

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

B E T W E E N:

HSBC BANK CANADA

Applicant

- and -

SUPEREX CANADA LIMITED / SUPEREX CANADA LIMITÉE AND
PRONTO INNOVATIONS

Respondents

**IN THE MATTER OF AN APPLICATION UNDER
SUBSECTION 243(1) OF THE BANKRUPTCY AND INSOLVENCY ACT
AND SECTION 101 OF THE COURTS OF JUSTICE ACT**

**SECOND REPORT TO THE COURT
SUBMITTED BY KPMG INC.,
IN ITS CAPACITY AS RECEIVER AND MANAGER OF
SUPEREX CANADA LIMITED / SUPEREX CANADA LIMITÉE AND
PRONTO INNOVATIONS**

MARCH 10, 2016

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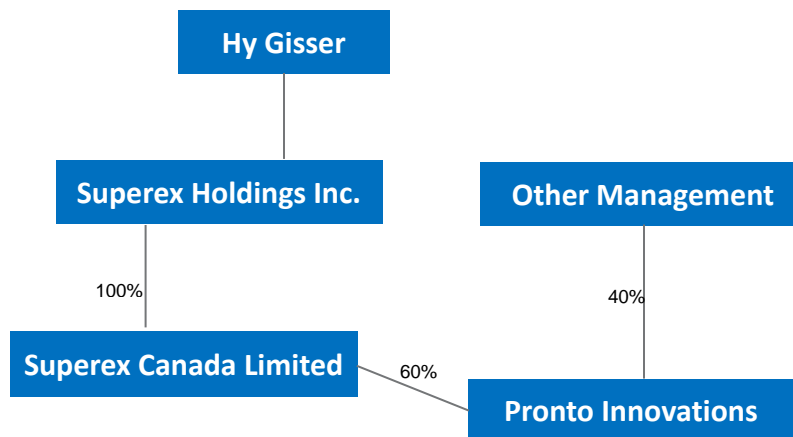
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1.1 Introduction

- 1.1.1** Superex Canada Limited / Superex Canada Limitée (“**Superex**”) is a privately held business that was founded in 1952 by Mr. Hyman Gisser (“**Mr. Gisser**”) and was incorporated in 1971. Superex is 100% owned by Superex Holdings Inc. (“**Holdings**”), a company 100% owned by Mr. Gisser. On June 30, 1994 Superex amalgamated with GMS Products Limited and continued as Superex. Mr. Gisser is the sole director and officer of Superex (the “**Director**”).
- 1.1.2** Pronto Innovations (“**Pronto**”), a partnership, was formed in 1987 and is 60% owned by Superex, 35% owned by 798492 Ontario Limited and 5% owned by 793051 Ontario Limited with the directors of the latter two being former management of Pronto and Superex, respectively. The chart below provides an illustration of the corporate chart.



- 1.1.3** Superex is a distributor specializing in automotive comfort, safety products and unique, functional hard goods. Pronto is a distributor focusing on the Canadian and U.S. gift and travel markets, both selling to large department stores and independent retailers. Products are sourced primarily from China and sales are predominantly in North America.
- 1.1.4** Superex and Pronto (collectively the “**Debtors**”) operate from leased facilities located at 601 Gordon Baker Road, Markham, Ontario (the “**Leased Premises**”), which is owned by the Hyman Gisser Family Trust, a related entity. Superex also stores and ships inventory from third party logistics warehouses in Richmond, British Columbia, Long Beach, California and Buffalo, New York (collectively the “**Rented Facilities**”).
- 1.1.5** The Debtors operations were financed via various credit facilities that were extended by HSBC Bank Canada (“**HSBC**” or the “**Bank**”) pursuant to a facility letter dated August 5, 2014 which was amended and restated by a facility dated May 26, 2015 and includes demand operating loans, a foreign exchange swap facility, a credit card facility and an interest rate swap facility (collectively the “**Loan Facilities**”). As of December 3, 2015, when KPMG Inc. was appointed as Receiver (as defined and described below) approximately \$1.9 million and \$500,000 (i.e. prior to the Bank exercising its set-off rights) was owing by Superex and Pronto, respectively, under the Loan Facilities to the Bank.

