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DACO MANUFACTURING LTD.

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS PROPOSAL TRUSTEE OF
DACO MANUFACTURING LTD.**

JULY 14, 2015

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Court File No. 31-1995891

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

**N THE MATTER OF THE NOTICE OF INTENTION OF
DACO MANUFACTURING LTD.**

**SECOND REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE UNDER THE
NOTICE OF INTENTION OF
DACO MANUFACTURING LTD.**

JULY 14, 2015

Introduction

1. This report (the "**Second Report**") is filed by Richter Advisory Group Inc. ("**Richter**"), in its capacity as proposal trustee (the "**Trustee**") in connection with the Notice of Intention to Make a Proposal ("**NOI**") filed by Daco Manufacturing Ltd. ("**Daco**" or the "**Company**").
2. On May 19, 2015 (the "**Filing Date**"), Daco filed an NOI with Richter under Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B.-3, as amended (the "**BIA**").
3. On June 8, 2015, the Ontario Superior Court of Justice (Commercial List) (the "**Court**") made an order (the "**June 8 Order**"), *inter alia*, approving a sale process (the "**Bid Process**") the Company intended to carry out under the supervision of, and with the assistance of, the Trustee as well as extending the stay of proceedings and the time for the Company to file a Proposal to July 17, 2015 (the "**Stay Period**"). A copy of the June 8 Order is attached hereto as **Exhibit "A"**.

Purpose of this Report

4. The purpose of this, the Trustee's Second Report, is to provide this Court with information pertaining to:
 - (i) the activities of the Company and the Trustee since the Filing Date;

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- (ii) the Company's actual cash flows for the period from May 25, 2015 to July 3, 2015, including a comparison of actual to forecast results;
 - (iii) the results of the Bid Process;
 - (iv) the termination of the Company's NOI proceedings, and
 - (v) the Trustee's conclusions and recommendations.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
6. In preparing this Second Report, the Trustee has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records, and discussions with the Company's representatives and the Company's legal counsel. The Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information.

The Company's Activities

7. The activities of the Company since the commencement of its NOI proceedings to June 3, 2015 are detailed in the Trustee's first report dated June 3, 2015 filed in support of the Company's motion returnable June 8, 2015 (the "**First Report**"). Subsequent to the filing of the First Report, a copy of which is attached hereto as **Exhibit "B"**, the Company's activities have included:
- (i) negotiating an agreement (the "**Accommodation Agreement**") with various interested parties, including Meridian Credit Union Limited ("**Meridian**") and Roynat Inc. ("**Roynat**"), the Company's first and second ranking secured creditors, regarding among other things the use and allocation of any monies collected by the Company subsequent to the Filing Date. A copy of the Accommodation Agreement is attached hereto as **Exhibit "C"**;
 - (ii) reporting receipts and disbursements;
 - (iii) preparing certain of its "non-program" precious metals inventory for smelting to generate sufficient cash flow to fund these NOI proceedings;
 - (iv) responding to calls and enquiries from creditors and other stakeholders regarding the Company's NOI;

- (v) corresponding with customers to address current order requirements and negotiate supply terms;
- (vi) completing and shipping customer orders received subsequent to the Filing Date;
- (vii) making payments to suppliers for goods and/or services received subsequent to the Filing Date;
- (viii) meeting with several commercial realtors regarding the listing/marketing of the Company's premises located at 401 Vaughan Valley Boulevard, Vaughan, Ontario (the "Premises") and, ultimately, arranging for the listing of the Premises with CBRE Limited ("CBRE");
- (ix) commissioning the completion of a building condition assessment and an environmental assessment for the Premises;
- (x) consulting with the Trustee regarding the Bid Process and other matters in connection with the Company's NOI; and
- (xi) working with the Trustee to satisfy information requests from Prospective Purchasers (as hereinafter defined) as well as overseeing site visits for Prospective Purchasers (as hereinafter defined) to view and inspect the Company's assets/inventory.

The Trustee's Activities

8. The activities of the Trustee since the commencement of the Company's NOI proceedings to June 3, 2015 are detailed in the First Report. Subsequent to the filing of the First Report, the Trustee's activities have included:
- (i) assisting the Company negotiate the Accommodation Agreement;
 - (ii) attending at the Company's premises periodically to meet with its management and employees with respect to the NOI;
 - (iii) monitoring the Company's receipts and disbursements and reporting variances to the Cash Flow Forecast (as hereinafter defined);

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- (iv) responding to calls and enquiries from the Company's creditors, including former/current employees, suppliers and other stakeholders regarding the Company's NOI;
- (v) providing oversight to the Company's preparation of certain precious metals inventory for smelting;
- (vi) corresponding with the Company's customers regarding the Company's NOI and assisting the Company negotiate supply terms for order requirements subsequent to the Filing Date;
- (vii) assisting the Company with the Bid Process, including facilitating due diligence efforts by Prospective Purchasers (as hereinafter defined) and regularly updating the data room with current financial and other information in connection with the Company's business and assets;
- (viii) assisting the Company with the listing/marketing of the Premises and communicating with CBRE in connection with same;
- (ix) corresponding and communicating extensively with the Company and its legal counsel;
- (x) reviewing the offers submitted to acquire all or a portion of the Company's assets, including communications with certain of the offerors to clarify certain aspects of their offer;
- (xi) communicating with Daco and each of Meridian, Roynat and Daco USA (and their respective counsel) regarding the Company's NOI and the results of Bid Process; and
- (xii) preparing this Second Report.

Actual Receipts and Disbursements for the Period from May 25, 2015 to July 3, 2015

9. The Company's cash flow forecast for the period May 25, 2015 to August 21, 2015 (the "**Cash Flow Forecast**") was filed with the Official Receiver on May 29, 2015 in accordance with the provisions of the BIA;
10. A comparison of the Company's budget to actual results for the six (6) weeks ending July 3, 2015 is summarized below:

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Daco Manufacturing Ltd.			
Cash Flow Variance Analysis			
6 Weeks Ended July 3rd			
(\$000's)	Forecast	Actual	Variance
	03-Jul	03-Jul	\$
Cash Receipts	\$ 180	\$ 1,057	\$ 877
<u>Cash Disbursements</u>			
Payroll & Benefits	(65)	(63)	2
Utilities	(9)	(0)	9
Property Taxes	(13)	(13)	0
Insurance	(55)	(55)	0
SG&A	(23)	(29)	(6)
Professional Fees	(210)	(134)	76
HST	-	(0)	(0)
Contingency	(30)	-	30
Total Disbursements	\$ (406)	\$ (295)	\$ 111
Net Cash Flow	\$ (226)	\$ 761	\$ 988

11. As reflected in the above summary table, the Company generated net cash flow of approximately \$760,000, as at July 3, 2015, which is approximately \$990,000 higher than forecast. Please note approximately \$725,000 of this positive variance is related to proceeds generated from the Company's smelting of certain of its "non-program" precious metals inventory, which was not included in the Cash Flow Forecast.
12. In accordance with the terms of the Accommodation Agreement, a portion of Daco's post-filing cash receipts have been made available to the Company to fund these NOI proceedings with the remaining cash receipts being deposited into a Company bank account under the Trustee's control (the "**Segregated Account**") for future distribution to Meridian.
13. As at the date this Second Report, the Company had approximately \$697,000 in the Segregated Account.

The Company's Creditors

14. As noted in the First Report, the Company estimated that it had unsecured obligations totalling approximately \$1.0 million (excluding any amounts owing to the Company's former/current employees) as at the Filing Date.

