
CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: 01- MONTRÉAL
S.C.: 500-11-058403-201
SUPER: 41-2653429

SUPERIOR COURT
(Commercial Division)

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

MODASUITE INC., legal person duly incorporated according to law having its principal place of business at 160 Saint-Viateur Street East, Suite 702, in the city of Montreal, province of Quebec, H2T 1A8;

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, in the city of Montreal, province of Quebec, H3A 0A3;

Trustee

**TRUSTEE'S THIRD REPORT ON THE STATE OF
THE INSOLVENT PERSON'S BUSINESS AND FINANCIAL AFFAIRS
(paragraphs 50.4(7)(b) and 50.4(9)) IN REGARDS WITH THE DEBTOR'S SECOND APPLICATION
FOR EXTENSION OF THE DELAY TO FILE A PROPOSAL**

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF **MODASUITE 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 **MODASUITE INC.** (hereinafter the "**Debtor**" or the "**Company**"), hereby report to the Court as follows.

INTRODUCTION

1. On June 22, 2020, the Company 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 July 22, 2020.
2. On June 26, 2020, at Modasuite's request, the Court granted the Order Approving an Administration Charge, a D&O Charge, Sale Guidelines and Granting Ancillary Relief (the "**First Order**"). We refer the Court to the First Report of the Trustee for more information.
3. On June 29, 2020, the Trustee sent a copy of the NOI and other statutory documents to all known creditors of the Company.

4. On June 30, 2020, the Trustee filed with the official receiver (i) a projected cash-flow statement for the period of June 22, 2020, to July 26, 2020, (ii) the Company's report on its cash flow statement, and (iii) the Trustee's report on said cash flow statement, in accordance with section 50.4(2) of the BIA.
5. On July 21, 2020, the Court issued an Order extending the delay to file a proposal under the NOI until September 4, 2020, which was supported by the Trustee ("**Second Report**").
6. On August 28, 2020, the Company filed an Application for extension of the delay to file a proposal (the "**Application for Extension**") until October 19, 2020 (the "**Second Extension Period**").
7. The purpose of this report is to provide this Honourable Court with information regarding:
 - a) Background information on the Company;
 - b) The Company's activities since the Second Report;
 - c) The Trustee's recommendation with respect to the Company's Application for Extension.

RESTRICTIONS AND SCOPE LIMITATIONS

8. 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 the Company ("**Management**"), and following discussions with Management. 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.
9. 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.
10. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with Modasuite.
11. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is Modasuite's common reporting currency

BACKGROUND INFORMATION

12. This report should be read in conjunction with the Application for Extension, the First Report of the Trustee and the Second Report of the Trustee, which provides background and other information regarding the Debtor and the NOI proceedings. Capitalized terms not defined in this report are used as defined in the Application for Extension.

13. Modasuite is a privately owned company incorporated in 2009. The company's head office is located at 160 Saint-Viateur Street East, Suite 702, in the City and District of Montreal, Province of Quebec.
14. Modasuite sells modern men's and women's clothing, footwear and accessories, with a focus on using eco-conscious materials and methods for its products and ethical practices throughout its supply chain.
15. The Company sells its merchandise through its e-commerce platform and its retail Stores.

THE COMPANY'S ACTIVITIES SINCE THE FILING OF THE NOI

16. Since the Second Report, Modasuite has continued to operate its Stores in the ordinary course, under the supervision of the Trustee.
17. Modasuite has also been communicating with its employees, customers and suppliers in order to continue its operations and maintain a continued supply of goods, and dealt with various operational issues.
18. In parallel, since the granting of the First Order, Modasuite began the liquidation sale (the "**Liquidation Sale**") of all inventory and furnishings, fixtures and equipment located at certain stores (the "**Closing Stores**").
19. Modasuite, in consultation with, and under the supervision of the Trustee has also sent lease disclaimer notices to landlords of the Closing Stores.
20. As part of its restructuring plan, Modasuite has retained Stifel Nicolaus Canada Inc. ("**Stifel**") in order to assist management with the sale and investment solicitation process (the "**SISP**") in order to market and solicit offers for the business and assets relating thereto with the objective of maximizing value for Modasuite's stakeholders.
21. On July 10, 2020, the Debtor and Stifel launched the SISP and established a virtual data room (the "**Data Room**") with the necessary information for interested parties to evaluate Modasuite's business and assets.
22. A total of 233 parties consisting of strategic buyers and financial investors were contacted in the context of the SISP.
23. Sixty (60) parties signed a confidentiality agreement and have been granted access to the Data Room.
24. As part of the SISP, interested parties were given a deadline of August 7, 2020, to submit an Expression of Interest (an "**EOI**").
25. Accordingly, on or about August 7, 2020, Stifel received eight (8) EOIs from various strategic and financial investors (the "**Initial Bidders**").
26. Considering the significant interest in Modasuite's assets, the Initial Bidders were invited by Stifel to revise their respective EOIs by August 21, 2020 (the "**Revised EOIs**").
27. Accordingly, on August 21, 2020, Stifel received five (5) Revised EOIs from Initial Bidders.
28. Modasuite and Stifel reviewed the Revised EOIs and four (4) Initial Bidders were invited to make a binding offer pursuant to the SISP (the "**Final Bidders**").

29. Binding offers are due to be received from the Final Bidders by no later than September 2, 2020, with the goal of closing a transaction by the end of September 2020.
30. The Debtor's senior secured lender, Fédération des Caisses Desjardins du Québec, continues to support the Debtor through its restructuring.