1.1.6 Holdings has a registered second ranking priority charge as against the assets of Superex relating to shareholder loans, which totaled approximately \$4.1 million as at December 3, 2015. The Receiver’s counsel has provided an opinion that, subject to the conditions, assumptions, and restrictions therein, Holdings’ secured claim is valid and enforceable.

1.1.7 As illustrated in the chart below, the Debtors experienced a significant decline in sales and operating results in the fiscal year ended December 31, 2014 (“**FY 2014**”) and the 9 months ended September 30, 2015 (“**YTD 2015**”) compared to fiscal 2013 (“**FY 2013**”). The decline in sales and profitability was associated with customers ceasing to purchase certain key products, intense pressures on pricing and markdowns to address the slowdown in sales, both of which adversely affected margins. Additionally the Company began to experience liquidity constraints as suppliers sought cash on delivery terms.

| Income Statement | FY 2013 | FY 2014 | YTD 2015 |
|-------------------------|----------------|----------------|-------------------|
| Summary (000’s) | | | (9 months) |
| Sales | \$35,300 | \$30,800 | \$17,400 |
| Net Profit / (Loss) | \$174 | \$(1,200) | \$(1,100) |

1.1.8 As a result of the Debtors’ deteriorating operating results and the resulting impact on their financial position, together with breaches under the Debtors’ Loan Facilities with HSBC, the Debtors and the Bank entered into a forbearance agreement dated August 28, 2015 (the “**Forebearance Agreement**”), which among other things, provided the Debtors with the opportunity to refinance their business and repay their outstanding indebtedness to the Bank. The Debtors were not able to comply with the terms of the Forebearance Agreement and accordingly, on October 23, 2015, the Bank issued demand letters together with Notices of Intention to Enforce Security pursuant to subsection 244(1) of the *Bankruptcy and Insolvency Act* (Canada), (the “**BIA**”).

1.1.9 The Debtors subsequently requested a further extension of the forbearance period under the Forebearance Agreement to November 26, 2015 in order provide the Debtors with additional time to refinance or complete a sale transaction to repay their obligations to the Bank. Despite their best efforts, the Debtors were not able to consummate a financing arrangement or a sale transaction and, accordingly, the Debtors were unable to repay the indebtedness due under the Loan Facilities.

1.1.10 As a result, pursuant to an application brought by HSBC, with the consent of the Debtors, on December 3, 2015 (the “**Appointment Date**”) the Ontario Superior Court of Justice (Commercial List), (the “**Court**”), granted an order (the “**Appointment Order**”) appointing KPMG Inc. as receiver and manager (the “**Receiver**”) without security, of all of the assets, undertakings and property of Superex and Pronto pursuant to subsection 243(1) of the BIA and section 101 of the *Courts of Justice Act*. A copy of the Appointment Order is attached as **Appendix A**. The Appointment Order empowered and authorized, but did not obligate the Receiver to do, among other things, the following:

- take possession and control of the property of the Debtors and any and all proceeds and receipts arising out of their property;
- to manage, operate and carry on the business or to cease the operations;

- to receive and collect all monies and accounts now owed or hereafter owing to the Debtors;
- to market any or all of the property of the Debtors on such terms and conditions of sale as the Receiver deems appropriate;
- to sell, convey, transfer, lease or assign the property of the Debtors; and
- to report to, meet and discuss with affected Persons (as defined in the Appointment Order), as the Receiver deems appropriate, all matters relating to the property of the Debtors and the receivership.

1.1.11 As described in the Receiver’s first report dated January 18, 2015, (the “**First Report**”), a copy of which is attached hereto as **Appendix B**, without appendices, the Receiver completed a sale process for the Debtors’ assets and requested approval from the Court for the Receiver to complete the SMG Sale, the Bag Designs Sale, the Holdings Sale, and the Renaud-Bray Sale (all as defined in the First Report) and sought an order vesting the assets as described therein in each Proposed Transaction in SMG, Bag Designs, Holdings and Renaud-Bray, respectively.

1.1.12 On January 25, 2016, the Court granted a further order approving, among other things, the First Report, the Proposed Transactions and the vesting of the Assets in SMG, Bag Designs, Holdings and Renaud-Bray, subject to the Receiver issuing Receiver’s Certificate evidencing the completion of each transaction (the “**Approval Vesting and Distribution Order**”) a copy of which is attached hereto as **Appendix “C”**.