15. As also noted in the First Report, the Trustee has been advised by the Company that Meridian, Roynat and Daco (USA) Inc. ("**Daco USA**" and together with Meridian and Roynat, the "**Secured Lenders**") are secured creditors of the Company that are owed approximately \$1.35 million, \$1.5 million and \$2.7 million respectively.
16. Pursuant to various inter-creditor agreements between Daco, Meridian, and Roynat, Meridian has first ranking security and Roynat has second ranking security over all of the personal property assets of the Company (the "**Assets**"). Based on the order of registrations under the *Personal Property Security Act* (Ontario) (the "**PPSA**"), Daco USA has third ranking security over the Assets.
17. The Trustee also understands that Daco has granted charges against title to the Premises in favour of both Roynat (first ranking) and Meridian (second ranking) as additional security for the Company's obligations to each of Roynat and Meridian. Although Daco holds bare legal title to the Premises, beneficial ownership of the Premises is held by Daco Canada Real Estate Holdings Ltd. ("**Daco Real Estate**"), a related party. Consequently, any surplus from the sale of the Premises (after satisfaction of any residual amounts owed to Meridian and Roynat from the sale of Daco's personal property and other assets) would be for the benefit of Daco Real Estate and not available to the Company or its other creditors.
18. In addition to Meridian, Roynat and Daco USA, the Trustee is aware that CBSC Capital Inc. ("**CBSC**") and Counter Intelligence Merchandising Inc. ("**CIMI**") have also registered security interests against Daco under the PPSA. CBSC has two (2) registrations under the PPSA both related to leased equipment and CIMI recently (May 13, 2015) filed a registration against the "other" property of Daco purportedly in respect of a Conditional Sales Agreement. The Trustee understands that, following communications between counsel to the Company, Bennett Jones LLP, and the solicitor for CIMI regarding the legal basis for its PPSA registration, CIMI voluntarily discharged its PPSA registration on June 5, 2015.
19. The Trustee has obtained an independent, written legal opinion (the "**Security Opinion**") from Gowlings with respect to the validity and enforceability of the security granted in favour of each of Meridian and Roynat. Subject to the customary qualifications and limitations included therein, it is Gowlings' opinion that the security granted by Daco in favour of each of Meridian and Roynat is valid and enforceable against all of the Company's personal property, including the Assets as well as any surplus cash flow from the Company's operations.

20. Given the estimated recoveries (as discussed below), the Trustee has not requested that Gowlings provide an opinion as to the validity and enforceability of the security granted in favour of Daco USA (Daco USA has also not provided the Trustee with a copy of its security documents).

The Bid Process

21. Given the Company's limited liquidity, the Company, with the assistance of the Trustee, commenced the Court approved Bid Process as a means of testing the market, gauging interest in the Company and/or its assets, and determining whether a transaction that would result in greater than forced liquidation value was available.
22. The purpose of the Bid Process was to identify one or more purchasers for the Company's business and/or assets. The key aspects of the Bid Process and its results are summarized as follows:
- (i) the Company, in consultation with the Trustee, assembled a list of potential interested parties, which included strategic purchasers (competitors, companies operating in complementary businesses, etc.), financial buyers and liquidators (collectively, the "**Prospective Purchasers**"). The Prospective Purchasers included parties who regularly liquidate merchandise in insolvency proceedings;
 - (ii) on or about June 9, 2015, the Trustee distributed a teaser document, which had been prepared by the Trustee in consultation with the Company, to the Prospective Purchasers detailing the opportunity to purchase the Company's business and/or assets (the "**Teaser**"). A copy of the Teaser is attached hereto as **Exhibit "D"**. In total, the Trustee contacted 30 parties to advise of the opportunity to acquire the assets and/or the operations of the Company;
 - (iii) Prospective Purchasers interested in obtaining additional information regarding the Company's business were required to execute a confidentiality agreement ("**CA**") in order to obtain access to a data room where information/documentation in connection with the Company's assets was made available. A total of fourteen (14) parties executed the CA and were provided with data room access;

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- (iv) the Trustee, with the assistance of the Company, facilitated due diligence efforts by, among other things, coordinating meetings between Prospective Purchasers and the Company and/or scheduling site visits to view and inspect the Company's assets/inventory. The Trustee also regularly updated the data room with current financial and other information, as it became available;
- (v) Prospective Purchasers were required to submit offers for the Company's business and/or assets on or before 12:00 p.m. (Eastern Standard Time) on July 9, 2015 (the "**Bid Deadline**");
- (vi) seven (7) offers (the "**Offers**") to purchase and/or auction all or a portion of the Company's assets were received prior to the Bid Deadline;
- (vii) the Trustee reviewed the Offers with the Company and prepared a schedule summarizing/comparing the Offers (the "**Offer Summary**"). The Trustee shared the Offer Summary with Meridian, Roynat and Daco USA (and each of their respective counsel);
- (viii) based on the Offers, the anticipated net realizations from the Company's assets, including any surplus cash flows, (after payment of professional fees and other transaction costs), will be substantially less than the amounts owed to the Secured Lenders. Furthermore, it appears unlikely that there will be sufficient realizations from the Company's assets to support a distribution to any of the Company's creditors other than Meridian in respect of its first-ranking security; and
- (ix) the Company's limited liquidity substantially eliminates the opportunity to further market the business and/or its assets for sale without potentially impairing recoveries. Further, no funding is available to conduct another sale process. Even if there was, in the Trustee's view, the market has been fully canvassed and all likely bidders have already been provided with an opportunity to bid on the Company and/or its assets.

Termination of Daco's NOI Proceedings

23. The Company's severe liquidity constraints and uncertain future have adversely impacted the Company's business.
24. Prior to the Filing Date, the Company's continuing losses virtually eliminated its cash balances leaving it without funds to operate. Other than the limited funding provided pursuant to the Accommodation Agreement for the purpose of the Company's NOI proceedings, the Company is unlikely to source additional funding from a third party and, even if it could, the funding would likely be very limited and expensive.
25. In addition, Daco's projected cash flows indicate that the Company will have exhausted its funding by the end of the Stay Period. Accordingly, absent the continued indulgence of Meridian, the Company will shortly be without funds to maintain its assets and pursue alternatives. In this regard, Meridian has informed the Trustee that, in light of the Offers received, it is not prepared to provide further funding to the Company.
26. As there is no prospect that the Company can present a proposal to its unsecured creditors (because the anticipated realizations from the Offers will not satisfy the amounts owed to the Secured Lenders or support a distribution to the Company's unsecured creditors), the Trustee has advised that Company that it cannot support a further extension of the Stay Period.
27. In light of the above and an effort to limit the costs associated with these proceedings, the Company has informed the Trustee that it will not be seeking a further extension of the Stay Period. Consequently, upon the expiration of the Stay Period, an automatic bankruptcy will result, pursuant to Section 50.4(8) of the BIA.
28. As there remains a need for a process to both wind down the Company's operations and realize on the Company's assets, the Company is seeking the appointment of Richter as receiver (the "Receiver") of all of its assets, undertakings and properties, pursuant to Section 101 of the *Courts of Justice Act*, R.S.O. 1990, c.C.43, as amended, to pursue one or more of the transactions identified through the Bid Process or otherwise monetize the Company's assets for the benefit of the Company's stakeholders.
29. Richter has advised the Company as well as the Secured Lenders that, should the Court consider Daco's application for the appointment of a Receiver appropriate, Richter is willing and able to act in such capacity. A copy of Richter's consent to act as Receiver of the Company is attached hereto as **Exhibit "E"**.

Conclusion and Recommendation

30. Based on the foregoing, the Trustee is of the view that the relief requested by the Company, including the appointment of a Receiver, is necessary, commercially reasonable and justified.

All of which is respectfully submitted this 14th day of July, 2015.

