CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
Division No : 01 - Montreal
Court No : 500-11-057565-190
Estate No : 41-2588192

S U P E R I O R C O U R T
(Commercial Division)

IN THE MATTER OF THE BANKRUPTCY OF:

BENTLEY LEATHERS INC./ CUIRS BENTLEY INC., legal person duly incorporated according to law having its principal place of business at 6125, Côte-de-Liesse Road, in the city of Saint-Laurent, judicial district of Montreal, province of Quebec, H4T 1C8

Debtor Company

- 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 TO THE FIRST MEETING OF CREDITORS

The purpose of this Report is to apprise the creditors as to the affairs of the bankrupt, Bentley Leathers Inc. / Cuirs Bentley inc, (the "**Debtor**" or the "**Company**") as well as to the current status of the administration of the bankrupt estate.

We caution readers that certain information contained in this Report is based upon Management representations as well as the data reflected in the unaudited books and records of the Debtor. The Trustee has not conducted an audit and has not reviewed in detail the books and records of the Debtor. Consequently, the Trustee expresses no opinion whatsoever with respect to the reliability or completeness of such information.

BACKGROUND

1. The Debtor's head office was located at 6125 chemin de la Côte-de-Liesse, in the City and District of Montreal, Province of Quebec.

2. The Debtor was a pioneer retailer in the luggage, handbag small leather goods and related accessories space. As of November 26, 2019, Bentley was employing more than 1600 employees, with approximately 450 full time employees and the balance were part-time employees.

3. The business has deteriorated significantly in recent years and has faced serious liquidity constraints in the last year.

4. Management attributed the decline in both sales and profits to a number of factors including:

   a) Too many stores for the size of the market, particularly, given the continuing trend towards online purchases;

   b) Unsustainable occupancy cost, with a high proportion of stores losing money;

c) Outdated digital and online strategy;

d) Underinvestment in the broad range of private labels;

e) Inefficient warehousing and head office arrangements;

f) Overhead cost structure not in line with the declining sales level;

g) Challenging retail environment across Canada; and

h) Inventory historically too high.

5. In response to the above-noted challenges, the Debtor attempted to restructure the business, but ultimately came to the conclusion that a formal restructuring was the only alternative to try and preserve a going concern operation.

6. On November 26, 2019, the Debtor filed a Notice of Intention to make a Proposal ("**NOI**") under the provisions of the *Bankruptcy and Insolvency Act,* R.S.C., 1985, c. B-3 (the "**BIA**") and KPMG Inc. was named as Trustee to the NOI.

7. We refer the creditors to the First Trustee Report issued on November 26, 2019 and presented in **Exhibit A** for more information regarding the Debtor's business and operations, the Debtor's financial situation and the principal causes of its financial difficulties.

8. On November 26, 2019, the Debtor asked the Court to approve the liquidation of 92 stores as part of its restructuring plan. A Liquidation Order was issued by the Court on that day (refer to the First Trustee Report presented in **Exhibit A** for more information).

9. On December 2, 2019, the Debtor filed an application to seek the issuance of an Order authorizing and approving the sale to 11580965 Canada Inc. (the "**Purchaser**") of certain of the Debtor's assets (the "**Transaction**").

10. We refer the creditors to the Second Trustee Report issued on December 4, 2019 and presented in **Exhibit B** for more information on the Transaction.

11. On December 5, 2019, the Court issued an Approval and Vesting Order (the "**Vesting Order**"), authorizing the sale to the Purchaser and extending the delay to file a proposal under the NOI until January 10, 2020.

12. On December 6, 2019, the Trustee issued the Certificate (as defined in the "**Application for the Vesting Order**") that completed and confirmed the sale of the Purchased Assets (as defined in the "**Application for the Vesting Order**") to the Purchaser.

13. On January 11, 2020, the Debtor became bankrupt due to the non-filing of a proposal to its creditors and KPMG Inc. was appointed Trustee of the Estate of the Debtor.

ASSETS

14. All the Debtor's assets were bought by the Purchaser following the Transaction. The purchased assets included, without limitation, all of the Debtor's accounts receivable, inventory, equipment, intellectual property, right to receive proceeds from the liquidation sale, permits, licenses and authorizations, books and records, prepaid expenses and deposits and the goodwill.

15. The terms of the transaction are summarized as follows (refer to **Exhibit B** for more information):

a) The Purchaser, a related entity to the Debtor, was incorporated on November 26, 2019, solely to act as purchaser in the context of the Transaction.

b) The purchase price for the Purchased Assets (the "Purchase Price") was estimated at approximately $26.3M, being the aggregate of:

   i) the entire indebtedness of the Debtor towards its main secured lender, the Canadian Imperial Bank of Commerce ("CIBC"), as at the Closing Date via an assumption of such indebtedness, amounting to $12.8M as of November 29, 2019;

   ii) the entire indebtedness of Bentley towards the secured debt of Huk 89 Limited ("HUK 89"), which was assigned to it for a nominal value by the private equity fund that owned the Debtor previously, as at the Closing Date via an assumption of such indebtedness in the amount of $3M;

   iii) the assumption of the HUK 89 secured interim loan amounting to $1.6M. On November 21, 2019, given that CIBC had advised Bentley that it would not advance new funds after November 26, 2019, HUK 89 and the Debtor entered into a Subordinated Loan and Security Agreement in order to make available to Bentley an amount of up to $5M (the "Interim Loan"); and

   iv) the assumption of certain other liabilities estimated at $8.9M, namely: any unpaid amount that could be owed by the Debtor as at the Closing Date and which under the scheme of the distribution of the BIA would rank ahead of CIBC pursuant to sections 81.3 and 81.4 BIA, all accrued vacation pay for all employees and all liabilities relating to the minimum of 750 employees that the Purchaser undertook to retain under the Transaction, the assumption of the gift cards liabilities estimated at $540K, any amount owed under the Administration Charge, any amount owed under the D&O Charge, a portion of the residual lease obligations at liquidating stores (if any) and a portion of the central services and administration costs incurred in connection with the liquidation.

c) Other relevant terms and conditions of the Transaction are as follows:

   i) the Purchased Assets were free of all liens or other encumbrances, except those relating to the assumed liabilities;

   ii) the Purchased Assets were being sold on an "as is, where is" basis;

   iii) the Court issued the Approval and Vesting Order;

   iv) confirmation of the availability of sufficient financing from the Purchaser to meet the working capital needs of Bentley.

16. In connection with the Approval and Vesting Order, the trustee presented an alternative scenario to the Transaction which is the liquidation of the entire business and its assets.

17. A summary of the estimated net proceeds to stakeholders under a liquidation scenario is presented as follows (refer to **Exhibit B** for more information):

Bentley Leather Inc. **Estimated liquidation value** **As at November 29, 2019**			
(In $000's)		**Estimated value**	
Description	**Book value**	**Low**	**High**
Current Assets			
Accounts receivable	860	129	215
Inventories (Note 1)	23 919	21 527	22 723
Prepaids and other current assets	459	-	-
Total current assets	**25 237**	**21 656**	**22 938**
Non-Current Assets			
Leasehold improvements and other fixed assets	14 046	250	375
Estimated value before professionnal fees, priority claims and liabilities	**39 283**	**21 906**	**23 313**
Estimated priority claims		(3 324)	(3 324)
Estimated professional fees		(2 000)	(1 500)
Estimated administration expenses		(1 000)	(750)
Estimated liquidation value before liabilities		**15 582**	**17 739**
Due to secured creditors			
CIBC loan		(12 810)	(12 810)
HUK 89 Ltd. debt		(3 000)	(3 000)
		(15 810)	**(15 810)**
Estimated surplus before unsecured creditors		**(228)**	**1 929**
Estimated unsecured creditors		**71 150**	**71 150**
Potential dividend		**-0,3%**	**2,7%**

Note 1 : Liquidation value estimated based on liquidation proposals received from liquidators

18. The table above shows that, while providing for a full repayment for the secured creditors, the net proceeds to the unsecured creditors is estimated between Nil and $2 million. For the purposes of the liquidation analysis, the Trustee added the landlords' estimated damage claims of $36.2M and the estimated severance payments to employees of $16.5M, for a total unsecured claims of approximately $71.2M in a liquidation. Thus, this implied a potential dividend for the unsecured creditors of approximately 2.7% under the highest scenario.

