

**IN THE MATTER OF THE BANKRUPTCY OF
1735825 ONTARIO INC.
of the City of Toronto in the Province of Ontario**

**TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS
ON PRELIMINARY ADMINISTRATION**

I BACKGROUND

1735825 Ontario Inc. (formerly Grafton-Fraser Inc.) which carried on business under various trade names including “Tip Top Tailors”, “George Richards Big and Tall” and others (“**1735825**” or the “**Company**”) is a privately held corporation, which is the product of an amalgamation resulting from articles of amalgamation filed under the *Business Corporations Act* (Ontario) on May 24, 2007. The Company was a Canadian retailer of men’s clothing through a network of store locations in Canada as well as an on-line sales platform. The Company’s main premises in Canada were at its head office and distribution center located at 44 Apex Road, Toronto, Ontario.

The Company is the sole shareholder of 2473304 Ontario Inc. (“**2473304**”) which operated a chain of thirty-seven (37) stores selling women’s clothing and accessories. 2473304 filed for protection under the *Companies’ Creditors Arrangement Act* (“**CCAA**”) on June 7, 2016 and liquidated all of its assets. 2473304 was assigned into bankruptcy on April 24, 2019. The Company also owned 50% of the issued and outstanding shares of Gailwood Investments Limited (“**Gailwood**”). Gailwood was a sole purpose corporation formed to hold certain trademarks with respect to the “Bellissimo” or “Domenic Bellissimo” brands. 1735825 was granted protection under the CCAA on January 25, 2017 and Richter Advisory Group Inc. (“**Richter**”) was named as Monitor under the CCAA.

At the time of the commencement of the CCAA proceedings of 1735825, the Company operated 158 retail stores across Canada (with the majority in Ontario, Alberta and British Columbia) and employed approximately 1,226 full-time and part-time employees. The Company was facing numerous liquidity challenges arising from: (i) the CCAA proceedings of 2473304 as a result of co-borrowing obligations to Canadian Imperial Bank of Commerce (“**CIBC**”); (ii) claims asserted against the Company by creditors and other stakeholders of 2473304; (iii) lower than expected retail sales; (iv) increased overhead costs (some of which could no longer be allocated to 2473304); (v) delays in receipt of seasonal inventory; and (vi) turnover of key personnel. In addition to its obligations to CIBC, the Company was also indebted to lenders affiliated with GSO Capital Partners, LP (“**GSO**”). The Company and 2473304 had various inter-company servicing arrangements and were jointly and severally liable for amounts owing to CIBC. The Monitor received an independent legal opinion, subject to the typical assumptions and qualifications, from Cassels Brock & Blackwell LLP confirming the validity of the security of both CIBC and GSO in British Columbia, Alberta, Manitoba, Ontario and Nova Scotia (only GSO and CIBC had made registrations under the Personal Property Securities Acts in the other provinces).

Shortly after commencing CCAA proceedings, the Company entered into an agreement with a party related to GSO, now Grafton Apparel Ltd. (formerly GSO GF Acquisition B.C. Ltd.) (the “**Purchaser**”) to serve as the “Stalking Horse Bidder” in respect of a proposed sale and investor solicitation process (“**SISP**”) to be implemented in the interests of all of the stakeholders. The SISP which was carried out with the assistance of Richter (acting as a Monitor) ran for approximately six weeks from January 2017 to March 2017. In all, approximately 174 potential interested parties were contacted including strategic buyers, financial investors and liquidators. Four (4) parties executed non-disclosure agreements and were given

access to the data room. Ultimately, with the exception of the bid from the Stalking Horse Bidder, no other offers were received by the bid-deadline and the Purchaser and the Company with the assistance of the Monitor and legal counsel worked towards the completion of a transaction (the "**Transaction**"). The terms of the Transaction resulted in the Purchaser acquiring the Company on a going-concern basis, hiring the majority of the employees, assuming the head office lease and the majority of the store leases (thirteen (13) underperforming stores were liquidated), assuming various supplier obligations and funding of various Company liabilities including professional fees, sales taxes and other priority amounts.

On the closing of the Transaction, all amounts owing by the Company and 2473304 to CIBC were released and all amounts owing to GSO, which were subsequently assigned to the Purchaser were also released with the exception of certain amounts.

Copies of documents in respect of the CCAA proceedings and these bankruptcy proceedings can be obtained from the Monitor's website at <https://www.richter.ca/insolvencycase/1735825-ontario-inc/>.