Richter Advisory Group Inc.
in its capacity as Proposal Trustee of
Daco Manufacturing Ltd.

Per:

A handwritten signature in black ink, appearing to read 'Adam Sherman', written in a cursive style.

Adam Sherman, MBA, CIRP

This is **Appendix “A”** to the
Second Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.,
dated July 14, 2015

Court File No. 31-1995891
Estate No. 31-1995891

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MADAM)
JUSTICE CONWAY)
MONDAY, THE ~~MONDAY~~ 8th)
DAY OF JUNE, 2015)



IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*,
R.S.C. 1985, c. B-3, AS AMENDED
AND IN THE MATTER OF THE NOTICE OF INTENTION OF
DACO MANUFACTURING LTD. OF THE CITY OF TORONTO IN THE PROVINCE
OF ONTARIO

ORDER

THIS MOTION made by Daco Manufacturing Ltd. (the "**Company**") for an order, among other things, extending the time to file a proposal under the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion, the affidavit of Matthew Lunetta sworn June 3, 2015 and the exhibits thereto (the "**Lunetta Affidavit**"), the report (the "**First Report**") of Richter Advisory Group Inc. in its capacity as the Proposal Trustee (the "**Proposal Trustee**") dated June 3, 2015, and on hearing the submissions of counsel for the Company, the submissions of counsel for the Proposal Trustee, ~~and the submission of~~, no one else appearing,

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the First Report is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

APPROVAL OF BID PROCESS

2. **THIS COURT ORDERS** that the bid process (the "**Bid Process**") described in the First Report be and it is hereby approved.

3. **THIS COURT ORDERS** that the Company and the Proposal Trustee be and they are hereby authorized and empowered to take such steps as are necessary or desirable to carry out and perform their obligations under the Bid Process.

ADMINISTRATION CHARGE

4. **THIS COURT ORDERS** that the Proposal Trustee, counsel to the Proposal Trustee and counsel to the Company shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on all current and future assets, rights, undertakings, and properties of the Company, of every nature and kind whatsoever, and wherever situated including all proceeds thereof (the "**Property**"), which Administration Charge shall not exceed an aggregate amount of CAD \$150,000, as security for their professional fees and disbursements incurred at their standard rates and charges, both before and after the making of this Order in respect of these proceedings.

5. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge shall not be required, and that the Administration Charge shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Administration Charge coming into existence, notwithstanding any such failure to file, register, record or perfect.

6. **THIS COURT ORDERS** that the Administration Charge shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person, notwithstanding the order of perfection or attachment.

EXTENSION OF TIME TO FILE PROPOSAL

7. **THIS COURT ORDERS** that the time within which a proposal must be filed with the Official Receiver, and the stay of proceedings herein, be and it is hereby extended to July 17, 2015.

SERVICE AND NOTICE

8. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "**Protocol**") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which may be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial/>) shall be valid and effective service. Subject to Rule 17.05 of the *Rules of Civil Procedure* this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*. Subject to Rule 3.01(d) of the *Rules of Civil Procedure* and

paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: www.richter.ca/en/insolvency-cases/d/daco-manufacturing-ltd.

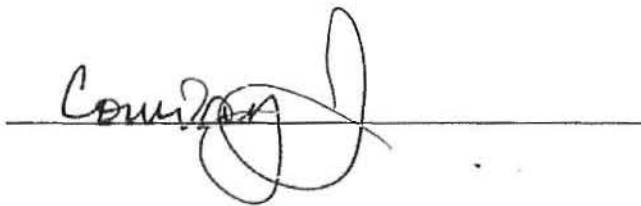
9. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Proposal Trustee, counsel for the Proposal Trustee, and counsel for the Company are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile or electronic transmission to the Company's creditors or other interested parties at their respective addresses as last shown on the records of the Company and that any such service or notice by courier, personal delivery, facsimile or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

10. **THIS COURT ORDERS** that the Company or the Proposal Trustee may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

11. **THIS COURT ORDERS** that nothing in this Order shall prevent the Proposal Trustee from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Company or the Property.

12. **THIS COURT ORDERS** that each of the Company and the Proposal Trustee be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order, and for assistance in carrying out the terms of this Order and any other Order issued in these proceedings.

A handwritten signature in black ink, appearing to read "Courton", is written over a horizontal line.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

A small, stylized handwritten mark or signature.

JUN - 8 2015

IN THE MATTER OF *THE BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION OF DACO MANUFACTURING LTD. OF THE CITY OF TORONTO IN THE PROVINCE OF ONTARIO

**ONTARIO
SUPERIOR COURT OF JUSTICE**

COMMERCIAL LIST

ORDER

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Lawyer for the Applicant,
Daco Manufacturing Ltd.

This is **Appendix “B”** to the
Second Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.,
dated July 14, 2015

RICHTER

Richter Advisory Group Inc.
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DACO MANUFACTURING LTD.

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS PROPOSAL TRUSTEE OF
DACO MANUFACTURING LTD.**

JUNE 3, 2015

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Court File No. 31-1995891

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE NOTICE OF INTENTION OF
DACO MANUFACTURING LTD.

FIRST REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE UNDER THE
NOTICE OF INTENTION OF
DACO MANUFACTURING LTD.

JUNE 3, 2015

Introduction

1. This report (the "**Report**") is filed by Richter Advisory Group Inc. ("**Richter**"), in its capacity as proposal trustee (the "**Trustee**") in connection with the Notice of Intention to Make a Proposal ("**NOI**") filed by Daco Manufacturing Ltd. ("**Daco**" or the "**Company**").
2. On May 19, 2015 (the "**Filing Date**"), Daco filed an NOI under Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B.-3, as amended (the "**BIA**"). A copy of the Certificate of Filing issued by the Superintendent of Bankruptcy is attached hereto as **Appendix "A"**.

Purpose of this Report

3. The purpose of this Report is to provide this Court with information pertaining to:
 - (i) background information about the Company;
 - (ii) the Company's creditors;
 - (iii) the activities of the Company and the Trustee since the Filing Date;
 - (iv) the Company's proposed post-filing strategy, including the outline of a sales process (the "**Bid Process**") the Company intends to carry out under the supervision of, and with the assistance of, the Trustee;

- (v) the Company's projected cash flows for the period from May 25, 2015 to August 21, 2015 (the "**Cash Flow Forecast**");
 - (vi) the proposed Administration Charge (as defined later in this Report);
 - (vii) the Company's request for an extension of the time required to file its proposal (the "**Extension**") to July 17, 2015; and
 - (viii) the Trustee's conclusions and recommendations.
4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
5. In preparing this Report, the Trustee has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records, and discussions with the Company's representatives and the Company's legal counsel. The Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. Future oriented financial information relied upon in this Report is based on the Company's representative's assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. The Trustee also references its report on the Cash Flow Forecast and underlying assumptions and notes that its review and commentary thereon was performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals' Standards of Professional Practices No. 99-5 (Trustee's Report on Cash Flow Statement).

General Background Information on the Company

6. Located in Vaughan, Ontario, Daco is primarily a wholesaler (with limited manufacturing activities) of both costume and fashion jewellery. Daco's products are sold through an extensive retail network in Canada, including significant national retail chains, such as Shoppers Drug Mart, Wal-Mart Canada, Rexall, The Bargain Shop, Loblaw Companies Limited and Winners.
7. Daco's primary assets are its inventory and accounts receivable. Although Daco holds bare legal title to the property it operates from located at 401 Vaughan Valley Blvd. (the "**Premises**"), beneficial ownership of the Premises is held by Daco Canada Real Estate Holdings Ltd., a related party.