1.2 Purpose of Receiver’s Second Report

1.2.1 The purpose of the Receiver’s second report to the Court (the “**Second Report**”) is to report on the Receiver’s activities since the First Report and obtain the approval by the Court of the following:

- Activities of the Receiver to-date as outlined in the Second Report;
- Fees and disbursements of the Receiver and its counsel, Gowling WLG (Canada) LLP (“**Counsel**”) as outlined in section 4.0 of the Second Report;
- Superex Distributions, as described in section 6.2 of the Second Report;
- Pronto Distribution, as described in section 6.3 of the Second Report; and,
- Receiver’s statement of receipts and disbursements for each of Superex and Pronto for the period December 3, 2015 to February 29, 2016.

1.3 Scope and Terms of Reference

1.3.1 The Second Report has been prepared for the use of this Court and the Debtors’ stakeholders as general information relating to the Debtors and to assist the Court in making a determination of whether to approve the relief sought. Accordingly, readers are cautioned that the Receiver’s Second Report may not be appropriate for any other purpose. The Receiver does not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of the Second Report contrary to the provisions of this paragraph.

1.3.2 In preparing this Second Report, the Receiver has relied upon the Debtors’ records and available unaudited financial information. While the Receiver has reviewed certain of the Debtors’ records, such work does not constitute an audit or verification of such information for accuracy, completeness, or compliance with Generally Accepted Accounting Principles or International

Financial Reporting Standards. Accordingly, the Receiver expresses no opinion or other form of assurance with respect to such information except as expressly stated herein.

- 1.3.3** In the course of its mandate, the Receiver has assumed the integrity and truthfulness of the information and explanations presented to it by management. To date, nothing has come to the Receiver's attention that would cause it to question the reasonableness of these assumptions. The Receiver has requested that management bring to its attention any significant matters which were not addressed in the course of the Receiver's specific inquiries. This Second Report is based on the information (financial or otherwise) made available to the Receiver by the Debtors.
- 1.3.4** Capitalized terms not defined in this Second Report are as defined in the Appointment Order and/or the First Report. All references to monetary amounts are in Canadian currency.
- 1.3.5** A copy of this Second Report, and all motion records and orders issued in these proceedings are available on the Receiver's website at www.kpmg.com/ca/superexpronto and will remain available on the website for a period of six months after the Receiver's discharge.

2.1 Completion of Sale Transactions

2.1.1 Pursuant to the Approval Vesting and Distribution Order, the Receiver completed the Bag Designs Sale and the Holdings Sale on January 26, 2016, the Renaud-Bray Sale on January 27, 2016, and the SMG Sale on March 2, 2016. The Receiver issued its Receiver's Certificates evidencing same, copies of which are attached as **Appendices D, E, F, and G**, respectively.

2.2 Distribution and Assignment of Security

2.2.1 Subsequent to the granting of the Approval Vesting and Distribution Order, the Receiver made a distribution from the funds in its Superex accounts for the full amount of the Superex indebtedness, interest, and associated costs owing to the Bank totaling approximately \$644,000, (the "**Superex HSBC Distribution**").

2.2.2 Additionally, based on the funds in the Receiver's Pronto accounts at the time of the granting of the Approval Vesting and Distribution Order, the Receiver made a distribution of approximately \$250,000 on account of the Pronto indebtedness owing to the Bank, resulting in an outstanding Pronto loan balance of \$215,000 (the "**Pronto Shortfall**").

2.2.3 Prior to the Bank agreeing to the closing of the Holdings Sale, which sale was subject to a credit bid by Holdings of its debt owing from Superex, the Bank required that indebtedness owed by Pronto to the Bank be paid in full. Accordingly, pursuant to the Bank's security the Bank called upon its guarantee from Superex for the repayment of the Pronto Shortfall. Pursuant to the authorization granted in the Approval Vesting and Distribution Order, the Receiver funded the Pronto Shortfall from funds on hand in its Superex accounts. The Receiver took an assignment of the Bank's security over Pronto (the "**Assignment**"). A copy of the Assignment is attached hereto as **Appendix H**. The Receiver proposes to repay the Pronto Shortfall, plus accumulated interest to the estate of Superex as the funds become available in Pronto as discussed further in Section 6.3.