19. The Trustee recommended the approval of the Transaction based upon the following main reasons:

a) The Transaction offered the highest return to Bentley's stakeholders, with the lowest degree of execution risk. More specifically, the Transaction provided for a full assumption of the secured creditors' debt;

b) Unlike an entire business liquidation, the majority of Bentley's business operations continues on a going concern basis, to the benefit of a majority of employees, suppliers and the majority of the landlords;

c) Under a liquidation scenario, approximately 750 jobs would not have been preserved, and landlords and suppliers would have lost an important tenant and customer going forward;

d) According to Management, the volume of merchandise purchases from its top suppliers for the next twelve (12) months was estimated at $29M;

e) The Transaction was supported by the main suppliers and landlords; and

f) The Transaction was the only reasonable option available for preserving the going concern operations of Bentley, in the best interest of all of Bentley's stakeholders.

BOOKS AND RECORDS

The Trustee has obtained certain books and records relevant to his administration of the Debtor. The books and records for the business of the Debtor relevant to the Purchaser were transferred to the Purchaser as part of the Transaction. The Trustee plans to recover the balance of the books and records in the coming weeks.

CONSERVATORY MEASURES

To date, the Trustee has implemented the following conservatory and protection measures:

- Opening a trust account;
- Sending the notice of Bankruptcy to the creditors; and
- Publishing the Notice of Bankruptcy in the daily newspaper Le Devoir.

PROVABLE CLAIMS

At the date of this report, the Trustee has received approximately 40 claims. The trustee will analyze the deviations in consultation with the appointed inspectors, if applicable.

SECURED CREDITORS

The Debtor has no secured creditor.

REVIEWABLE TRANSACTIONS AND PREFERENTIAL PAYMENTS

At the creditors' request, the Trustee will carry out an in-depth review of the Debtor's books and records in order to determine whether there are any reviewable transactions and/or preferential payments and to report in this regard tothe inspectors, if applicable.

ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

The Trustee does not expect any dividend payment to the creditors.

Dated in Montreal on this 29th day of January, 2020.

KPMG INC.

Stéphane De Broux, CPA, CA, CIRP, LIT

EXHIBIT A

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: 01- MONTRÉAL
No. Cour :
No. Dossier :

S U P E R I O R C O U R T
(Commercial Division)

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

BENTLEY LEATHERS INC./ CUIRS BENTLEY INC., legal person duly incorporated according to law having its principal place of business at 6125, Côte-de-Liesse Road, in the city of Saint-Laurent, judicial district of Montreal, province of Quebec, H4T 1C8

Applicant / 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, in the city of Montreal, province of Quebec, H3A 0A3

Trustee

FIRST REPORT OF THE TRUSTEE ON THE STATE OF THE APPLICANT'S BUSINESS AND FINANCIAL AFFAIRS

I, Stéphane De Broux, CPA, CA, CIRP, LIT, of KPMG Inc., in my capacity as Trustee under the Notice of Intention to make a Proposal filed by the Applicant, report to this honorable Court as follows.

INTRODUCTION

1. On November 26, 2019, Bentley Leathers Inc. / Cuirs Bentley inc. ("**Bentley**") filed a Notice of Intention to make a Proposal ("**NOI**") under the provisions of the *Bankruptcy and Insolvency Act,* R.S.C., 1985, c. B-3 (the "**BIA**") and KPMG Inc. was named as Trustee to the NOI (in such capacity, the "**Trustee**").

2. The purpose of this First Report is to provide this Honorable Court with information regarding the following:

   a) Background information regarding Bentley;
   b) Principal causes of Bentley's financial difficulties;
   c) Overview of Bentley's financial situation;
   d) The proposed restructuring;
   e) Overview of the Bentley's preliminary cash flow forecast;
   f) The Trustee's recommendation relating to the following orders sought by Bentley :
      i) The Liquidation Order and Liquidation Charge; and
      ii) The First Day Order, including the Administration Charge and the D&O Charge;

RESTRICTIONS AND SCOPE LIMITATIONS

3. In preparing this report, the Trustee has been provided with and has relied upon unaudited financial information, books and records (the "**Information**") prepared by management of Bentley ("**Management**"), and following discussions with Management and Deloitte Restructing Inc. ("**Deloitte**"). Except as further described in this report:
   a) The Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Trustee 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 Trustee 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.

4. Future oriented financial information referred to in this report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections. Even if the assumptions materialize, the variations could be significant.

5. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with Bentley.

6. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is Bentley's common reporting currency.

BACKGROUND INFORMATION

7. Bentley's head office is located at 6125 ch de la Côte-de-Liesse, in the City and District of Montreal, Province of Quebec.

8. Bentley is a fully owned subsidiary of Bentley Leather Development Corporation Inc. ("**Bentley Development**").

9. Bentley is a pioneer retailer in the luggage, handbag small leather goods and related accessories space. As of November 26, 2019, Bentley is employing more than 1600 employees. Approximately 33% are full time employees (approximately 450 people) and the balance are part-time employees.

10. Bentley was started as a single store operation in St. John's, Newfoundland in 1987 and has expanded across Canada through the combination of opening new stores and the opportunistic acquisition of competing chains.

11. Bentley is currently the largest retailer of luggage in Canada, and the largest specialty store retailer of luggage in North America. Bentley also sells its merchandises through an e-commerce site: https://www.shopbentley.com/en/

12. As of November 26, 2019, Bentley has 255 retail stores operating in the following provinces:

Retail stores by province	
Province	**# Stores**
Alberta	25
British Columbia	32
Manitoba	10
New Brunswick	7
Newfoundland and Labrador	6
Nova Scotia	9
Ontario	79
Prince Edward Island	2
Quebec	75
Saskatchewan	10
Total	**255**

13. Bentley's stores are located in malls and are, by landlord, as follows:

Retail stores by Landlords	
Landlords	**# Stores**
Cushman & Wakefield	23
Ivanhoe Cambridge	18
Cadillac Fairview	17
Cominar REIT	17
Morguard	16
Primaris	16
Westcliff Developments Ltd.	14
RioCan	12
Oxford	10
Bentall Kennedy	9
Strathallen Capital Corporation	9
Other	94
Total	**255**

14. In 2013, Bentley business was bought by a private equity fund (the "**Former Owner**").

15. Although the Former Owner had invested heavily in the business since its acquisition, the business has deteriorated significantly in recent years and has faced serious liquidity constraints in the current year.

16. On November 8, 2019, a subsidiary of Hilco Capital ("**Hilco UK**"), namely HUK 94 Limited ("**HUK 94**"), acquired from the Former Owner all shares of Bentley Development, which owns all of the shares of Bentley.

17. Hilco UK is a prominent financial investor and adviser, working across a broad range of sectors. Hilco UK specialises in combining fast access to capital with hands-on financial operational support, working with management to deliver succesful turnarounds. Hilco UK operates across UK, Western Europe, Canada and Australia.

PRINCIPAL CAUSES OF FINANCIAL DIFFICULTIES

18. In recent years, Bentley began experiencing a decline in both sales and profits, which accelerated into a significant downturn. Management attributes the negative trending to a number of factors including:

    a) Too many stores for the size of the market, particularly, given the continuing trend towards online purchases;

    b) Unsustainable occupancy cost, with a high proportion of stores losing money;

    c) Outdated digital and online strategy;

    d) Underinvestment in the broad range of private labels;

    e) Inefficient warehousing and head office arrangements;

    f) Overhead cost structure not in line with the declining sales level;

    g) Challenging retail environment across Canada; and

    h) Inventory historically too high.

19. In addition, in or about October 2019, the Former Owner advised Bentley of its clear intention to no longer fund the losses of Bentley, most of which occur during seasonal low periods.