8. As described in the affidavit of Matthew Lunetta sworn June 3, 2015 in support of the June 8, 2015 motion (the “**Lunetta Affidavit**”), due to a number of factors, including declining sales over the previous several years, the Company’s financial results have suffered, as shown in the table below:

**Daco Manufacturing Ltd.
Historical Financial Results**

(in 000's)	9 Months Ended	Year Ended	Year Ended
	Mar-15	Jun-14	Jun-13
Sales	4,106	6,245	8,687
Cost of Sales	(2,870)	(4,175)	(6,087)
Gross Profit	1,236	2,070	2,600
General & Admin Expenses	(1,499)	(2,098)	(2,687)
EBITDA	(263)	(28)	(87)

9. As a result of the Company’s declining financial performance and sustained EBITDA losses over the last several years, Daco exhausted its liquidity and the Company elected to file a NOI and to restructure.
10. The Company’s business, affairs, financial performance and position, as well as the causes of its insolvency, are detailed extensively in the Lunetta Affidavit and are, therefore, not repeated herein. The Trustee has reviewed the Lunetta Affidavit and discussed the business and affairs of the Company and the causes of insolvency with Daco’s remaining management personnel and is of the view that the Lunetta Affidavit provides a fair summary thereof.

Objectives of the NOI

11. The primary objectives of the Company’s NOI filing are to: (i) ensure the ongoing operations of the Company; (ii) ensure that Daco has the necessary working capital funds to maximize the ongoing business of the Company for the benefit of its stakeholders; (iii) restructure the Company’s operations; and (iv) identify one or more parties interested in purchasing Daco’s business or assets.

The Company’s Creditors

12. A copy of the creditor list included in the NOI filing is attached hereto as **Appendix “B”**.
13. The Trustee has been advised by the Company that Meridian Credit Union Limited (“**Meridian**”), Roynat Inc. (“**Roynat**”) and Daco (USA) Inc. (“**Daco USA**” and together with Meridian and Roynat, the “**Secured Lenders**”) are secured creditors of the Company that are owed approximately \$1.35 million, \$1.5 million and \$2.7 million respectively.

14. The Company has advised the Trustee that, pursuant to various inter-creditor agreements between Daco, Meridian, and Roynat, Meridian has first ranking security and Roynat has second ranking security over all of the assets of the Company (the "**Assets**"). Based on the order of registrations under the *Personal Property Security Act* (Ontario) (the "**PPSA**"), Daco USA has third ranking security over the Assets.
15. The Trustee also understands that Daco has granted charges against title to the Premises in favour of both Roynat (first ranking) and Meridain (second ranking) as additional security for the Company's obligations to each of Roynat and Meridian.
16. In addition to Meridian, Roynat and Daco USA, the Trustee is aware that CBSC Capital Inc. ("**CBSC**") and Counter Intelligence Merchandising Inc. ("**CIMI**") have also registered security interests against Daco under the PPSA. CBSC has two (2) registrations under the PPSA both related to leased equipment and CIMI recently (May 13, 2015) filed a registration against the "other" property of Daco purportedly in respect of a Conditional Sales Agreement. The Trustee understands that counsel to the Company, Bennett Jones LLP, has been in contact with the solicitor for CIMI to obtain further details regarding the legal basis for its PPSA registration.
17. As reflected in Appendix "B", the Company estimates that it has unsecured obligations totalling approximately \$1.0 million (excluding any amounts owing to the Company's former/current employees).

The Company's Activities since the Filing Date

18. Shortly before the NOI Filing Date, in an effort to minimize costs and address liquidity constraints, the Company terminated the majority of its staff. Since the Filing Date, the Company has been operating with a skeleton staff and recalling former employees, as needed, based on operating requirements.
19. The Company's activities since the Filing Date have included:
 - (i) advising its stakeholders, including employees, customers and key suppliers of the NOI filing;
 - (ii) working with the Trustee to prepare the Cash Flow Forecast;
 - (iii) completing a physical count of its precious metals (i.e. gold and silver) jewellery inventory;
 - (iv) changing the locks to the Premises and increasing on-site security to a 24/7 basis;

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- (v) working with the Company's customers to address current order requirements and negotiate supply terms;
- (vi) reporting receipts and disbursements to Meridian, the Company's first ranking secured lender;
- (vii) communicating with the Secured Lenders regarding the Company's restructuring activities and other matters in connection with Daco's NOI proceedings;
- (viii) responding to calls and enquiries from creditors and other stakeholders regarding the Company's NOI; and
- (ix) consulting with the Trustee to develop the Bid Process;

The Trustee's Activities since the Filing Date

20. Since the Filing Date, the Trustee's activities have included, *inter alia*, the following:

- (i) assisting the Company with the preparation of the Cash Flow Forecast, including the review of the underlying assumptions;
- (ii) reviewing the Company's financial position;
- (iii) attending at the Company's premises periodically to meet with its management and employees with respect to the NOI proceedings;
- (iv) implementing procedures for the monitoring the Company's receipts and disbursements and for the ongoing reporting of variances to the Cash Flow Forecast;
- (v) issuing the prescribed notice to Daco's creditors advising of the filing of the Company's NOI, as required under the BIA;
- (vi) establishing a website at www.richter.ca/en/insolvency-cases/d/daco-manufacturing-ltd, where all materials filed with the Official Receiver and the Court in connection with the Company's NOI proceedings are available in electronic format;
- (vii) considering processes to market the Company's business and/or assets for sale and assisting the Company in developing the Bid Process;

- (viii) responding to calls and enquiries from the Company's creditors, including former/current employees, suppliers, and other stakeholders regarding the Company's NOI;
- (ix) assisting with and providing oversight of the Company's physical inventory count;
- (x) corresponding and communicating extensively with the Company and its legal counsel;
- (xi) corresponding and participating in discussions between Daco and each of Meridian, Roynat and Daco USA (and their respective counsel) regarding the Company's NOI proceedings; and
- (xii) preparing this Report.

The Bid Solicitation Process

- 21. The Trustee notes that, to date, no active marketing of the Company's assets or operations has been undertaken. The Trustee also notes that, to date, it has not received any serious expressions of interest to invest in or acquire the Company and, to the knowledge of the Trustee, neither has the Company.
- 22. Given the Company's limited liquidity, the Company, in consultation with the Trustee, developed the Bid Process as a means of testing the market, gauging interest in the Company and/or its assets, and determining whether a transaction that would result in greater than liquidation value is available.
- 23. The purpose of the Bid Process is to identify one or more purchasers for the Company's business and/or assets. In order to provide third parties with an opportunity to bid on the Company's assets, the Trustee proposes to aggressively market the Company's assets to third parties for a period of approximately 30 days.
- 24. The key aspects of the Bid Process are as follows:
 - (i) as soon as practical, a teaser document will be sent to a list of potential interested parties (the "**Interested Parties**") by the Trustee, which list has been developed by the Trustee and the Company;
 - (ii) Interested Parties will be required to sign a Confidentiality Agreement prior to obtaining information to assist with their evaluation of the Company and its assets;
 - (iii) Interested Parties that wish to view and inspect the Company's jewellery inventory and other assets will be required to schedule an appointment with the Trustee and/or Company;

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- (iv) Interested Parties will be required to submit binding offers (the “Offers”) to the Trustee by 12pm EST on July 9, 2015 (the “Bid Deadline”). The Trustee will provide Interested Parties with a template asset purchase agreement (the “APA”), which will form the basis of all offers to be submitted to the Trustee;
 - (v) the acceptability of any Offers received is to be determined by the Trustee, in consultation with the Company and, subject to any confidentiality restrictions considered appropriate by the Trustee, the Secured Lenders;
 - (vi) if no Offers have been received by the Bid Deadline, the Trustee, in consultation with the Company and the Secured Lenders, will reconsider the sales process and determine whether it should be terminated, and the Court will be advised accordingly;
 - (vii) if an Offer is acceptable to both the Trustee and Company (the “Recommended Offer”), the Recommended Offer will then be submitted for approval by the Secured Lenders and, ultimately, this Court for final approval, with the closing of the sale to occur as soon as possible after all approvals are received; and
 - (viii) the Bid Process contemplates that the Trustee is not required to accept the highest, best or any Offer.
25. The Trustee notes that the proposed Bid Process time-frame is condensed. However, with full cooperation of the Company during the proposed process period, particularly in respect of the provision of information to prospective purchasers, the Trustee believes that the deadlines proposed in the Bid Process are reasonable in the circumstances. The Trustee will report back to this Court if facts or circumstances require the Company or the Trustee to re-evaluate the time periods or the Bid Process based on facts or circumstances at that time.