On April 10, 2019, the Court issued an order (the "**April 2019 Order**") confirming various prior orders of the CCAA Court such that the Monitor was authorized to:

- file an assignment in bankruptcy in respect of 1735825 pursuant to the provisions of the *Bankruptcy and Insolvency Act* ("**BIA**");
- name Richter as trustee of 1735825;
- following the bankruptcy assignment, transfer to Richter the sum of \$30,000 plus HST from the balance of funds in its account (the "**Escrowed Funds**") to fund the bankruptcy proceedings;
- remit the unused balance of the Escrowed Funds to the Purchaser; and
- file the Monitor's discharge certificate in the CCAA proceedings after the completion of the above noted payments.

Accordingly, on April 24, 2019, the Monitor filed the assignment in bankruptcy and Richter was appointed to act as trustee in bankruptcy of the Company (the "**Trustee**").

On May 1, 2019, all known creditors of 1735825 were provided with notice of the first meeting of creditors, the Statement of Affairs and a link to the Trustee's website to access a list of creditors, a proof of claim form and a form of proxy. On May 3, 2019, notice of the bankruptcy and the first meeting of creditors was published in the Financial Post.

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.

II CAUSES OF BANKRUPTCY

As noted previously in this report, 1735825 was facing a liquidity crisis attributed to: (i) the CCAA proceedings of 2473304 as a result of co-borrowing obligations to CIBC; (ii) claims asserted against the Company by creditors and other stakeholders of 2473304; (iii) lower than expected retail sales; (iv) increased overhead costs (some of which could no longer be allocated to 2473304); (v) delays in receipt of seasonal inventory; and (vi) turnover of key personnel.

As noted in section I, on January 25, 2017, 1735825 was granted protection under the CCAA and the Company with the assistance of the Monitor launched the SISP which resulted in the going-concern sale of the majority of the Company's assets to the Purchaser.

The termination of the CCAA proceedings was delayed due the need to deal with various Canada Revenue Agency ("CRA") tax assessments received by the Company from CRA and the resolution of various tax refunds owing to the Company. Richter in its capacity as Monitor worked to respond to these assessments with the assistance of Richter's counsel and counsel for the Company. As noted above, on April 24, 2019, following the April 19 Order, Richter in its capacity as Monitor filed an assignment in bankruptcy in respect of the Company.

III FINANCIAL POSITION/ASSETS

As detailed in the Statement of Affairs and as noted above, the Company had no assets at the date of bankruptcy.

A claims process has been initiated by the Trustee although there will not be any funds available for distribution to the Company's proven creditors.

IV SECURED CREDITORS

The Company's Statement of Affairs indicates that there were no known secured creditors as at the date of bankruptcy. However, pursuant to previous Court orders and as confirmed in the April 2019 Order, any amounts remaining in the Company and any unused Escrowed Funds shall be transferred to the Purchaser.

V SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA. Based on the Company's books and records, all amounts owing in respect of wages and/or vacation pay to the Company's former employees as secured by section 81.3 of the BIA were paid by the Company.

The Trustee will, however, comply with the requirements of the Wage Earner Protection Program Act, where applicable.

VI PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there are no known preferred creditors as at the date of the bankruptcy.

VII UNSECURED CREDITORS

The Company's Statement of Affairs indicates that there are approximately 187 unsecured creditors with claims totalling approximately \$1,444,021.

VIII CLAIMS FILED

As at 8:00 a.m. on the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Claims Filed (#)	Amount (\$)	Proxies in Favour of Trustee (#)	Amount (\$)
Secured	0	0	0	0
Preferred	0	0	0	0
Unsecured	6	26,966.34	2	9,018.53
TOTAL		26,966.34	0	9,018.53

IX PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Trustee has not performed a review of the Company's books and records, with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the inspectors appointed, if any.

X TRUSTEE'S FEES

In consideration for consenting to act in these proceedings, the Trustee received a deposit in the amount \$30,000 plus HST to guarantee payment of the Trustee's fees and disbursements including the fees and disbursements of its legal counsel (if required), for statutory work in accordance with the provisions of the BIA.

XI OTHER

Further information relating to the Company's bankruptcy or CCAA proceedings may be obtained from Richter's website at <https://www.richter.ca/insolvencycase/1735825-ontario-inc/>

Dated at Toronto, Ontario, this 14th day of May, 2019.

RICHTER ADVISORY GROUP INC.

in its capacity as Trustee of the estate of
1735825 Ontario Inc.,
and not in its personal capacity



Andrew Adessky, CA-CIRP, CA, LIT