20. In response to the above-noted challenges, Bentley attempted to restructure the business, but ultimately came to the conclusion that a formal restructuring was the only alternative to try and preserve a going concern operation.

21. In that context, Bentley hired Oakmont Real Estate Services, a retail lease consultant, in order to assist with the negociations of more favorable lease terms with several landlords.

OVERVIEW OF BENTLEY'S FINANCIAL SITUATION

Statement of Earnings (Loss)

22. The following financial data is based upon the Information provided by the Management, Bentley's books and records, and discussions with Bentley's representatives. The Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. This information is submitted solely to assist the reader in assessing the financial position of Bentley. The Trustee makes no representation or warranty as to the accuracy of said financial information.

Bentley Leathers Inc.			
Income statement	8 months ended	12 months ended	
(Unaudited)	30-Sept-19	26-Jan-19	27-Jan-18
Sales	101 497 305	158 664 611	159 922 267
Cost of sales and store contribution	92 278 712	140 704 342	137 224 431
Direct Store contribution	**9 218 593**	**17 960 268**	**22 697 837**
	9,1%	*11,3%*	*14,2%*
Administration expenses	13 602 776	19 848 075	19 666 310
One time cost	-	1 096 439	278 911
EBITDA	**(4 384 183)**	**(2 984 245)**	**2 752 616**
Financial expenses	3 748 153	(3 648 447)	5 553 815
Other expenses	804 347	393 767	365 035
Net profit (loss)	**(8 936 684)**	**270 434**	**(3 166 234)**

23. As noted above, Bentley reported a net loss of $8.9 million for the 8-months ended September 30, 2019.

24. Bentley has recorded a net loss during fiscal year 2018 ($3.2 million). The net profit realized in fiscal year 2019 of $270,000 includes a gain from a forgiveness of debt from the parent company of $8.9 million included in the financial expenses. Excluding this gain, the net loss for fiscal year 2019 would have amounted to over $8.6 million.

25. The direct store contribution margin is decreasing as a percentage of the sales. In fiscal year 2018, the contribution margin reached 14,2% compared to the 8-month period ended September 30, 2019 of 9,1%, representing a negative variance of 5.1% in direct stores contribution margin.

26. Furthermore, the current 8-month sales of fiscal year 2020 compared to the same period in 2019 for comparable store are trending minus 10.5%.

Balance Sheet

27. Bentley's balances sheet as at September 30, 2019, and the last two fiscal years are presented below :

Bentley Leathers Inc. Balance sheet As at	30-Sept-19	26-Jan-19	27-Jan-18
Assets			
Current			
Cash	737 508	241 642	1 289 243
Accounts receivable	801 319	1 143 078	1 691 792
Inventories	25 268 650	26 732 232	25 817 494
Other current assets	458 966	514 589	547 723
Total current assets	**27 266 444**	**28 631 541**	**29 346 252**
Fixed assets	13 883 516	14 822 977	15 763 069
Other assets	162 325	149 132	124 763
	41 312 285	**43 603 650**	**45 234 084**
Liabilities and shareholder's deficiency			
Current			
Bank indebtedness	15 973 399	14 499 865	14 472 521
Accounts payable - Trade	12 982 881	9 969 685	6 089 209
Accounts payable - Other	9 523 669	10 569 454	7 559 464
Short term debt	-	3 632	162 479
Total current liabilities	**38 479 950**	**35 042 636**	**28 283 673**
Bentley DevCO Loan	422 763	296 525	128 210
Interest on Debentures	17 662	-	-
Debenture		-	8 851 807
CIBC Term Loan	-	-	21 000 000
Other Long Term	2 852 957	2 908 116	2 805 166
Deferred	3 399 637	3 280 372	3 359 662
Total liabilities	**45 172 968**	**41 527 649**	**64 428 518**
Shareholder's deficiency			
Shareholders Equity	(3 860 683)	2 076 001	(19 194 434)
	41 312 285	**43 603 650**	**45 234 084**

Assets

28. As of September 30, 2019, Bentley's balance sheet reflected assets of approximately $41.3 million.

29. Bentley's tangible assets consist primarily of:
    a) Inventory ($25.3 million): composed of luggage, handbags, small leather goods and related accessories; and
    b) Fixed assets ($13.9 million): composed of leasehold improvements, furnitures, fixtures and computer equipment.

30. In addition to the above, the assets also include accounts receivables, deposits, prepaid expenses and trademarks.

31. Bentley operates from leased premises and does not own any real estate.

Liabilities

32. As appears from the list of creditors to the NOI, as at November 26, 2019, the total indebtedness of Bentley amounts to approximately $38 million, presented as follows :

Bentley Leathers Inc. Estimated Liabilities As at November 26, 2019	
Secured Creditors	
CIBC Revolving credit facility	14 500 000
HUK 89 Ltd.	3 000 000
	17 500 000
Priority claims / Preferred Creditors	
Vacation payable	1 338 261
Salaries and DAS payable	TBD
Sales tax payable	350 000
Other preferred creditors	TBD
Related Creditors	422 763
Unsecured Creditors	
Trade creditors	14 930 262
Landlords - unpaid rent	3 000 000
Customers' gift cards	540 000
	18 470 262
Total	**37 731 285**

<u>Secured Creditors</u>

33. At the time of the NOI filing, Bentley has two secured creditors, CIBC and HUK 89 Limited.

CIBC

34. As of November 20, 2013, Bentley, as borrower, Bentley Development, as guarantor, and Canadian Imperial Bank of Commerce ("**CIBC**"), as lender, entered into a Credit Agreement (the "**CIBC Loan**"). Bentley currently owes an amount of approximately $14.5 million to CIBC under said agreement.

35. The CIBC Loan is secured by moveable hypothecs and general security on the universality of the movable assets of Bentley and of Bentley Development.

36. As of October 29, 2019, Bentley and Bentley Development entered into a Forbearance Agreement with CIBC (the "**Forbearance Agreement**"), providing for the following:

    a) the forbearance period will expire on November 26, 2019;

    b) by no later than November 18, 2019, Bentley was required to have received offers from potential liquidators and to have entered into a binding unconditional agreement from a prospective investor in respect of an equity proposal ("**Equity Transaction**");

    c) by no later than November 25, 2019, Bentley had to confirm to CIBC that any Equity Transaction had closed; and

    d) CIBC's unconditional right to issue a Notice of Intention to Enforce Security pursuant to section 244 BIA (the "**244 Notice**").

37. On November 8, 2019, CIBC issued to each of Bentley and Bentley Development a 244 Notices.

HUK 89 Limited

38. In February 26, 2019, Bentley, as borrower, Bentley Development, as guarantor, and the Former Owner, as lender, entered into an agreement in order to make available to Bentley a non-revolving loan in the aggregate principal amount of $3 million (the "**Former Owner Loan**").

39. The Former Owner Loan is secured by moveable hypothecs and general security on the universality of the movable assets of Bentley and of Bentley Development.

40. On November 7, 2019, the Former Owner assigned all of its rights in the Former Owner Loan to HUK 89 Limited ("**HUK 89**"), a subsidiary of Hilco UK, for a nominal value.

Priority claims and Preferred Creditors

41. Bentley's employees are paid (through payroll services) on a bi-weekly basis, and it is projected that Bentley will continue to remain current in the payment of salaries to its employees. Statutory deductions from employee salaries are made, as required, and remitted to the appropriate governmental authorities, where applicable. These deductions are also current. Bentley does not maintain any pension or retirement plans.

42. The vacations accrued amount to approximately $1.3 million as of the date of this First Report.

43. All amounts owed to the tax authorities by Bentley are paid in the normal course of business. As of November 26, 2019, sales taxes payable are estimated at $350,000 for the month of November 2019 (payable in December 2019), the last payment having occurred on November 25, 2019 (for October 2019 sales taxes).

Related Creditors

44. In addition to the debt referred to in paragraphs 38 and 71, Bentley currently has $423,000 of unsecured indebtedness owed to its parent company, Bentley Development.