The Company’s Cash Flows for the Period from May 25, 2015 to August 21, 2015

26. Daco, with the assistance of the Trustee, prepared a cash flow forecast of its receipts and disbursements for the period May 25, 2015 to August 21, 2015. The Cash Flow Forecast was filed with the Office of the Superintendent of Bankruptcy on May 18, 2015. A copy of the Cash Flow Forecast and related assumptions is attached hereto as **Appendix “C”**. The Trustee has reviewed the assumptions supporting the Cash Flow Forecast and believes the assumptions to be reasonable.

27. As shown in the Cash Flow Forecast, it is estimated that for the period ending August 21, 2015, the Company will require additional financial support in the amount of approximately \$470,000.
28. The Trustee understands that, as at the date of this Report, Daco is in discussions with the Secured Lenders regarding the Company's intention to utilize the proposed melt down value of certain of its "non-program" precious metals inventory (i.e. gold and silver jewellery not currently part of an ongoing supply program with key customers) to provide the stability and cash flow necessary to continue the Company's operations during these proceedings.
29. The Trustee is of the view that the Company is operating in a manner consistent with the Cash Flow Forecast and there have been no material adverse changes to the Company's operations since the Filing Date.

The Administration Charge

30. The proposed Order provides for a charge in the maximum amount of \$150,000 charging the assets of the Company to secure the fees and disbursements incurred in connection with services rendered to Daco both before and after the NOI Filing Date by the following entities: the Trustee, the Trustee's legal counsel and legal counsel to the Company (the "**Administration Charge**").
31. The quantum of the Administration Charge sought by the Company was determined in consultation with the Trustee. The creation of the Administration Charge is typical in similar proceedings as is the proposed priority of the Administration Charge as set out in the form of Order filed with the Court.

The Company's Request for an Extension

32. The Company is seeking an Extension to July 17, 2015.
33. The Trustee supports the Company's request for an Extension for the following reasons:
 - (i) the Company and its management are acting in good faith and with due diligence in taking steps to facilitate a sale or refinancing of its operations;
 - (ii) the Company has advised that it intends to melt down certain of its "non program" precious metals inventory to generate sufficient cash flow to fund its restructuring activities, including these NOI proceedings;

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- (iii) taking into consideration the expected proceeds from the melt down of certain of the Company's non-program precious metals inventory, the Cash Flow Forecast indicates that Daco will have sufficient liquidity to continue to funds operations during the period to July 17, 2015;
 - (iv) it is the Trustee's view that the Extension will not prejudice or adversely affect any group of creditors;
 - (v) it will afford the Company further time to assess its options going forward as part of presenting a potentially viable proposal to creditors;
 - (vi) the Company requires additional time to restructure its affairs or establish whether there is any interest in acquiring the Company and/or its assets;
 - (vii) the Extension will preserve the going concern value of Daco, whereas a wind-down of the operations and an immediate liquidation of the assets would likely result in (a) substantial diminution in realizable value for all creditors, and (b) an interruption of supply for the Company's customers; and
 - (viii) a wind-down and liquidation of the Company would eliminate a number of high-quality, skilled jobs which may be preserved if a successful sale or restructuring is completed.
34. While it is too early to say whether a viable proposal will be presented by the Company to its creditors, in the Trustee's view, the Company's request for the Extension is appropriate in the circumstances, as the current extension request more properly reflects the timeframe by which the Trustee will be able to provide this Court with a meaningful update on the Company's restructuring efforts.
35. The Trustee will continue to monitor the developments of any potential sale transaction(s) in respect of the assets of the Company and will advise the Court accordingly in accordance with its mandate.

Conclusion and Recommendation

36. The Trustee is of the view that the relief requested by the Company, including the Extension, is necessary, commercially reasonable and justified. The Trustee is also of the view that granting the relief requested will provide the Company with the best opportunity to undertake a going concern sale or other restructuring thereby preserving value for the benefit of the Daco's stakeholders.

All of which is respectfully submitted this 3rd day of June, 2015.

Richter Advisory Group Inc.
in its capacity as Proposal Trustee of
Daco Manufacturing Ltd.

Per:

A handwritten signature in black ink, appearing to read 'Adam Sherman', written in a cursive style.

Adam Sherman, MBA, CIRP

This is **Appendix "A"** to the
First Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.
dated June 3, 2015



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of Ontario
Division No. 09 - Toronto
Court No. 31-1995891
Estate No. 31-1995891

In the Matter of the Notice of Intention to make a
proposal of:

Daco Manufacturing Ltd
Insolvent Person

**RICHTER ADVISORY GROUP INC / RICHTER GROUPE
CONSEI**
Trustee

Date of the Notice of Intention: May 19, 2015

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act*.

Pursuant to subsection 69(1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: May 20, 2015, 08:35

E-File/Dépôt Electronique

Official Receiver

25 St. Clair Avenue East, 6th floor, Toronto, Ontario, Canada, M4T1M2, (877)376-9902

Canada

This is **Appendix “B”** to the
First Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.
dated June 3, 2015

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
A&H MANUFACTURING *	P.O. BOX 19720 1 CARDING LANE JOHNSTON RI 02919-0720 USA	A&HUSA0001	23,365.26
ABELL PEST CONTROL INC	107-200 TIFFIELD ROAD SCARBOROUGH ON M1V 5J1		335.13
ACPL EXPORTS PVT. LTD *	PHASE - II X-33 OKHLA INDUSTRIAL AREA NEW DELHI 110020 INDIA	ACPL00001	82,132.11
BELFRY CO. LTD *	THAWEEWATTANA-KANCHANAPISEK RD., 9/28 MOO2, BANGKOK 10170 THAILAND	BELF00001	970.10
BEST JEWELRY HOLDING LTD.COMPANY(QINGDAO) *	CHENGYANG DISTRICT XIWANGTUAN, CHENGYANG DIST. QINGDAO - 266109 CHINA	BESTJEWELRY0001	1,755.00
C.S FASHION (QINGDAO) *	CHENGYUAND DIST. JINGKOU INDUSTRIAL PARK CHENGYANG DIST. QINGDAO - CHINA	CSFASHION00001	1,245.00
CASEWARE IDEA INC.	2ND FLOOR 469 KING STREET W. TORONTO ON M5V 1K4		1,130.00
CHECKPOINT SYSTEMS CANADA ULC	C/O LOCKBOX 916060 PO BOX 4090 STN A TORONTO ON M5W 0E9		5,514.00
COUNTER INTELLIGENCE MERCHANDISING	1-333 NORTH RIVERMEDE ROAD CONCORD ON L4K 3N7		185,887.26
CREATIVE GOLD II INC *	5TH FLOOR 1425 37TH STREET BROOKLYN NY 11218 USA	CREAGOLD001	4,623.79
D.Y.JEWELRY CO., LTD (QINGDAO) *	NO 778 XINGYANG ROAD ROOM 670, CENTURY HOUSE CHENGYAND DIST. QINGDAO - 266108 CHINA	DYJEWELRY00001	3,855.50
DACO (CHINA) *	DONG LIU TIN-INDUSTRIAL GARDEN LIUTING-JIEDAO, CHENGYANG-QINGDAO - CHINA	DACOCINA001	6,448.14
DAMA INC. *	25 OAKDALE AVENUE JOHNSTON RI 02919 USA	DAMA01404	7,505.90
DHL EXPRESS (DUTY)	18 PARKSHORE DRIVE BRAMPTON ON L6T 5M1		9,937.73
DHL EXPRESS(CANADA), LTD.	18 PARKSHORE DRIVE BRAMPTON ON L6T 5M1		4,742.97
EASYPACK CORP.	60 MCPHERSON ST MARKHAM ON L3R 3V6		1,577.11