2.3 Accounts Receivable

2.3.1 The Superex and Pronto accounts receivable ("**AR**") as at December 3, 2015 totaled approximately \$3.0 million and \$328,000, respectively, owing from a limited number of large customers and numerous small customers as outlined in the chart below:

| AR Summary as at Appointment Date | Superex | | Pronto | |
|-----------------------------------|---------|----------------|--------|--------------|
| | # | \$(000's) | # | \$(000's) |
| Top Customers | 18 | \$2,300 | 7 | \$134 |
| Remaining Accounts | ≈ 400 | \$700 | ≈ 200 | 194 |
| Total AR | | \$3,000 | | \$328 |

- 2.3.2** As at February 29, 2016, the Receiver collected approximately \$2.8 million and \$193,000 from Superex and Pronto customers, respectively. It should be noted that collections of Superex USD denominated receivables as at February 29, 2016 had a positive foreign exchange variance of approximately \$120,000 to the figures reported as at December 3, 2015.
- 2.3.3** After taking into account rights of set-offs and agreed upon valid deductions and discounts, the net outstanding balance of Superex and Pronto accounts receivable is approximately \$92,000 and \$68,000, respectively (the “**Outstanding AR**”). The Receiver is continuing to pursue collection of the Outstanding AR from the Debtors’ customers.
- 2.3.4** The Receiver requests that the Court approve a distribution to Holdings in accordance with the security that Holdings holds against the assets of Superex of any Superex Outstanding AR which is not collected prior to the issuance of the Order associated with this motion.

2.4 Employees

- 2.4.1** As at the Appointment Date, Superex and Pronto employed 49 and 6 employees, respectively. Superex has a full complement of administrative, finance and warehouse staff, while the Pronto employees were limited primarily to administrative, sales and customer service functions. Pronto relied on Superex employees for its day-to-day accounting functions and for the processing and shipping of customer orders.
- 2.4.2** Pursuant to paragraph 14 of the Appointment Order, the Superex and Pronto employees remained the employees of the Debtors until terminated by the Receiver on behalf of the Debtors. Throughout the receivership proceedings, the Receiver terminated employees based on operating and administration requirements. Through to February 26, 2016, the Receiver has terminated 35 Superex and 6 Pronto employees. Accordingly 14 Superex employees remain employed as at the date of this Second Report.
- 2.4.3** Prior to the Appointment Date, the Debtors had funded all outstanding wages to December 2, 2015 and paid all vacation pay earned through to December 31, 2015. Accordingly, as at the Appointment Date, there were no amounts owing to the employees for wages or vacation pay. During the course of the receivership the only potential claims which the employees might have against Superex and Pronto would relate only to termination notice pay and severance pay, as applicable, when terminated by the Receiver, on behalf of the Debtors.
- 2.4.4** For the eligible employees that have been terminated to date, the Receiver has entered those employees’ claims for termination pay and severance pay pursuant to the Wage Earner Protection Program Act (“**WEPPA**”) onto the Human Resources and Social Development Canada (“**HRSDC**”) website so that the terminated employees can make an application pursuant to WEPPA. The Receiver understands that the WEPPA applications for employees terminated after the appointment of the Receiver are being processed by HRSDC.

2.5 Facilities

- 2.5.1** As previously reported, the Receiver has completed the sale of all of the Debtors’ inventory and is continuing with the inventory removal and clean-up of the Leased Premises and Rented Facilities. In addition, Superex employees continue to collect the Outstanding AR and complete other administrative matters. The Receiver expects to be in a position to vacate the Leased Premises by on or around March 18, 2016. With respect to the Rented Facilities the Receiver has vacated the Buffalo location and expects to vacate the California and British Columbia locations by no later than March 11, 2016. The Receiver will incur certain labour and operating costs to

the date the Receiver vacates each of the Leased Premises and Rented Facilities (the “**Operating Costs**”).

2.6 Computer Lease

2.6.1 Superex entered into a lease/rental arrangement for certain computer desktops and laptops (the “**Leased Computers**”) with Supra Canada Technologies Ltd. (“Supra”). As at the Appointment date, the remaining balance of 24 rental payments totalled approximately \$37,000 (excluding HST). The Receiver asked Counsel to review the Supra arrangement with Superex. Counsel advised that Supra has not registered a security interest in the Leased Computers pursuant to the provisions of the *Personal Property Security Act* (Ontario).

