longer able to meet its obligations as they became due, 641 filed a notice of intention to make a Proposal to its creditors on February 25, 2022 (the "NOI"), and Raymond Chabot Inc. was appointed as Trustee thereto.

2. FINANCIAL SITUATION

2.1. We analyzed the financial statements for the years ended May 31, 2019 through 2021 and for the periods then ending.

2.2. Our analysis essentially consisted of discussion related to information supplied by management. This work does not constitute an audit or review of the financial statements in accordance with generally accepted auditing standards established by CPA Canada. No audit work has been carried out by us and, consequently, we do not express an opinion on these financial statements.

2.3. The following table presents the Debtor's balance sheet as at May 31, 2019, 2020 and 2021:

As at May 31 (Unaudited, in $'000)	2019	2020	2021
Assets			
Current assets			
Cash	5	-	-
Trade and other receivables	3 672	2 793	2 836
Investment tax credits receivable	31	27	-
Inventories	6 059	6 079	6 031
Prepaid expenses	12	12	13
	9 779	8 911	8 880
Long term debt			
Property and equipment	532	387	283
Advances to a company owned by a director	140	100	100
Deposit to a company under common control	50	50	50
Total assets	**10 501**	**9 448**	**9 313**
Liabilities			
Current liabilities			
Bank overdraft	-	90	109
Bank loan	4 285	4 000	3 625
Trade and other payables	2 338	1 455	1 700
Loan from a company under common control	21	34	6
Current portion of obligations under capital leas	57	44	34
	6 701	5 623	5 474
Long term debt			
Obligations under capital leases	68	24	2
Long-term debt	2 068	2 068	2 061
	8 837	**7 715**	**7 537**
Equity			
Share capital	3	3	3
Retained earnings	1 661	1 730	1 773
	1 664	1 733	1 776
Total liabilities & equity	**10 501**	**9 448**	**9 313**

2.4. The following table present the results of the Debtor for the financial years ending May 31, 2019, 2020 and 2021:

Year ended May 31 (Unaudited, in $'000)	2019	2020	2021
Sales	15 421	13 799	13 832
Cost of sales	12 128	10 667	10 868
Gross profit	3 293	3 132	2 964
Gross margin	*21,4%*	*22,7%*	*21,4%*
Selling expenses	1 701	1 537	1 469
Administrative expenses	1 130	1 066	1 105
Financial expenses	331	311	196
Other expenses	128	149	151
	3 290	3 063	2 921
Net earnings	**3**	**69**	**43**

2.5. The following points should be noted regarding the above financial statements:

2.5.1. On January 17, 2022, the company sold its nuts and dried fruits division to an arm's length third party. As a consequence of the transaction, the inventories have decreased considerably. This division accounted for more than $7 million in sales annually. The proceeds from the sale have been remitted to the bank, as first ranking secured creditor, significantly reducing the bank loan;

2.5.2. The accounts receivable of the company include more than $1 million of doubtful accounts and discounts taken by clients, for which no write-off has been recorded to date in the books of the company. When taking this into account, the financial statements would show significant losses for the recent years;

2.5.3. Considering that the sale of its nuts and dried fruits division and the lower expected sales for the foreseeable future, the amount of trade payables and debts remain too high to be sustainable;

2.5.4. The long-term debt consists of loans from shareholders and related companies.

2.6. The table below shows the breakdown of the debts by category at the date of the NOI filing:

(Unaudited, in '000 of $)	
Secured creditors	1 371
Priority Claims	
Unpaid deduction at source	28
Employee claims (Max $2,000/employee)	52
	80
Unsecured creditors	
Trade creditors, government dues and others	2 489
Related parties	2 322
	4 811
Total creditors	**6 262**

2.6.1. Per management, the amounts owed for deductions at source are current and will continue to be paid in the normal course of business;

2.6.2. The employees' claims related to salaries and vacations are current and will be paid in the normal course of business.

3. RESTRUCTURING PROCESS

3.1. Since the filing of the NOI, and in accordance with Subsection 50.4(2) BIA, the Debtor, with the assistance of the Trustee, prepared a cash-flow statement, establishing the projected receipts and disbursements expected in the next 13 weeks.

3.2. The aforementioned cash-flow statement highlighted a liquidity shortfall of $175,000. As a consequence, the Debtor filed an application on February 28, 2022, seeking approval of an interim financing (the "DIP"), a DIP Charge and an Administration charge. Said application was granted on March 2, 2022, and the interim lender advanced the DIP amount on the same day.

3.3. The Debtor signed a forbearance agreement (the "Forbearance Agreement") in relation to its indebtedness towards the Royal Bank of Canada, which acts as the first ranking secured creditor on the universality of the Debtor's assets. In accordance with the Forbearance Agreement, the Trustee must monitor the Debtor's cash receipts and disbursement.

3.4. 641 has also been communicating with its employees, customers and suppliers to maintain its operations and secure its supply chain and dealt with various operational issues.