Unsecured Creditors

45. Trade creditors: the amount of $14.9 million referred to above is based on the books and records of Bentley.

46. As for the landlords, the rents for the month of November have not been paid and total approximately $3 million, before taking into account any damage claims resulting from stores closures.

47. Bentley offers gift cards to its customers that, according to Bentley's records, total approximately $540,000. In the interest of maintaining customer loyalty and confidence of the customer base, Bentley will seek permission from the Court to honor these gift cards sold after November 26, 2016.

48. The Trustee cautions that these amounts may change as proof of claims are filed, as it is customary in any proceedings.

PROPOSED RESTRUCTURING

49. The current restructuring proposal of Bentley includes a liquidation of merchandise in unprofitable stores and closing of same, and the restructuring of the remaining activities and operations.

Liquidation proposals

50. As mentioned above, as part of the Forbearance Agreement, Bentley had undertaken to solicit offers from reputable liquidators of retail stores and retained the services of Deloitte to solicitate liquidation proposals from same ("the "**Liquidation Process**").

51. Deloitte provided to Bentley, the Trustee and CIBC progress reports on the Liquidation Process, which are summarized as follows:

    a) On October 31, 2019, the list of potential liquidators was compiled and provided to CIBC and KPMG;

    b) On November 1st, 2019, a list of compiled information for the Liquidation Process was provided to CIBC and KPMG. The information included in this list was downloaded in Bentley's Data Room specifically identified for this process;

    c) On November 4, 2019, a teaser to solicit liquidation proposals was sent to Hilco Merchant Resources ("**Hilco Merchant**") and Tiger Asset Solutions ("**Tiger**");

    d) On November 5 and 6, 2019, Tiger Group and Hilco Global signed non disclosure agreements ("**NDA**") to access Bentley's Data Room;

    e) On November 8, 2019, a teaser to solicit liquidation proposals was sent to three (3) other liquidators, namely Great American, Gordon Brothers and SB360;

    f) On November 11, 2019, Gordon Brothers and SB360 signed a NDA to access Bentley's Data Room;

    g) On November 18, 2019, four (4) liquidation proposals were received by Deloitte from Hilco Merchant, Tiger, Gordon Brothers Canada and SB360 Capital Partners, presented in **Appendix 1**.

52. Following the reception of the four (4) liquidation proposals, Deloitte and the Trustee worked with the top two liquidation proposals, from Hilco Merchant and Tiger, to clarify those proposals, which contemplated the liquidation of the entire Bentley business.

53. The four (4) liquidation proposals received included various price adjustment clauses based on the cost factor (cost vs. retail price) that could decrease the amount offered and the net minimum guarantee.

54. Deloitte and the Trustee asked Hilco Merchant and Tiger to submit revised proposals excluding any cost factor adjustment.

55. Only Hilco Merchant submitted such a revised proposal.

Restructuring plan

56. The Trustee has been informed that, In the Fall of 2019, Management solicited two potential equity investors, without success.

57. Concurrently, Bently received an unsolicited offer from HUK 94, a related party to Bentley since November 8, 2019, namely a proposed restructuring plan that would allow the survival of Bentley as a going concern given that a majority of the employees would be retained and a majority of the stores would remain open (the "**HUK Offer**").

58. The HUK Offer is conditional upon: (i) being able to renegotiate the terms of certain leases with a sufficient number of Bentley's landlords by no later than November 22, 2019 (the "**Landlords Condition**"); and (ii) CIBC agreeing to remain as the operating lender of the new entity created by HUK 94 pursuant to terms of an assumption agreement with CIBC (the "**CIBC Condition**").

59. On November 18, 2019, Hilco UK initiated discussions with the landlords to see if they would be able to satisfy the Landlords Condition by November 22, 2019.

60. CIBC explained to Bentley and Hilco UK that in order to be in a position to seek approval ("**Approval**") regarding the requested assumption of its debt, CIBC would required: (i) confirmation that the Landlords Condition had been met; (ii) to be satisfied with Hilco UK's financial model of the restructured business and, in particular, to be satisfied that Hilco UK was investing a sufficient capital contribution to ensure that the business would be able to withstand its seasonal low points with sufficient liquidity to also withstand unforeseen circumstances and to provide a meaningful commitment to the business; and (iii) to have some certainty that a transaction could close quickly given the imminent and crucial holiday period.

61. On November 22, 2019, HUK 94 was able to secure comfort from a sufficient number of Bentley's landlords to confirm to Bentley and to CIBC that the Landlords Condition had been met. That being said, HUK 94 is continuing to work with Bentley's landlords to negotiate certain terms and to prepare the required documentation in respect of same.

62. On November 22, 2019, Hilco UK presented to CIBC an updated financial model of the restructured business, taking into account the negotiated terms with Bentley's landlords. Since then, Hilco UK has been responding to inquiries from CIBC and providing follow up due diligence information to CIBC with a view of ensuring that Hilco UK has provided all available information to CIBC to allow it to seek Approval of the HUK Offer and, specifically, the assumption of the CIBC debt into the restructured and downsized business upon closure of the HUK Offer.

63. If all responses and due diligence requests are able to be satisfied in the near term, it is expected that CIBC may be able to proceed with the securing of the Approval by November 29, 2019.

64. Bentley and Hilco UK believed that the best outcome for all of Bentley's stakeholders is the HUK Offer given that jobs would be saved, landlords would avoid a termination of all their 250 leases, secured creditors would be assumed into a restructured business, and Bentley's suppliers would have a customer going forward.

65. Given that certain of Bentley's stores are inevitably going to be closed in a liquidation or restructuring plan, it was agreed amongst the parties that Bentley should immediately seek the approval of the Court to enter into an agreement with Hilco US to initiate the liquidation of the inventory located in approximatly 92 stores, that will close even in the context of the restructuring plan (the "**Closing Stores**").

Liquidation Order

66. Once Bentley received positive feedback from Hilco UK about its negotiations with Bentley's landlords, Deloitte and the Trustee went back to the parties that had submitted the top two liquidation proposals in the context of the Liquidation Process (Hilco Merchant and Tiger) and requested that they submit an alternative proposal for the liquidation of the (i) Closing Stores, and (ii) all of the stores, in the event the HUK Offer could not be implemented.

67. Such proposal was received from Hilco Merchant, while Tiger requested a significant fee in order to even submit a proposal, which was considered as a refusal to submit an alternative bid.

68. The liquidation order is required to implement the liquidation proposal received on November 26, 2019 from Hilco Merchant (the "**Proposed Liquidation Offer**") presented in **Appendix 2.**

69. The Proposed Liquidation Offer is summarized as follows:

    a) For the liquidation of all the stores, a net minimum guarantee representing 95% of the inventory at cost with no cost factor adjustment;

    b) For the liquidation of the Closing Stores, a net minimum guarantee representing 80% of the inventory at cost with no cost factor adjustment;

    c) Payment of the net minimum guarantee amount as follows: 70% at the beginning of the liquidation and 30% at the end of the sale upon the reconciliation provided for in the Proposed Liquidation Offer; and

    d) The liquidation sale would start on November 27, 2019 and end at the end of February 2020.

Further Order

70. In light of the above and more specifically, what is described in para. 64, Bentey is seeking a liquidation order to initate immediately the process to liquidate assets in the Closing Stores.

71. Once Bentley and Hilco UK have more certainty as to whether the CIBC Condition can be satisfied, which is expected to be obtained by December 2, 2019, Bentley intends to bring a further application in Court seeking either the approval of the HUK Offer or to initiate a liquidation of the remaining stores.

72. Hilco UK, through HUK 89, has agreed to finance the operations of Bentley on a temporary basis, with a secured loan ranking after the CIBC Loan and the Former Owner Loan.

DEBTOR'S PRELIMINARY CASH FLOW FORECAST

73. The representatives of Bentley have prepared a preliminary cash flow (the "**Preliminary Cash Flow**") for the period of November 23 to 29, 2019 (the "**Cash Flow Period**").

74. An updated cash flow will be presented to Court once Bentley has confirmation as to the possibility of approval of the HUK Offer.