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
EH ASHLEY & COMPANY INC *	1 WHITE SQUADRON RD PO BOX 15067 RIVERSIDE RI 02915-0067 USA	EHASHLEY_US	17,889.29
ENGINEERED PLASTIC DESIGNS INC.	154 MILVAN DRIVE TORONTO ON M9L 1Z9		30,694.47
EUROPEAN DESIGN	510-21 DUNDAS SQUARE TORONTO ON M5B 1B7		272.39
EVERSHINY JEWELRY CREATION CO LTD *	AMPHUR SAMPRAN 13/20 MOO 12 THAMBOL LAIKING NAKORNPATHOM 73210 THAILAND	EVERSHINY00001	4,115.00
F & F TRADING STONE	68 COLVILLE RD. TORONTO ON M6M 2Y4		585.90
FEDERAL EXPRESS (DUTY)	5985 EXPLORER DRIVE MISSISSAUGA ON L4W 5K6		16,169.21
FEDERAL EXPRESS *	5985 EXPLORER DRIVE MISSISSAUGA ON L4W 5K6		919.47
G AND S **	VIA P. CALAMANDREI 101/11 AREZZO 52100 ITALY		57,233.33
GRAND&TOY LIMITED	BOX 5500 DON MILLS ON M3C 3L5		683.00
GROUNDPROS LANDSCAPE MANAGEMENT	6600-A KING VAUGHAN RD. KLEINGBURG ON L0J 1C0		4,239.76
HANWOOL JEWELRY CO., LIMITED(QINGDAO) *	LIGEZHUANG TOWN DAGUHE INDUSTRIAL PARK JIAOZHOU CITY, QINGDAO - 266316 CHINA	HANWOOL0001	13,639.84
HONG DE ER CRAFTS CO. LTD (QINGDAO) *	CHENGYAND SHIJIAPOZI VILLAGE, XIAZHUANG ST., CHENGYANG DIST. QUINGDAO - 266107 CHINA	HONGDE00001	496.00
JEWELRY PRINCESS CO., LTD. *	THUNG MAHAMEK SATHORN 653/11 NARATHIWAT RATCHANAKARIN RD. BANGKOK - 10120 THAILANDE	SEVE01676	1,898.08
JON FASHION ACCESSORIES CO.,LIMITED *	LIGEZHUANG TOWN NO 65 DAGUHE STREET JIAOZHAO -- CHINA	JONFASHION00001	17,051.16
JTS INC *	131 WEST 35TH STREET, 11TH FLOOR NEW YORK NY 10001 USA	JTSINC0001	4,811.87
JUST I.T. SUPPLY INC.	860 AUDLEY ROAD SOUTH AJAX ON L1Z 1M4		458.16

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
LEACHGARNER *	PO BOX 358 49 PEARL STREET ATTLEBORO MA 02703 USA	HALL01303	4,730.61
LEE'S MFG *	160 NIANTIC AVENUE PROVIDENCE RI 02907 USA	LEE'01377	7,279.97
MARILENA JEWELLERY IMPORTLTD.	10-3683 EAST HASTINGS ST. VANCOUVER BC V5K 4Z7		78,072.16
MAYCARD PACKAGING CO., LTD *	BALIYI-INDUSTRIAL GARDEN, JIMO, QINGDAO -- CHINA	MAYCARD0001	3,330.32
MEGA PRODUCTS INC. *	38 WEST 32ND STREET, ROOM 1506 NEW YORK NY 10001 USA	MEGA01012	12,563.00
MERIDIAN CREDIT UNION LIMITED	ATTN: DOUG ADAMS, COMM.BUS.CENTRE 200-797 MILNER AVENUE TORONTO ON M1B 3C3		1,500,000.00
NOVELTY DESIGN INT'L LIMITED *	XIACANG, BEIYUAN INDUSTRIAL DISTRICT BUILDING 23, SECTION C, YIWU ZHEJIANG PROVINCE - 322000 CHINA	NOVELTY00001	12,777.59
NOW COMPUTER SOLUTIONS INC.	1830 FOLKWAY DRIVE MISSISSAUGA ON L4H 3B5		2,576.40
OMEGA NETWORK SOLUTIONS	105-85 SCARSDALE RD TORONTO ON M3B 2R2		386.48
ORO18-DIV OF ORO AFRICA (PTY) LTD *	170 BUITENGRACHT ST CAPE TOWN, 8001 80010 SOUTH AFRICA	ORO180001	16,298.23
PACKPRO SYSTEMS INC.	10 PAISLEY LANE STOUFFVILLE ON L4A 7X4		4,915.57
PANYU DIANA JEWELRY COMPANY LIMITED *	XIAOPING INDUSTRIAL ZONE, 2ND FL.,THE SOUTHERN COMPREHENSIVE BLDG GUANGZHOU CITY - 511400 CHINA	DIANA00001	32,543.40
PATROLMAN SECURITY SERVICES INC	205-680 REXDALE BLVD. ETOBICOKE ON M9W 0B5		7,876.10
PRIORITY LABEL PROD. LTD.	UNIT 41 & 42 151 NASHDENE ROAD SCARBOROUGH ON M1V 4C2		5,336.19
PUROLATOR COURIER LIMITED	31 ADELAIDE STREET EAST TORONTO ON M5C 3E2		24,529.37
RG FLAIR CO. *	199 S. FEHR WAY BAY SHORE NY 11706 USA	RG F0985	14,726.62
RONDO CO. LTD *	2ND FLOOR, BEIYUAN NO.28, BACK SIDE OF JINGSHAN ROAD YIWU, 322000 ZHEJIANG	RONDO0001	44,302.91

