

IN THE MATTER OF THE BANKRUPTCY OF
2473304 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

2473304 Ontario Inc. which carried on business under the licensed trade name "Jones New York" ("2473304" or the "Company") is a privately held corporation, which was incorporated under the *Business Corporations Act* (Ontario) on July 2, 2015. The Company operated as a specialty retailer selling women's clothing and accessories, with a focus on women's business attire through a network of store locations in Canada. The Company's main premises in Canada were located at its distribution center located at 388 Applewood Crescent, Vaughn, Ontario before relocating to 44 Apex Road, North York, Ontario.

The Company is 100% owned by 1735825 Ontario Inc. (formerly known as Grafton-Fraser Inc.) ("1735825") which operated out of the same head office and distribution center. 1735825 is also bankrupt as discussed below. 2473304 was granted protection under the *Companies' Creditor Arrangement Act* ("CCAA") on June 7, 2016 and Richter Advisory Group Inc. ("Richter") was named as Monitor under the CCAA.

At the time of the commencement of the CCAA proceeding of 2473304, the Company operated thirty-seven (37) store locations in Canada (with the majority in Ontario and Quebec) and employed approximately 300 full-time and part-time employees. The Company was facing a liquidity crisis and had defaulted on various financial and other covenants with its primary secured lenders, Canadian Imperial Bank of Commerce ("CIBC") and GSO Capital Partners, LP ("GSO"). The Company and 1735825 had various inter-company servicing arrangements and were jointly and severally liable for amounts owing to CIBC and as well, the Company had guaranteed 1735825's obligations to GSO. The Monitor received an independent legal opinion from Cassels Brock and Blackwell LLP confirming the validity of the security of both CIBC and GSO.

Due to the liquidity crisis, prior to commencing the CCAA proceedings, the Company with the assistance of Richter (then acting as a consultant to the Company) implemented a sale and investor solicitation process ("SISP") in the interests of all of the stakeholders. The process which ran from mid-April 2016 to mid-May 2016 solicited interest from approximately 100 interested parties including strategic buyers, financial investors and liquidators. Nine (9) parties executed non-disclosure agreements and were given access to the data room. Ultimately, no going-concern offers were received and the only two offers received were from liquidators. An offer from GA Retail Canada ULC ("Great American") was selected and an agency agreement ("Agreement") was entered into. Following the commencement of the CCAA proceedings, the Agreement was approved by the Court and the liquidation commenced in June 2016 and ended in September 2016. Upon the completion of the liquidation, the Company had liquidated all of its inventory and fixed assets, had closed all locations and terminated all employees.

During the CCAA proceedings, the Company obtained various distribution orders permitting it to remit the proceeds of the liquidation to CIBC as the first ranking secured creditor of the Company. Eventually, an entity related to GSO, now Grafton Apparel Ltd. (formerly GSO GF Acquisition B.C. Ltd.) (the "Purchaser") purchased the assets of 1735825 and assumed the outstanding obligations of both companies

to CIBC, such that any remaining proceeds in the hand of the Monitor are, in accordance with Court orders made in the CCAA proceedings being remitted to the Purchaser.

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/2473304-ontario-inc/>.

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

- file an assignment in bankruptcy in respect of 2473304 pursuant to the provisions of the *Bankruptcy and Insolvency Act* ("**BIA**");
- name Richter as trustee of 2473304;
- following the bankruptcy assignment, pay 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 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 2473304 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, 2473304 was facing a liquidity crisis attributed to lower than expected retail sales, delays in receipt of seasonal inventory, higher inventory costs due to unfavorable currency fluctuations, unexpected freight charges and excess prior season inventory remaining from the July 2015 acquisition of the business.

As noted in section I, on June 7, 2016, 2473304 was granted protection under the CCAA. The primary objective of the CCAA proceedings was to implement the transaction resulting from the SISP which resulted in an orderly liquidation of 2473304's operations such that all inventory was liquidated, all store locations were closed and all employees were let go as of September 22, 2016.

The termination of the CCAA proceedings was delayed due to various tax assessments received by 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 2019 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 as required by the BIA, 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 that may remain of the Escrowed Funds in the bankruptcy proceedings shall be remitted 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 on or prior to March 8, 2019.

The Trustee will, however, comply with the requirements of the *Wage Earner Protection Program Act*, as 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 121 unsecured creditors with claims totalling approximately \$6,823,964.

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	2	5,869.73	0	0
Unsecured	8	2,080,671.94	3	32,445.98
TOTAL	10	2,086,541.67	3	\$32,445.98

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/2473304-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
2473304 Ontario Inc.,
and not in its personal capacity



Andrew Adessky, CA·CIRP, CA, LIT