75. The Trustee has assessed the reasonableness of the Preliminary Cash Flow. The Trustee's assessment of the Preliminary Cash Flow consisted of inquiries, analyses and discussions related to information supplied to it by certain key members of Management and employees of Bentley. The Trustee's procedures with respect to the Prelimianry Cash Flow assumptions were limited to evaluating whether they were consistent with the purpose of the Preliminary Cash Flow.

76. Based on the Trustee's review, nothing has come to its attention that raises a material doubt that:

    a) The Preliminary Cash Flow assumptions are consistent with the purpose of the Cash Flow;

    b) As at the date of this First Report, the Preliminary Cash Flow assumptions are suitably supported and consistent with the proposed plans for Bentley and provide a reasonable basis for the Preliminary Cash Flow given the Preliminary Cash Flow assumptions; or

    c) The Preliminary Cash Flow reflects the Preliminary Cash Flow assumptions.

77. A summary of the Preliminary Cash Flow is set out in the table below and presents cash inflows, outflows and costs related to the NOI Proceedings for the Cash Flow Period:

Bentley Leathers Inc **Projected Cash Flow** **For the period from November 23, 2019 to November 29, 2019**	
	Total
Receipts	
Receipts from go-forward stores	**4 461 913**
Outflows	
Wages	(1 105 098)
DAS	(245 577)
Sales Tax	(105 000)
Interest and Fees	(19 958)
Total Outflows	**(1 475 634)**
NET CASH FLOW	**2 986 280**
Opening Bank Loan, net of cash	(14 500 000)
Net Cash flow	2 986 280
NMG closing stores	2 832 000
Closing Bank Loan, net of cash	**(8 681 720)**

78. The Trustee notes the following with respect to the Preliminary Cash Flow:

a) As at November 23, 2019, the opening loan balance was approximately $14,500,000;

b) The Preliminary Cash Flow reflects total cash receipts from go-forward stores of approximately $4,462,000;

c) The Preliminary Cash Flow reflects total cash disbursements of approximately $1,476,000;

d) The Preliminary Cash Flow reflects a positive net cash flow of approximately $2,986,000.

79. The Preliminary Cash Flow includes the first payment from the liquidation of the Closing Stores estimated at $2,832,000, representing 70% of the net minimum guarantee amount from the liquidator.

80. Based on the Preliminary Cash Flow, Bentley will have sufficient liquidities to fund its operations during the Cash Flow Period.

COURT ORDERS SOUGHT BY BENTLEY

a) The Liquidation Order and the Liquidation Charge; and

b) The First Day Order.

Liquidation Order and Liquidation Charge

81. Bentley is asking this Court to approve the liquidation of the Closing Stores and the Proposed Liquidation Offer (the "**Liquidation Order**").

82. The Trustee supports the Liquidation Order sought by Bentley for the following reasons:

a) The solicitation process for liquidation proposals conducted by Deloitte was reasonable under the circumstances;

b) The liquidation of the Closing Stores is a key component of the restructuring plan and the HUK Offer. In the event that the Liquidation Order is not approved by this Court, it is reasonable to assume that the HUK Offer will be withdrawn and that Bentley will have to liquidate all of its assets;

c) Furthermore, in a context of a business liquidation, the Closing Stores would be liquidated anyway. In addition, it is reasonable to assume that any going concern proposal would entail the liquidation of the Closing Stores;

d) Bentley, Hilco UK and the Trustee determined that the best outcome for all of Bentley's stakeholders was to attempt to implement the HUK Offer given that jobs would be saved, landlords would avoid a termination of all their 255 leases, secured creditors would be assumed into a restructured business, and Bentley's suppliers would have a customer going forward; and

e) The liquidation of the Closing Stores is essential to any going concern proposal. In addition, Hilco UK, through HUK 89, has agreed to finance the operations of Bentley, until a final determination is made with respect to the implementation of the HUK Offer, with a secured loan ranking after the CIBC Loan and the Former Owner Loan.

83. As part of the Liquidation Order, a Liquidation Charge is being sought by Bentley to the benefit of the liquidator to secure the amounts to be paid in advance of the liquidation. The Trustee believes that it is just and reasonable to approve such charge, given the amount of the net minimum guarantee paid and committed by the liquidator.

Administration Charge

84. The Order sought by Bentley provides for a priority charge on Bentley's assets in favor of the legal counsel to Bentley as well as the Trustee and its legal counsel, as security for their respective fees and disbursements relating to services rendered in respect of Bentley up to $750,000 (the "**Administration Charge**").

85. Given the work to be performed, and the estimated costs associated thereto, the Trustee is of the view that the Administration Charge is reasonable and appropriate under the circumstances, having regard to the significant amount of work which is anticipated to be performed by Bentley's legal counsel, the Trustee and its legal counsel in respect of its monitoring duties, as well as the size of similar charges in comparable cases.

D&O charge

86. The Order sought by Bentley provides for an indemnity in favour of Bentley's sole director and officer, namely Mr. Walter Lamothe, in respect of any obligations or liabilities that he may incur as director or officer of Bentley after the commencement of the filing of the NOI.

87. A restructuring of the business of Bentley will only be possible with the continued participation of Bentley's sole director and Mr. Lamothe is essential to Bentley's business and to a successful restructuring. As a matter of fact, all of Bentley's directors resigned when HUK 94 acquired from the Former Owner all the shares of Bentley Development. Only Mr. Lamothe, Bentley's president, volunteered to become a director.

88. Even though Bentley intends to comply with all applicable laws and regulations, Bentley's sole director may nevertheless be concerned about the potential consequences for its personal liability in the context of the present restructuring.

89. Bentley currently maintains a directors' and officers' liability insurance up to an amount of $2 million (the "**D&O Insurance**"). Bentley currently expects that the D&O Insurance will provide coverage sufficient to protect the Director from most, if not all, of its obligations in such capacity. However, there can be no guarantee to that effect, especially in the context of insolvency proceedings, where Bentley's insurer cannot be expected to readily agree to be bound to insure hypothetical claims before they are brought and where some exclusions and/or deductibles may apply.

90. Therefore, Bentley submits that there may be a risk of a gap in the coverage otherwise provided by the D&O Insurance, which ultimately creates a degree of uncertainty for Mr. Lamothe.

91. Bentley therefore requests a Court-ordered charge (the "**D&O Charge**") in the amount of $2 million over its assets, property and undertaking, to indemnify Mr. Lamothe in respect of any liability which he may incur from and after the commencement of these proceedings – to the extent only that the D&O Insurance is inadequate.

92. The Trustee reviewed the calculation of the D&O Charge that was prepared by Bentley, taking into consideration the amount and timing of Bentley's payroll, vacation pay and certain tax liabilities. The Trustee is of the view that the D&O Charge is reasonable and appropriate in the circumstances.

Priority of Charges

93. The Order sought provides for the following priority of the Liquidation Charge, the Administration Charge and the D&O Charge (collectively, the "**Charges**"):

    a) First – the Liquidation Charge, limited to assets in the Closing Stores;

    b) Second – the Administration Charge;

    c) Third – D&O Charge.

94. Under the Liquidation Order, the Liquidation Charge will be limited to the assets in the Closing Stores and, under the First Day Order, the Administration Charge and the D&O Charge will grant a security over all of the present and future assets, property or undertaking of Bentley. The Charges will rank in priority to any and all other currently existing hypothecs and security interests over any or all of Bentley's property, as applicable pursuant to the assets covered by each of the Charges, in favor of the Secured Creditors, as well as any other "secured creditor" as defined by the BIA.

CONCLUSIONS

95. The Trustee respectfully makes the following preliminary observations and comments to this Honourable Court:

    a) The Trustee has been involved in this matter for a limited period of time but nonetheless, has received from Management, Deloitte and other parties an adequate description of the steps taken in the Fall and detailed financial information which has allowed it to ascertain the state of the affairs and finances of Bentley;

    b) The Liquidation Process conducted by Deloitte appears reasonable and appropriate under the circumstances, and the Trustee does not believe that any other process would generate a better outcome for Bentley's stakeholders;

    c) The Proposed Liquidation Offer represents therefore the best offer under the cirumstances, allowing Bentley a chance to implement a restructuring plan to the benefit of all of its stakeholders; and

    d) The Charges appear necessary, reasonable and appropriate to implement the proposed restructuring process.