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
ROY TURK IND.	106 VULCAN STREET ETOBICOKE ON M9W 1L2		841.86
ROYNAT INC.	ATTN: GAURAV CHOPRA 1000-5160 YONGE STREET TORONTO ON M2N 6L9		1,500,000.00
SCATRAGLI, S.R.L.**	VIA LEOPOLDO DI TOSCANA, 15,ALBERORO AREZZO 52048 ITALY		3,386.39
SJ ART&CRAFTS CO., LTD(QINGDAO) *	CHENGYANG TOWN XIGUOZHUANG VILLAGE, QINGDAO - 266109 CHINA	BOBJEWEL0001	71,524.26
STERLING ORNAMENTS PVT LTD *	NOIDA 201 305 PLOT NO 36 & JC-19, N.S.E.Z NOIDA, UTTAR PRADESH 201305 INDIA	STERLING00001	16,524.00
T.A. MODE	UNIT 1D 20 STEELCASE RD W MARKHAM ON L3R 1B2		311.20
TAKHOI TRADING *	AUSTIN PLAZA ROOM 1605-1606, 83 AUSTIN ROAD KOWLOON - HONG KONG	TAKH01528	7,112.50
TIANJING RONGSHIJI IMPORT & EXPORT CO. LTD., *	WUQING DEVELOPMENT AREA BUILDING B, NO.28, QUANXING ROAD TIANJIN 301700 CHINA	TIANJING00001	1,543.00
TUCHENG JEWELRY CO. LTD (QINGDAO) *	QIUJIA INDUSTRIAL ZONE, JIMO, #17, YOUHE 2ND ROAD JIMO, QINGDAO - 266200 CHINA	TUCHENGJLRY0001	382.00
TYCO INTEGRATED FIRE&SECURITY CANADA, INC.	40 SHEPPARD AVE WEST TORONTO ON M2N 6K9		1,412.30
UPS (TORONTO)	P.O. BOX 4900, STATION A TORONTO ON M5W 0A7		255.58
VC JEWELLERY-1867284 ONTARIO INC.	38 BELVIA ROAD ETOBICOKE ON M8W 3R3		572.91
W & M WIRE & METAL PRODUCTS LTD	2703 SLOUGH STREET MISSISSAUGA ON L4T 1G2		5,129.07
WOORIM JEWELRY CO.,LTD *	CHENGYANGZHEN, DABEIQU XICUN, QUINGDAO, SHANDONG - CHINA	WOOR0001	2,332.00
XIANGYUAN (QINGDAO) JEWELRY *	ZHUJIANG 2RD, CHENGNAN INDUSTRIAL COMPLEX, QINGDAO CITY, QINGDAO - CHINA	FRECRAFT0001	12,303.96

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
ZED JEWELERS INC.	190 ROCKLAND STREET MONTREAL ON H3P 2W5		838.93
ZZEUROEXCH 1,3725			22,580.85
ZZUSEXCH 1,2010			91,185.97
Total			4,022,663.63



This is **Appendix “C”** to the
First Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.
dated June 3, 2015

**Duca Manufacturing Ltd.
Statement of Projected Cash Flow**

Week Ending (in SCAI)	25-May	1-Jun	12-Jun	19-Jun	26-Jun	3-Jul	10-Jul	17-Jul	24-Jul	31-Jul	7-Aug	14-Aug	21-Aug	Total
Receipts														
Collections from pre-filing A/R	104,834	-	41,743	-	-	33,130	-	20,104	-	-	-	-	-	199,811
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts	104,834	-	41,743	-	-	33,130	-	20,104	-	-	-	-	-	199,811
Disbursements														
Payroll & Benefits	16,078	26,837	5,040	5,040	5,040	7,040	5,040	5,040	6,040	6,040	7,040	5,040	17,147	114,414
Utilities	-	4,600	-	-	-	4,600	-	-	-	-	4,600	-	-	13,800
Property Taxes	13,308	-	-	-	-	-	-	-	-	-	-	-	-	13,308
Insurance	55,000	-	-	-	-	-	-	-	-	-	-	-	-	55,000
SCSA	-	9,661	750	3,000	-	8,861	750	3,000	-	3,000	7,611	3,000	-	40,833
Professional Fees	-	65,000	42,500	25,000	22,500	35,000	32,500	37,500	12,500	25,000	12,500	25,000	12,500	397,500
HST	5,000	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	65,000
Contingency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	89,394	101,298	57,290	36,040	32,540	61,561	41,290	50,540	22,540	36,040	38,751	30,040	34,647	659,855
Net Cash Flow	15,500	(131,299)	(11,547)	(28,040)	(32,540)	(28,372)	(41,290)	(20,437)	(22,540)	(30,040)	(28,751)	(28,040)	(34,647)	(470,044)

This statement of projected cash flow has been prepared pursuant to the requirements of paragraphs 50.4(2) and 50(6)(a) of the *Bankruptcy and Insolvency Act* and solely for that purpose.

Dated at Woodbridge, Ontario, this 28th day of May, 2015.


Duca Manufacturing Ltd.

Matthew Lincette
Name of Signing Officer

This statement of projected cash flow of Duca Manufacturing Ltd. is prepared in accordance with Section 50.4(2) and 50(6)(a) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the attached Trustee's Report of the Cash Flow Statement dated the 22nd day of May, 2015 and the Report on Cash Flow Statement by the Person Making the Proposal dated the 22nd day of May, 2015.

Reicher Advisory Group Inc., Trustee

Per:


Adam Sherman

District of: Ontario
 Division No.: 09-Toronto
 Court No.: 31-1995891
 Estate No.: 31-1995891

FORM 29
 Trustee's Report on Cash-Flow Statement
 (Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of
 Daco Manufacturing Ltd.
 of the City of Vaughan
 in the Province of Ontario

The attached statement of projected cash flow of Daco Manufacturing Ltd., as of the 19th day of May 2015, consisting of the period from May 25, 2015 to August 21, 2015, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Toronto in the Province of Ontario, this 28th day May, 2015.

Richter Advisory Group Inc.
 Trustee *in re* the proposal of
 Daco Manufacturing Ltd.



Adam Sherman, MBA, CIRP
 181 Bay Street, 33rd Floor
 Toronto, ON M5J 2T3
 Phone: (416) 488-2305 Fax: (416) 488-3765

District of: Ontario
 Division No.: 09-Toronto
 Court No.: 31-1995891
 Estate No.: 31-1995891

FORM 29 – ATTACHMENT
 Trustee's Report on Cash-Flow Statement
 (Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of
 Daco Manufacturing Ltd.
 of the City of Vaughan
 in the Province of Ontario

Purpose:

Daco Manufacturing Ltd. filed a Notice of Intention to Make a Proposal on May 19, 2015. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Daco Manufacturing Ltd. (the "Company"), for the period May 25, 2015 to August 21, 2015, relating to the filing of a Notice of Intention to Make a Proposal on May 19, 2015.

This Statement of Projected Cash Flow has been prepared by management on May 19, 2015, based on available financial information at that date in accordance with Section 50.4(2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period May 25, 2015 to August 21, 2015, considering the economic conditions that are considered the most probable by management.

As the cash flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Assumptions:

(a) Projected Cash Receipts

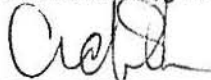
- the projected cash receipts have been conservatively estimated by management, based upon the collection experience of the Company.

(b) Projected Cash Disbursements

- the projected cash disbursements have been estimated based upon historical data adjusted to reflect the current level of activity and best estimates of the Company; and
- the Company is currently having discussions with certain of its secured lenders regarding the funding of the Company's projected cash shortfall.

Dated at the City of Toronto in the Province of Ontario, this 28th day May, 2015.

Richter Advisory Group Inc.
 Trustee *in re* the proposal of
 Daco Manufacturing Ltd.



Adam Sherman, MBA, CIRP
 181 Bay Street, 33rd Floor
 Toronto, ON M5J 2T3
 Phone: (416) 488-2305 Fax: (416) 488-3765

District of: Ontario
Division No.: 09-Toronto
Court No.: 31-1995891
Estate No.: 31-1995891

- FORM 30 -

Report on Cash-Flow Statement by the Person Making the Proposal
(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of
Daco Manufacturing Ltd.
of the City of Vaughan
in the Province of Ontario

The management of Daco Manufacturing Ltd. has developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 19th day of May 2015 consisting of the period May 25, 2015 to August 21, 2015.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

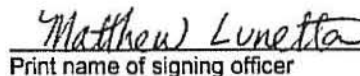
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Vaughan in the Province of Ontario, this 28th day of May 2015.