2.6.2 As a result, the Receiver is of the view that the interest in the Leased Computers is subject to the security of Holdings. Accordingly, the Receiver notified Supra that the Receiver proposes to release the Leased Computers to Holdings as part of a distribution to Holdings pursuant to Holdings security interest in the assets of Superex (the “**Leased Computer Distribution**”). The Receiver has determined that the Leased Computer Distribution has a value of \$37,000 which equals the remaining rental payments owing on the Leased Computers by Superex.

2.7 Abandoned Assets

2.7.1 The Receiver was made aware of certain Superex assets which are located at third party sites. These included: (1) dies and blotter paper used to manufacture air fresheners (the “**Dies**”), which are located in Quebec; and (2) a booth used at trade shows (the “**Booth**”) which is located in Illinois. Each party in possession of these assets were creditors of Superex.

2.7.2 Based on the outstanding arrears, the anticipated costs to recover and return the Dies and the Booth, with the agreement of Holdings who confirmed that there was limited value, if any, in these items the Receiver has taken no further action in respect of these assets.

2.8 Books and Records

2.8.1 Upon its appointment, the Receiver arranged to preserve and protect the Debtors’ books and records, including electronic data (the “**Records**”) located at the Leased Premises.

2.8.2 Upon its discharge as Receiver, KPMG will release the Superex and Pronto Records to Mr. Gisser, in his capacity as the Director of Superex which is the majority shareholder of Pronto.

3.1 Source Deductions

3.1.1 As previously reported the Receiver requested that Canada Revenue Agency (“**CRA**”) perform an audit of the Debtors’ source deduction accounts up to the Appointment Date. CRA has concluded its audits and provided the Receiver with final assessments dated January 20, 2016 confirming that there are no unremitted source deductions due to CRA by the Debtors.

3.2 HST

3.2.1 CRA performed an examination of the Debtors’ HST/GST accounts. Based on the examination statements of account issued by CRA on February 12, 2016, there were no pre-Appointment Date amounts owing to CRA. Rather the Debtors have refunds owing from CRA as at the Appointment Date.

3.3 QST

3.3.1 The Receiver requested an audit of the Debtors’ QST accounts, however, Revenue Quebec (“**RQ**”) advised the Receiver that it would not perform an audit of the Debtors’ QST accounts.

3.3.2 The Debtors received notices of assessments dated January 25, 2016 showing that the pre-Appointment Date arrears totaled approximately \$1,900.00 and \$400.00 for Superex and Pronto, respectively (the “**QST Arrears**”).

3.3.3 Absent a bankruptcy, the RQ claims for QST Arrears rank in priority to parties with a secured interest in the Debtors. In the case of Pronto, its QST Arrears rank in priority to the Superex secured interest that was acquired pursuant to the Assignment of the HSBC security. In the case of Superex, the QST Arrears rank in priority to Holdings. Accordingly, with the agreement of Holdings, the Receiver has paid the Superex QST Arrears from the Superex assets and the Pronto QST Arrears from the Pronto assets.

- 4.1** Pursuant to paragraph 23 of the Appointment Order, any expenditure or liability which shall properly be made or incurred by the Receiver, including the fees and disbursements of the Receiver and the fees and disbursements of Counsel, constitute the "Receiver's Charge".
- 4.2** The fees and disbursements of the Receiver for the period January 4, 2016 through to February 26, 2016 are detailed in the affidavit of Jordan Sleeth dated March 7, 2016, a copy of which is attached as **Appendix I**.
- 4.3** The Receiver's fees with regards to the Superex receivership estate from January 4, 2016 through to February 26, 2016 encompass 493.7 hours at an average hourly rate of approximately \$378.14 for a total of \$186,687.50 plus disbursements of \$3,691.20, prior to applicable taxes. The Receiver is seeking the approval of the Court of its total fees and disbursements related to Superex inclusive of applicable taxes in the amount of \$215,127.93.
- 4.4** The Receiver's fees with regards to the Pronto receivership estate from January 4, 2016 through to February 26, 2016 encompass 131 hours at an average hourly rate of approximately \$357.18 for a total of \$46,790 plus disbursements of \$1,119.75, prior to applicable taxes. The Receiver is seeking the approval of the Court of its total fees and disbursements related to Pronto inclusive of applicable taxes in the amount of \$54,138.02.
- 4.5** The fees and disbursements of Counsel are detailed in the affidavit of Christine Mason dated March 10, 2016, a copy of which is attached as **Appendix J**. The Receiver's Counsel's fees for the period January 1, 2016 through to February 29, 2016 encompass 136.3 hours at an average hourly rate of approximately \$669.57 for a total of \$91,262.50, prior to applicable taxes. Disbursements totaled \$8,003.84. The Receiver is seeking the approval of the Court of its Counsel's total fees and disbursements inclusive of taxes in the amount of \$111,317.21. The Receiver is of the opinion that the Receiver's Counsel's fees and disbursements are fair and reasonable in the circumstances.