All of which is respectively submitted this 26th day of November, 2019.

KPMG INC., in its capacity
as Licensed Insolvency Trustee
of Bentley Leathers Inc.

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

EXHIBIT B

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
No division : 01-MONTREAL
No Cour : 500-11-057565-190
No dossier : 41-2588192

S U P E R I O R C O U R T
(Commercial Division)

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

BENTLEY LEATHERS INC./ CUIRS BENTLEY INC., legal person duly incorporated according to law having its principal place of business at 6125, Côte-de-Liesse Road, in the city of Saint-Laurent, judicial district of Montreal, province of Quebec, H4T 1C8

Applicant / 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

Trustee

SECOND REPORT OF THE TRUSTEE ON THE SALE OF THE ASSETS OUTSIDE OF THE ORDINARY COURSE OF BUSINESS (SECTION 65.13 BIA) AND ON THE STATE OF THE APPLICANT'S BUSINESS AND FINANCIAL AFFAIRS

I, Stéphane De Broux, CPA, CA, CIRP, LIT, of KPMG Inc., in my capacity as Trustee under the Notice of Intention to make a Proposal filed by the Applicant, report to this Honorable Court as follows.

INTRODUCTION

1. On November 26, 2019, Bentley Leathers Inc. / Cuirs Bentley inc. ("**Bentley**") filed a Notice of Intention to make a Proposal ("**NOI**") under the provisions of the *Bankruptcy and Insolvency Act,* R.S.C., 1985, c. B-3 (the "**BIA**") and KPMG Inc. was named as Trustee to the NOI (in such capacity, the "**Trustee**").

2. On November 26, 2019, the Trustee issued its First Report to Court ("**First Report**").

3. On November 26, 2019, this Court issued two Orders, (i) the First Day Order approving super-priority charges and other ancillary remedies, and (ii) the Liquidation Order approving the liquidation of certain stores through an Agency Agreement and an option to widen the scope of the liquidation of Bentley's assets (the "**Agency Agreement**").

4. On December 4, 2019, Bentley filed a Motion seeking (i) Approval of a Transaction and Issuance of a Vesting Order (the "**Approval and Vesting Order**") and (ii) an extension of the delay to file a proposal.

5. The purpose of this Report ("**Second Report**") is to provide this Honourable Court with information regarding:

   a) Background information regarding Bentley;

   b) An overview of the Handbag, Luggage & Accessory Stores in Canada;

   c) The liquidation process conducted by Bentley and the results of same;

   d) The terms of the offer (the "**Revised Offer**") received from 11580965 Canada Inc. (the "**Purchaser**"), a party related to Bentley, for the sale of substantially all of the assets and operations of Bentley (the "**Transaction**");

   e) The alternatives to the Transaction;

   f) Activities of the Trustee since the First Report;

   g) The statement of projected cash flow;

   h) The request for an extension of the delay to file a proposal; and

   i) The Trustee's recommendation that this Court make the following orders, as requested by Bentley:

      i) the authorization to complete the sale of the assets contemplated in the Revised Offer and proceed with the closing of the Transaction and ordering the vesting to the Purchaser of all of the right, title and interest in the Purchased Assets (as defined in the Revised Offer) free and clear of all claims, liens, hypothecs, security interests and other encumbrances other than the Permitted Encumbrances (as defined in the Approval and Vesting Order);

      ii) the assignment of the Assigned Agreement (as defined in the Approval and Vesting Order);

      iii) issuance of all necessary orders of this Court so as to allow for the closing of the Transaction; and

      iv) the extension of delay to file a proposal.

RESTRICTIONS AND SCOPE LIMITATIONS

6. In preparing this Second Report, the Trustee has been provided with and has relied upon unaudited financial information, books and records (the "**Information**") prepared by management of Bentley ("**Management**"), and following discussions with Management and Deloitte Restructuring Inc. ("**Deloitte**"). Except as further described in this Second Report:

   a) The Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Trustee 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 Trustee 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.

7. Future oriented financial information referred to in this report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections. Even if the assumptions materialize, the variations could be significant.

8. The information contained in this Second Report is not intended to be relied upon by any prospective purchaser or investor in any transaction with Bentley.

9. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is Bentley's common reporting currency.

BACKGROUND INFORMATION

10. Bentley's head office is located at 6125 chemin de la Côte-de-Liesse, in the City and District of Montreal, Province of Quebec.

11. Bentley is a fully owned subsidiary of Bentley Leather Development Corporation Inc. ("**Bentley Development**").

12. In 2013, Bentley's business was bought by a private equity fund (the "**Former Owner**").

13. Although the Former Owner had invested heavily in the business since its acquisition, the business has deteriorated significantly in recent years and has faced serious liquidity constraints in the current year.

14. On November 8, 2019, HUK 94 Limited ("**HUK 94**") acquired from the Former Owner all shares of Bentley Development, which owns all of the shares of Bentley.

15. We refer the Court to the First Report for more information regarding Bentley's business and operations, Bentley's financial situation and the principal causes of its financial difficulties.

OVERVIEW OF THE HANDBAG, LUGGAGE & ACCESSORY STORES IN CANADA [1]

16. Over the past five years, the retail sector has experienced tepid performance in response to rising competition from external competitors. Firstly, consumers have increasingly shifted their purchase habits to the main benefit of e-tailers, siphoning dollars away from brick-and mortar retailers. Furthermore, the expansion of mass merchandizers, such as Walmart Inc., has further heightened competition for low- and mid-priced products

17. Industry operators are now being called upon to compete with general merchandise stores, department stores and online retailers that sell similar merchandise. Many of these stores offer a wider array of goods than industry operators, making them more convenient for shoppers.

18. The Handbag, Luggage and Accessory Stores industry in Canada has entered the declining stage of its life cycle. Over the 10 years to 2023, industry value added (IVA), which measures an industry's contribution to the economy, is forecasted to decline at an annualized rate of 0.8%. Comparatively, overall GDP is anticipated to grow at an annualized rate of 1.9% during the same period. Contracting IVA amid a growing economy is highly indicative of an industry in its declining life cycle stage, reflecting its falling contribution to the overall economy. Moreover, declining industry participation, despite solid demand for industry products, makes it clear that this industry is losing its place in the modern economy and is in the declining stage of its life cycle.

[1] Source : IBIS world report 44832CA

19. Increasing external competition from online retailers and mass merchandisers has constrained industry demand in recent years. By providing comparable goods via more convenient retail channels and typically at lower prices, external retail industries have attracted price-sensitive customers. This trend has caused a cut into industry revenue and caused many operators to merge or exit the industry entirely over the last five years.

PRIOR PROCESS

Liquidation

20. As mentioned in the First Report, on or about October 29, 2019, Bentley and Bentley Development entered into a Forbearance Agreement with the Canadian Imperial Bank of Commerce ("**CIBC**") (the "**Forbearance Agreement**"), providing for the following:

    a) by no later than November 18, 2019, Bentley was required to have received offers from potential liquidators (the "**Liquidation Process**") and to have entered into a binding unconditional agreement from a prospective investor in respect of an equity proposal ("**Equity Transaction**");

    b) by no later than November 25, 2019, Bentley had to confirm to CIBC that any Equity Transaction had closed; and

    c) the forbearance period expired on November 26, 2019;

    d) CIBC's unconditional right to issue a Notice of Intention to Enforce Security pursuant to section 244 BIA (the "**244 Notice**").

21. Pursuant to the Forbearance Agreement, Bentley, assisted by Deloitte Restructuring Inc. ("**Deloitte**"), began seeking offers from reputable liquidators in the event that a going concern restructuring was not feasible, the whole to maximize realization for all stakeholders.