TRUSTEE'S ACTIVITIES SINCE THE FILING OF THE NOI

31. Since the filing of the NOI, the Trustee has, *inter alia*:
 - a) Monitored the daily receipts and disbursements and the Company's current and ongoing operations;
 - b) Reviewed weekly variances between the actual cash flow results versus the cash flow projections for the period from June 21, 2020, to August 23, 2020;
 - c) Assisted the Company in the preparation of an updated weekly cash flow forecast;
 - d) Responded in a timely manner to inquiries from affected stakeholders, including creditors, employees, customers and landlords;
 - e) Assisted the Company in dealing with various operational issues;
 - f) Assisted senior management with the NOI process and planning for next steps;
 - g) Prepared the First Report, Second Report and the present report, and attended Court hearings in relation to the NOI process;
 - h) Updated the Trustee's website to allow stakeholders to access relevant documents in connection with the NOI process;
 - i) Supervised the SISF; and
 - j) Participated in several conference calls with the Debtor and its legal advisors in connection with the Company's restructuring efforts.

CASH FLOW RESULTS RELATIVE TO PROJECTIONS

32. Cash receipts and disbursements for the six (6) weeks period ended on August 23, 2020, as compared to the cash flow projections, are summarized in the following table:

Modasuite Inc. Cash Flow Results			
	Cumulative - Six Weeks Ended August 23, 2020		
In CAD ('000)	Actual	Projected	Variance \$
Receipts			
Net revenues	4 334 \$	4 325 \$	9 \$
Cash Disbursements			
Inventory purchases and deposits	(777)	(564)	(213)
Operational direct costs	(2 516)	(2 852)	336
SG&A and marketing	(402)	(683)	281
Capital & interest repayments on debt	(24)	(44)	20
Contingencies	-	(30)	30
	(3 719)	(4 172)	453
Cash flow before professional fees	615	153	463
Professional fees	(297)	(210)	(87)
Net cash flow	318	(57)	375
Cash balance - opening balance	1 500	1 500	(0)
Net cash flow	318	(57)	375
Line of credit Desjardins repayment	(442)	(442)	(0)
Term loan Desjardins repayment	(600)	(600)	-
Cash bal. after reimb. line of credit/term loan	776 \$	401 \$	375 \$

33. As at August 23, 2020, the Company's bank balance totaled approximately \$776,000 compared to a projection of \$401,000, representing a positive variance of \$375,000. The main reasons for this variance are summarized below:
- a) Negative variance in inventory purchases amounting to \$213,000;
 - b) Positive timing variance in operational direct costs of \$336,000; and
 - c) Positive timing difference in Selling, General and Administrative and marketing expenses ("**SG&A and marketing**") of \$281,000.
34. The Company 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

35. The Company has prepared the updated cash flow projections for the period commencing August 24, 2020, and ending on October 25, 2020 (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 *under seal* as **APPENDIX A**.

Modasuite Inc. Projected Cash flow For the period from August 24, 2020 to October 25, 2020	
In CAD ('000)	Total
Cash Receipts (net)	\$ 5 362
Cash Disbursements	(5 907)
Net cash flow	\$ (545)
Cash balance - opening balance	\$ 776
Net cash flow	(545)
Cash bal. after reimb. of term loan	\$ 231

36. The Trustee notes the following with respect to the Projected Cash Flow:
- a) The Company opening bank balance as at August 24, 2020, was \$776,000;
 - b) The projected total cash receipts during the period are estimated at \$5,362,000;
 - c) The projected total operational cash disbursements during the period are estimated at \$5,907,000;
 - d) The Projected Cash Flow should result in a negative net cash flow during the period of \$545,000; and
 - e) The projected closing bank balance as at October 25, 2020, is estimated at \$231,000.
37. The Projected Cash Flow assumes no closing of a sale transaction during the Second Extension Period.
38. Based on the Projected Cash Flow, the Company has sufficient liquidity to fund its operating activities during the Second Extension Period. In addition, we note that the Company has currently a line of credit available of USD \$200k (approximately CAD \$260k).

APPLICATION FOR EXTENSION

39. As appears from the Application for Extension, the Company is seeking a second extension of delay of 45 days to file a proposal as it believes it will allow it to:
- a) Continue and complete the Liquidation Sale at the Closing Stores;
 - b) Continue to sell its inventory in the ordinary course of business in order to maximize their value as opposed to simply liquidating them in the context of a bankruptcy scenario, where their value would be substantially depleted;
 - c) Continue the SISP and review the offers received from the Final Bidders;
 - d) Finalize negotiations with the successful Final Bidder and closing a sale transaction resulting therefrom;
 - e) Seek the approval of a transaction from the Court; and
 - f) Allow the Debtor to elaborate a proposal to Modasuite's creditors.
40. The Trustee supports the relief sought by the Debtor in its Application for Extension for the following reasons:
- a) The Debtor has acted, and is acting in good faith and with due diligence;
 - b) The Company intends to make a proposal to its creditors;
 - c) No creditor would be materially prejudiced if the extension being applied for was granted;
 - d) To the contrary, if the extension is not granted, an immediate bankruptcy will ensue, many jobs would be lost and the Company's ability to complete a transaction would be greatly diminished; and
 - e) The Company's ability to make a viable proposal to its creditors depends on the outcome of the Debtor's restructuring efforts described herein including current sales efforts, the Liquidation Sale at the Closing Stores as well as the outcome of the SISP.

All of which is respectively submitted this 1st day of September 2020.

KPMG INC., in its capacity
of Trustee of MODASUITE INC.



Stéphane De Broux, CPA, CA, CIRP, LIT

APPENDIX A

**CASH FLOW PROJECTIONS
DEBTOR'S REPORT ON CASH-FLOW STATEMENT
AND TRUSTEE'S REPORT ON CASH-FLOW STATEMENT**

(UNDER SEAL)