5.0

STATEMENT OF RECEIPTS & DISBURSEMENTS

5.1 Statement of Receipts and Disbursements

5.1.1 The chart below provides a summary of the Receiver's Superex and Pronto statement of receipts and disbursements ("R&D") for the period December 3, 2015 to February 29, 2016:

| ('000) | Superex Canada Ltd | Pronto Innovations |
|--|--------------------|--------------------|
| Receipts | \$ 4,170 | \$ 771 |
| Disbursements (Operating, Administrative and Professional) | (826) | (214) |
| Sub-total | 3,344 | 557 |
| Distributions | (859) | (250) |
| Net funds on hand | \$ 2,485 | \$ 307 |

5.1.2 The Superex and Pronto R&D's reflect an allocation of costs between the estates as the Superex receivership estate funded various property, office and administrative costs associated with rent, taxes, utilities, shared staffing and legal fees. Property costs were allocated among the Debtors' on a square footage basis and office and administrative costs were allocated based on a pro-rata share of the net book value of assets as at the Appointment Date.

5.2 Superex R&D

5.2.1 The Receiver's R&D in respect of the receivership proceedings of Superex for the period December 3, 2015 to February 29, 2016 is attached hereto as **Appendix K**.

5.2.2 As illustrated therein, receipts total approximately \$4.17 million and are primarily related to collection of AR, the Receiver's inventory sales and proceeds from the sale transactions approved by the Court.

5.2.3 The Receiver's disbursements for operating, administrative and professional fees total approximately \$826,000, primarily related to wages, freight, other operating expenses and professional and legal fees.

5.2.4 In addition, the Receiver has distributed to HSBC approximately \$644,000 in respect of the Superex debt and \$215,000 on account of the balance of the Pronto Shortfall, for which Superex obtained an Assignment of security from the Bank. Accordingly, as at February 29, 2016 the Receiver has net funds in its Superex accounts of approximately \$2.5 million (note that any U.S. funds were converted at an estimated exchange rate of US\$1 = C\$1.35).

5.3 Pronto R&D

5.3.1 The Receiver's R&D in respect of the receivership proceedings of Pronto for the period December 3, 2015 to February 29, 2016 is attached hereto as **Appendix L**.

5.3.2 Receipts total approximately \$771,000 and are primarily related to cash on hand, collection of AR, Receiver's inventory sales and the Renaud-Bray Sale. The Receiver's disbursements for

operating expenses, administration and professional fees total approximately \$214,000, primarily related to wages, an allocation of property and head office costs and professional fees.

- 5.3.3** The Receiver distributed approximately \$250,000 to HSBC on account of Pronto's indebtedness. Accordingly, as at February 29, 2016 the Receiver has net funds in its Pronto accounts of approximately \$307,000 (note that any U.S. funds were converted at an estimated exchange rate of US\$1 = C\$1.35).

6.1 Secured Creditors

6.1.1 HSBC has been repaid its Superex and Pronto indebtedness in full, and accordingly as reported herein, the Receiver asked Counsel to provide an opinion (the “**Security Opinion**”) on the Holdings’ security. Counsel has opined in the Security Opinion, a copy of which is attached as **Appendix M**, that, subject to the restrictions and qualifications therein, Holdings’ security is valid and enforceable. As outlined below, Holdings is the only creditor with an economic interest in the remaining Superex assets.