22. As indicated in the First Report, on November 18, 2019, four (4) liquidation proposals were received by Deloitte from Hilco Merchant Resources ("**Hilco Merchant**" or the "**Liquidator**"), Tiger Asset Solutions, Gordon Brothers Canada and SB360 Capital Partners.

23. Bentley and the Trustee concluded that the offer from Hilco Merchant (the "**Liquidation Offer**") was the best liquidation proposal.

24. On November 26, 2019, the Court approved the Liquidation Offer, as appears from the Liquidation Order rendered on that same day.

25. The Liquidation Order and the Agency Agreement provide that if all the conditions of a going concern transaction were not met by December 4, 2019 (the "**Option Date**"), all of Bentley's remaining stores could be liquidated (the "**Option Stores**").

26. To address the possibility that a going concern transaction may not close, and to reflect the removal of certain stores from liquidation, Bentley and the Trustee have requested and obtained an amendment to the Agency Agreement to extend the Option Date (being the date by which the Liquidation would be expanded to include the non-Liquidating Stores) on terms that the Trustee deems acceptable (the Amending Agreement to the Agency Agreement being communicated herewith under seal as **Appendix 1**).

Going Concern

27. Management informed the Trustee that, concurrently with the request for offers from reputable liquidators in the fall of 2019, Management solicited two potential equity investors, based on the fact that they were key players in the industry of luggage and backpacks, namely Travelway Group International (TGI) and League (China), without success because the delays were too short in the circumstances for these equity investors to proceed with their due diligence and submit offers.

28. While conducting its search for potential equity investors and awaiting offers from reputable liquidators, Bentley received an unsolicited offer from HUK 94 (the "**HUK Offer**"), a related party to Bentley since November 8, 2019, which offer was proposing to retain a majority of the employees and to keep open a significant number of stores to be operated by HUK 94.

29. The HUK Offer was conditional upon: (i) being able to renegotiate the terms of certain leases with a sufficient number of Bentley's landlords by no later than November 22, 2019 (the "**Landlords Condition**"); and (ii) CIBC agreeing to remain as the operating lender of the new entity created by HUK 94 pursuant to terms of an assumption agreement with CIBC (the "**CIBC Condition**").

30. On November 21, 2019, given that CIBC had advised Bentley that it would not advance new funds under the CIBC Loan after November 26, 2019, and that the decision in respect to the CIBC Condition would not be known until early December 2019, Bentley, as borrower, Bentley Development, as guarantor, and HUK 89 Limited, as lender (the "**Huk 89**"), entered into a Subordinated Loan and Security in order to make available to Bentley a loan in the aggregate principal amount of $5 million (the "**Interim Loan**").

31. On December 4, 2019, the Revised Offer for the sale of substantially all of the assets and operations of Bentley was agreed upon between Bentley and the Purchaser. A copy of the Revised Offer is communicated herewith as **Appendix 2** (to be filed under seal). Changes to the original Huk Offer are limited to adjustments to the schedules attached to said offer.

32. Although the Landlords Condition had been waived by HUK 94 on November 22, 2019, it is understood that HUK 94 has been working diligently to resolve any outstanding issues with the landlords. Given the current state of HUK 94's discussions with the landlords, it is condition in the Revised Offer that written confirmations from the landlords of the non-Liquidating Stores that new leases will be entered into or that current leases will be assigned, on terms acceptable to the parties be obtained and be satisfactory to HUK 94 and CIBC.

33. CIBC confirmed that its approval of the assumption of its indebtedness is subject to it receiving written confirmations from the landlords of the non-Liquidating Stores that new leases will be entered into or that current leases will be assigned on terms acceptable to the parties being obtained and be satisfactory to CIBC.

34. As of the date hereof, all indicates that any and all issue that may prevent or delay the closing of the Transaction have been or are about to be resolved.

TERMS OF THE TRANSACTION

35. The Purchaser is a related entity to Bentley and Huk 94, was incorporated on November 26, 2019, solely to act as purchaser in the context of the Transaction.

36. Pursuant to the Revised Offer, the Purchaser seeks to acquire all of Bentley's assets, rights and interests, other than the Merchandise, Merchant's Consignment Goods, Owned FF&E and the Agent's rights in the proceeds thereof (each as defined in the Agency Agreement) (the "**Purchased Assets"**). The Purchased Assets include, without limitation, all of Bentley's accounts receivable, inventory, equipment, intellectual property, right to receive proceeds, if any, under the Agency Agreement (subject to all rights of the Liquidator thereunder), permits, licenses and authorizations, books and records, prepaid expenses and deposits and the goodwill.

37. The Purchased Assets also include the assignment of a specific agreement (the "**Assigned Agreemen**t") listed in Schedule C of the Approval and Vesting Order.

38. The Purchaser and the Co-contractors to the Assigned Agreement that the monetary default under said Assigned Agreement cannot and will not be remedied.

39. The purchase price for the Purchased Assets (the "**Purchase Price**") is estimated to be approximately $26.7M, being the aggregate of:

    a) the entire indebtedness of Bentley towards CIBC as at the Closing Date via an assumption of such indebtedness (the "**CIBC Indebtedness**"), amounting to $12.8M as of November 29, 2019;

    b) the entire indebtedness of Bentley towards the Huk 89 as at the Closing Date via an assumption of such indebtedness in the amount of $3M;[1]

    c) the assumption of certain other liabilities listed in Schedule C to the Revised Offer, **Appendix 1**, namely: any amount owed under the Administration Charge, any amount owed under the D&O Charge, a portion of the residual lease obligations at liquidating stores (if any), a portion of the central services and administration costs incurred in connection with the liquidation, and any unpaid amount that could be owed by Bentley as at the Closing Date and which under the scheme of the distribution of the BIA would rank ahead of the CIBC Indebtedness pursuant to sections 81.3 and 81.4 BIA, all accrued vacation pay for all employees and all liabilities relating to the minimum of 750 employees that HUK 94 has undertook to retain under the Transaction; and

    d) the assumption of the Gift Cards Liabilities : Bentley offers gift cards to its customers representing, according to Bentley's calculation, a potential liability of approximately $250,000 for the gift cards issued in the last three years and a potential total liability of approximately $540,000 (the "**Gift Cards Liabilities**").

    (collectively, the "**Assumed Liabilities**").

40. Other relevant terms and conditions of the Revised Offer are as follows:

    a) the Purchased Assets must be free of all liens or other encumbrances, except those relating to the Assumed Liabilities;

    b) the Purchased Assets are being sold on an "as is, where is" basis;

    c) the Purchaser shall not assume any liabilities of Bentley other than the Assumed Liabilities;

    d) the Purchaser shall not assume any undertaking or agreement of Bentley other than the Assigned Agreement and the Gift Card Liabilities;

[1] It should also be noted that the Trustee is awaiting an opinion on the debt owed to Huk 89 (part of which was purchased for a nominal amount, as mentioned in the First Report of the Trustee) and an opinion on the securities of Huk 89.

e) the Assumed Contracts and the Purchased Leases must be assigned to the Purchaser either through voluntary assignments or through an additional Assignment Vesting Order to be sought later on;

f) this Court shall issue the Approval and Vesting Order; and

g) the execution by Bentley and the Purchaser of a bill of sale by no later than December 9, 2019;

h) the termination prior to closing of any agreements for which the Purchaser has requested such termination; and

i) confirmation of the availability of sufficient financing to meet the working capital needs of Bentley.

41. It is understood that all the above conditions would be met if the Approval and Vesting Order is issued by the Court.

ALTERNATIVES TO THE TRANSACTION

42. The Trustee understands that there could have been two (2) alternatives to the Transaction[1]:

a) Bankruptcy with a liquidation of the business and its assets;

b) Initiating a Sale and Investor Solicitation Process ("**SISP**").