3.5. On March 11, 2022, the Debtor, with the assistance of the Trustee, launched a sale process ("Sale Process") for the company and its assets. The Sale Process mainly consisted of the following:

3.5.1. A solicitation teaser was prepared and distributed to over 16 targeted prospective investors/purchasers and to over 600 professionals within Raymond Chabot Grant Thornton;

3.5.2. Interested investors/purchasers were invited to sign a non-disclosure agreement to access the Debtor's confidential information. As of the date of this report, 4 investors/purchasers have signed the non-disclosure agreement;

3.5.3. The said confidential information was shared through a data room established by the Trustee;

3.5.4. Interested investors/purchasers had the opportunity to inspect the company's assets and discuss with the management;

3.5.5. The deadline for submitting tenders under the Sale Process is March 24, 2022, at 11:00 a.m.

4. EXTENSION SOUGHT

4.1. The Trustee is of the opinion that the extension sought is necessary for 641 to advance its restructuring by:

4.1.1. Analyzing the tenders to be received as part of the Sale Process with the assistance of the Trustee;

4.1.2. If appropriate, negotiating, seeking approval of and closing a transaction in the context of the Sale Process; and

4.1.3. Ultimately, work towards potentially formulating a proposal to its creditors.

5. ANALYSIS OF THE STATEMENT OF CASH FLOW

5.1. In accordance with the BIA, we exercised oversight over the business and financial affairs of the Debtor and obtained all the necessary collaboration.

5.2. Our analysis essentially consisted of enquiry, analytical procedures and discussion related to information supplied by management. This work does not constitute an audit or review of the financial statements in accordance with generally accepted auditing standards established by CPA Canada or by the American Institute of Certified Public Accountants (AICPA). No audit work has been carried out by us and, consequently, we do not express an opinion on these financial statements.

5.3. Below is a comparative cash flow statement for the 4 weeks period ending March 20, 2022:

		Cumulative - 4-week period ended March 20, 2022		
(In thousands of $ - unaudited)	Notes	Forecast	Actual	Variance
Inflows				
Collection - Existing AR Balance	1	354 520	520 193	165 673
Temporary financing (DIP)		175 000	175 000	-
		529 520	695 193	165 673
Outflows				
Purchases				
Imports (On the water)	2	80 295	181 098	(100 803)
Local purchases	3	17 503	23 468	(5 965)
Salaries		132 620	133 235	(615)
Operating expenses				
Transport - Outbound	3	38 804	20 625	18 179
Storage		2 874	3 000	(126)
Truck rental		2 042	-	2 042
Fuel		-	249	(249)
General and administrative				
Insurance	3	2 881	153	2 728
Maintenance and office expenses		862	2 081	(1 218)
Selling expenses		862	6 557	(5 694)
Occupation fees				
Rent		-	-	-
Utilities	3	35 182	-	35 182
Communications		1 620	-	1 620
Sales tax remittances		-	-	-
Restructuring fees		74 493	69 773	4 720
Long term debt payments		-	-	-
Interests on line of credit		3 000	-	3 000
Financial fees		750	-	750
		393 789	440 238	(46 449)
Cash - Beginning of period		(1 236 744)	(1 236 744)	-
Inflows (outflows) for the period		135 731	254 955	119 224
Cash - End of period		(1 101 013)	(981 789)	119 224

5.4. The analysis of the variances allows us to make the following observations:

5.4.1. The higher than projected collection of accounts receivable offset the unexpected disbursements required to receive certain imports;

5.4.2. The disbursement variances are mainly due to advance payments requested by suppliers and unexpected additional customs and freight forwarding costs;

5.4.3. The remainder of the variances are mainly temporary.

5.5. **Appendix A (under seal)** to this Second Report contains the cash flow forecast for the period ending on May 22, 2022 (the "Projections").

5.6. The Projections were prepared by management with the assistance of the Trustee, to present the estimated cash receipts, disbursements and indebtedness of the Debtor in the context of the Forbearance Agreement.

5.7. As of the time of writing this Second Report, the Debtor has advised the Trustee that it was in compliance with the conditions under the Forbearance Agreement.

5.8. The Projections reflect that the Debtor will have sufficient funding to continue operating in the normal course through the proposed extension period.

5.9. For additional information regarding the Projections, including Management's major assumptions and the Trustee's report on the reasonableness of the Projections, please refer to **Appendix A (under seal)**.

6. CONCLUSION

6.1. Considering that the restructuring process under the BIA began less than one month ago, the Debtor requires additional time to continue implementing the restructuring measures and working towards presenting a viable proposal to its creditors.

6.2. Based on the foregoing, the Trustee is of the view that the relief sought by the Debtor is appropriate and reasonable in the circumstances, and recommends granting an extension of the time to file a proposal until May 8, 2022, for the following reasons:

6.2.1. The Debtor is acting in good faith and with due diligence in taking steps to maximize the value of its assets for the benefit of its creditors;

6.2.2. The Debtor requires additional time to work on the measures described in section 4 of this Second Report;

6.2.3. The Debtor's creditors will suffer no prejudice from the extension sought, and the post-filing obligations of the Debtor will continue to be paid in the normal course of business;

6.2.4. The principal secured creditor of the Debtor has been advised of the request for an extension of time to file a proposal and does not oppose it; and

6.2.5. All statutory reporting has been done within the delays prescribed by the BIA;

6.3. The whole, respectfully submitted by Raymond Chabot Inc., in its capacity as Trustee to the Notice of Intention to make a proposal for 193641 Canada Inc.

APPENDIX A

(<u>UNDER SEAL</u>)