6.1.2 Superex, as a result of funding the Pronto Shortfall and taking an assignment of the HSBC security, is the only known creditor with a secured interest in the assets of Pronto.

6.2 Superex Distributions

6.2.1 As at February 29, 2016, the Receiver has approximately \$2.5 million in the Superex accounts. Additionally the Receiver anticipates net future proceeds from the collection of all or a portion of the Superex Outstanding AR of approximately \$92,000 and the repayment of all or a portion of the Pronto Shortfall from the receivership estate of Pronto. Prior to consideration of ongoing estate disbursements and fees, the combined funds in the Receiver’s account, Outstanding AR and the recovery of the Pronto Shortfall total less than the Superex indebtedness owing to Holdings of \$4.0 million. Accordingly, Holdings will incur a significant shortfall in these proceedings.

6.2.2 Counsel has provided its Security Opinion that Holdings’ has valid and enforceable security over the Superex assets. As noted above, CRA’s audit results indicate that there are no outstanding Superex source deductions and the CRA GST/HST examination indicates there are no outstanding GST/HST amounts outstanding as at the Appointment Date. Also, all Superex employee wages and vacation pay were paid prior to the Appointment Date. Further, the Receiver has funded the outstanding QST Arrears.

6.2.3 As a result, the Receiver is not aware of any other prior ranking claims to those of Holdings. It is the Receiver’s opinion that Holdings is the only secured creditor with an economic interest in the Superex net proceeds. Accordingly, subject to the approval of the Court, the Receiver proposes to make the following distributions from the Superex assets to Holdings (collectively the “**Superex Distributions**”):

- 1) an interim distribution in the amount of \$1,900,000 (the “**Superex Interim Distribution**”);
- 2) future distributions of the balance of net funds in the Receiver’s Superex trust accounts (the “**Superex Future Distributions**”) subject to:
 - collection of additional Superex Outstanding AR and/or other miscellaneous refunds and sales tax refunds;
 - collection from all or a portion of the repayment of the Pronto Shortfall from Pronto;
 - payment of all ongoing operating and administrative expenses required to complete the administration of the receivership; and,

- payment of the outstanding fees and future fees of the Receiver and its Counsel;
- 3) The Leased Computer Distribution as defined in Section 2.6 herein;
 - 4) An in specie distribution to Holdings of any Outstanding AR which is not collected prior to the issuance of the Order associated with this motion.
- 6.2.4** As noted above in Section 6.2.1, the aggregate of the proposed Superex Distributions to Holdings is less than the remaining Superex indebtedness owed to Holdings.

6.3 Pronto Distribution

- 6.3.1** As at February 29, 2016, the Receiver has approximately \$307,000 in the Pronto trust accounts.
- 6.3.2** Based on a current PPSA search dated March 9, 2016 and the Assignment, the Receiver is not aware of any parties other than Superex having a secured interest in the assets of Pronto. At this time, based on the anticipated disbursements relating to professional fees, outstanding operating costs and administrative expenses, the Receiver anticipates there will not be sufficient funds to repay the Pronto Shortfall in full. However, the Receiver will continue to realize on the Pronto assets and will report to the Court on actual realizations at its next Court attendance.
- 6.3.3** As outlined herein and pursuant to the Approval Vesting and Distribution Order, subject to funds being available in Pronto, the Receiver will repay Superex the Pronto Shortfall to the maximum amount of \$215,000 plus applicable interest.

7.0

RECOMMENDATIONS AND ORDER SOUGHT

7.1 The Receiver respectfully submits this **Second Report** to the Court in support of the Receiver's motion for an order approving the following

- the Second Report, and the activities of the Receiver as described herein;
- the Fees and disbursements of the Receiver and its Counsel, as outlined in section 4.0;
- the Superex Distributions as outlined in section 6.2;
- the Pronto Distribution as outlined in section 6.3; and,
- the Superex R&D and Pronto R&D for the period December 3, 2015 to February 29, 2016.

All of which is respectfully submitted this 10th day of March, 2016.

**KPMG INC., in its capacity as
COURT-APPOINTED RECEIVER AND MANAGER OF
SUPEREX CANADA LIMITED / SUPEREX CANADA LIMITÉE AND
PRONTO INNOVATIONS**



Per: _____
Jordan Sleeth
Vice President