Bankruptcy with a liquidation of the business and its assets

43. A summary of the estimated net proceeds to stakeholders under a liquidation scenario is presented as follows (see detailed analysis in **Appendix 3** filed under seal):

Bentley Leather Inc. **Estimated liquidation value** **As at November 29, 2019**			
(In $000's)		**Estimated value**	
Description	**Book value**	**Low**	**High**
Current Assets			
Accounts receivable	860	129	215
Inventories (Note 1)	23 919	21 527	22 723
Prepaids and other current assets	459	-	-
Total current assets	**25 237**	**21 656**	**22 938**
Non-Current Assets			
Leasehold improvements and other fixed assets	14 046	250	375
Estimated value before professionnal fees, priority claims and liabilities	**39 283**	**21 906**	**23 313**
Estimated priority claims		(3 324)	(3 324)
Estimated professional fees		(2 000)	(1 500)
Estimated administration expenses		(1 000)	(750)
Estimated liquidation value before liabilities		**15 582**	**17 739**
Due to secured creditors			
CIBC loan		(12 810)	(12 810)
HUK 89 Ltd. debt		(3 000)	(3 000)
		(15 810)	**(15 810)**
Estimated surplus before unsecured creditors		**(228)**	**1 929**
Estimated unsecured creditors		**71 150**	**71 150**
Potential dividend		**-0,3%**	**2,7%**

Note 1 : Liquidation value estimated based on liquidation proposals received from liquidators

[1] As explained in paragraphs 24 and 25 of this Second Report of the Trustee, the alternative to the Approval and Vesting Order is the liquidation of the Option Stores pursuant to the Agency Agreement, as approved by the Liquidation Order rendered on November 26, 2019.

44. The table above shows that, while providing for a full repayment for the secured creditors, the net proceeds to the unsecured creditors is estimated between Nil and $2 million. As indicated in the First Report, the unsecured trade creditors total approximately $18.5 million. For the purposes of the liquidation analysis, we added the landlords' estimated damage claims of $36.2M and the estimated severance payments to employees of $16.5M, for a total unsecured claims of approximately $71.2M in a liquidation. Thus, this implies a potential dividend for the unsecured creditors of approximately 2.7% under the highest scenario.

45. In addition, it is important to mention that, under a liquidation scenario, jobs would not have been preserved, and landlords and suppliers would have lost an important tenant and customer going forward. According to Management, the volume of merchandise purchases from its top suppliers for the next twelve (12) months is estimated at $29M, considering fewer stores under the restructured business (refer to **Appendix 3**).

Initiating a SISP

46. The Trustee is of the opinion that initiating a SISP at this moment, for a period of 30 to 45 days, would not have been realistic as the likelihood of finding new strategic buyers or investors would have been highly unlikely for the following reasons:

    a) Per Management, Bentley already contacted two potential investors in the past few months, without any success. Due to Bentley's liquidity constraints, none of the entity contacted had the capacity to close a transaction rapidly in order to save the business as a going concern.

    b) CIBC is an unaffected creditor and the CIBC facility is no longer available to fund the operations during any SISP period, the Trustee believes that it would have been very difficult for Bentley to continue its operations without a short term financing due to the following:

        i) For December 2019, rents totalling approximately $2.2 million for the go forward stores are required to be paid, while Bentley has no cash on hand;

        ii) Significant deposit amounts are currently requested without delay by several important suppliers; and

        iii) The payroll payable on December 12, 2019, amounting to $1.1M, would have been jeopardized.

    c) At the end of the SISP, after the holiday season, the value of Bentley's inventory would have been substantially less.

    d) At the end of the SISP, after the holiday season, Bentley would have been in its low season and significant additional capital would have been required to begin building inventory for the next high selling season with suppliers unlikely to provide favorable credit terms.

47. In addition to these factors and the current market conditions in the Canadian retail industry, described previously, the Trustee's belief that it would have been highly unlikely to find a strategic buyer is further supported by the fact that a significant number of retail chains have closed stores across Canada this year alone, including Forever 21, Town Shoes, Payless Shoes, Gymboree, Crabtree & Evelyn, Green Earth, Hudson's Bay's Home Outfitters chain of stores, Miniso and Davids Footwear, among others. Those followed the colossal failure and exit of Target from Canada in 2015, as well as the more recent shuttering of all Sears Canada stores in early 2018.

ACTIVITIES OF THE TRUSTEE SINCE THE FIRST REPORT

48. Since the First Report, the Trustee's activities have included the following:

    a) Reviewed various financial information of Bentley in order to assess its financial position and to make a recommendation on the Transaction;

    b) Established the Trustee's Website and posted documents pertaining to the NOI proceedings;

    c) Responded to creditors inquiries;

    d) Held various discussions with Management and participated in discussions between Bentley, the Purchaser and the Liquidator;

    e) Advised Bentley with respect to the requirements for the sale of assets outside of the ordinary course of business;

    f) Sent notices to all known creditors;

    g) Drafted stay of proceedings notices;

    h) Assisted Bentley in its discussions with suppliers regarding deposits payments;

    i) Assisted Bentley in the implementation of the Agency Agreement in regards to the liquidation of the Closing Stores with Hilco Merchant;

    j) Established a cash monitoring process for the Closing Stores;

    k) Assisted Bentley in its communication plan to creditors, employees and customers; and

    l) Drafted the Second Report.

STATEMENT OF PROJECTED CASH FLOW

49. As it is more fully described below, Bentley will have the capacity to meet its obligations during the projected stay period as a result of the liquidity made available pursuant to the Agency Agreement and the assumption of some of those obligations by the Purchaser.

50. Rent for the month of December will be paid as follows:

    i) Closing Stores, using the proceeds from their liquidation; and

    ii) Bentley's other stores, using funds to be advanced by Huk 89.

51. Following the closing of the Transaction, Bentley will have disposed of substantially all of its assets in favour of the Purchaser and its activities will be limited to fulfilling its obligations under the Agency Agreement and analysing the potential of submitting a proposal to its creditors.

52. Under the Agency Agreement, direct stores' expenses are assumed by the Liquidator, while the overhead expenses are assumed by the Purchaser, as part of the Assumed Liabilities.

53. In light of these facts, Bentley's projected cash flow, presented in **Appendix 4**, reflects no receipts, no disbursements and no cash balance on hand after December 2, 2019.

REQUEST FOR AN EXTENSION OF DELAY

54. Bentley is seeking an extension to file a proposal until January 10, 2020, as it believes it will allow it to:

a) Fulfill its obligations pursuant to the Agency Agreement approved in the context of the Liquidation Order; and

b) Submit to its creditors a Proposal which will allow them to maximize their recovery.

TRUSTEE'S RECOMMENDATIONS AND CONCLUSIONS

Revised Offer

55. The Trustee is of the opinion, based upon all of the reasons described throughout this Second Report, that the transactions forming part of the Revised Offer should be approved.

56. In summary,

a) The Transaction offers the highest return to Bentley's stakeholders, with the lowest degree of execution risk. More specifically, the Transaction provides for a full assumption of the secured creditors' debt;

b) Unlike the Liquidation Process, HUK 94 intends to continue Bentley's business operations on a going concern basis, to the benefit of a majority of employees, suppliers and the majority of the landlords;

c) The Transaction is supported by the main suppliers and landlords;

d) The Transaction is the only reasonable option available that will preserve the going concern operations of Bentley, in the best interest of all of Bentley's stakeholders; and

e) The alternative to the Transaction is the liquidation of the Option Stores.

57. For the reasons outlined above, the Trustee is of the view that the consideration to be received from the Revised Offer presented by HUK 94, an entity related to Bentley, is superior to the consideration that would be received under a liquidation scenario.

58. Accordingly, the Trustee supports Bentley's request for the issuance of the Approval and Vesting Order.

Extension of Delay

59. The Trustee supports the request sought by Bentley in its Motion for an extension of delay, 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) The Company needs to fulfill its obligations under the Agency Agreement approved in the context of the Liquidating Order; and

d) Depending on the results of the tax losses monetization, Bentley may be able to make a proposal if the extension being applied for was granted.

All of which is respectively submitted this 4th day of December, 2019.

KPMG INC., in its capacity
as Licensed Insolvency Trustee
of Bentley Leathers Inc.

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