Daco Manufacturing Ltd.
Debtor



Print name of signing officer

District of: Ontario
 Division No.: 09-Toronto
 Court No.: 31-1995891
 Estate No.: 31-1995891

- FORM 30 - Attachment
 Report on Cash-Flow Statement by the Person Making the Proposal
 (Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of
 Daco Manufacturing Ltd.
 of the City of Vaughan
 in the Province of Ontario

Purpose:

Daco Manufacturing Ltd. filed a Notice of Intention to Make a Proposal on May 19, 2015. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Daco Manufacturing Ltd. (the "Company"), for the period May 25, 2015 to August 21, 2015, relating to the filing of a Notice of Intention to Make a Proposal on May 19, 2015.

This Statement of Projected Cash Flow has been prepared by management on May 19, 2015, based on available financial information at that date in accordance with Section 50.4(2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period May 25, 2015 to August 21, 2015, considering the economic conditions that are considered the most probable by management.

As the cash flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Assumptions:

- (a) Projected Cash Receipts
- the projected cash receipts have been conservatively estimated by management, based upon the collection experience of the Company.
- (b) Projected Cash Disbursements
- the projected cash disbursements have been estimated based upon historical data adjusted to reflect the current level of activity and best estimates of the Company; and
 - the Company is currently having discussions with certain of its secured lenders regarding the funding of the Company's projected cash shortfall.

Dated at the City of Vaughan in the Province of Ontario, this 28th day of May, 2015.



Daco Manufacturing Ltd.
 Debtor

Matthew Linetta
 Print name of signing officer

Court File No.: 31-1995891
Estate No.: 31-1995891

IN THE MATTER OF *THE BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION OF DACO MANUFACTURING LTD. OF THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

(PROCEEDING COMMENCED AT TORONTO)

**FIRST REPORT OF RICHTER ADVISORY GROUP
INC., IN ITS CAPACITY AS PROPOSAL TRUSTEE
OF DACO MANUFACTURING LTD.**

DATED JUNE 3, 2015

GOWLING LAFLEUR HENDERSON LLP
Barristers and Solicitors
1 First Canadian Place
100 King Street West, Suite 1600
Toronto, Ontario, M5X 1G5

Clifton P. Prophet
LSUC No.: 34845K
Telephone: (416) 862-3509
Facsimile: (416) 862-7661

**Solicitors for Richter Advisory Group Inc., in its capacity
as Proposal Trustee of Daco Manufacturing Ltd.**

This is **Appendix “C”** to the
Second Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.,
dated July 14, 2015

Inn Aversa
Direct: 416.865.3082
Email: iaversa@airdberlis.com

Execution Copy

June 5, 2015

Daco Manufacturing Ltd.
401 Vaughan Valley Blvd.
Vaughan, ON L4H 3B5

Attention: Matthew Lunetta

Daco Canada Real Estate Holdings Ltd.
401 Vaughan Valley Blvd.
Vaughan, ON L4H 3B5

Attention: Matthew Lunetta

Daco (USA) Inc.
401 Vaughan Valley Blvd.
Vaughan, ON L4H 3B5

Attention: Matthew Lunetta

Roynat Inc.
5160 Yonge Street, Suite 1000
Toronto, ON M2N 2L9

Attention: Gaurav Chopra

Richter Advisory Group Inc.,
in its capacity as the Proposal Trustee of Daco Manufacturing Ltd.
181 Bay Street, Suite 3320
Toronto, ON M5J 2T3

Attention: Adam Sherman

Dear Sirs:

**Re: Credit facilities provided by Meridian Credit Union Limited ("Meridian") to
Daco Manufacturing Ltd. (the "Debtor")**

We are the lawyers for Meridian in connection with its lending arrangements with the Debtor. The Debtor is indebted to Meridian with respect to certain credit facilities granted by Meridian (the "Meridian Credit Facilities") pursuant to and under the terms of a credit agreement dated July 9, 2014 and accepted July 30, 2014, as amended by an amending agreement dated December 30, 2014 and accepted January 7, 2015

(collectively, as further amended, revised, restated or supplemented from time to time, the "**Meridian Credit Agreement**").

As security for all the obligations, liabilities and indebtedness of the Debtor, including, without limitation, the Debtor's obligations pursuant to the Meridian Credit Agreement, Meridian was provided with certain security, including, without limitation, the following security granted by the Debtor and certain parties related to the Debtor:

- a) a general security agreement dated February 18, 2011 granted by the Debtor;
- b) a second collateral charge/mortgage in the principal amount of \$2,500,000 (the "**Meridian Charge**") in respect of the real property municipally known as 401 Vaughan Valley Blvd., Vaughan, Ontario (the "**Vaughan Premises**"), bare legal title to which is held by the Debtor (beneficial ownership of which is in the name of Daco Real Estate Holdings Ltd. ("**Daco Real Estate**"));
- c) a Guarantee and Postponement of Claim, dated December 12, 2012, given by Daco Real Estate; and
- d) a Guarantee and Postponement of Claim, dated June 26, 2014, given by Daco (USA), Inc. ("**Daco USA**"), supported by a General Security Agreement, dated February 201, given by Daco USA.

(collectively, the "**Meridian Security**").

The Debtor is also indebted to Roynat Inc. ("**Roynat**", and together with Meridian, the "**Senior Lenders**") with respect to certain credit facilities granted by Roynat (the "**Roynat Credit Facilities**", and together with the Meridian Credit Facilities, the "**Senior Lender Credit Facilities**") pursuant to and under the terms of an offer to Finance Agreement dated December 6, 2006 (collectively, as further amended, revised, restated or supplemented from time to time, including by letter agreement dated November 10, 2014, the "**Roynat Credit Agreement**" and, together with the Meridian Credit Agreement, the "**Senior Lender Credit Agreements**").

As security for all the obligations, liabilities and indebtedness of the Debtor, including, without limitation, the Debtor's obligations pursuant to the Roynat Credit Agreement, Roynat was provided with certain security, including, without limitation, the following security granted by the Debtor:

- a) a security agreement dated December 28, 2006 granted by the Debtor;
- b) a first collateral charge/mortgage in the principal amount of \$2,400,000 (the "**Roynat Charge**") in respect of the Vaughan Premises; and
- c) an assignment of insurance monies agreement, dated December 28, 2006,

(collectively, the "**RoyNat Security**" and, together with the Meridian Security, collectively, the "**Senior Lender Security**").

Pursuant to the order of registrations under the *Personal Property Security Act* (Ontario) and certain inter-creditor agreements amongst the Debtor, Meridian and Roynat, Meridian has first-ranking security, Roynat has second-ranking security and Daco USA has third-ranking security over all the Debtor's present and after-acquired personal property and the proceeds thereof. Roynat has first-ranking security and Meridian has second-ranking security over the Vaughan Premises and any and all fixtures thereto.

The Debtor filed a Notice of Intention to File a Proposal pursuant to subsection 50.4(1) of the *Bankruptcy Insolvency Act* (Canada) (collectively, the "NOI") on May 19, 2015 (the "NOI Date"), and Richter Advisory Group Inc. was named proposal trustee (in such capacity, the "Proposal Trustee") in connection with the Debtor's proceedings (the "Proposal Proceedings").

In consideration of the Senior Lenders continuing to support the Debtor throughout the period from the NOI Date to July 17, 2015 (collectively, the "Initial Period"), and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), it is agreed as follows:

1. each of the parties hereto acknowledges, confirms and agrees that the facts set out in each of the preceding paragraphs are true and accurate;
2. except as specifically amended herein, the provisions of the Senior Lender Credit Agreements and any other document, instrument or agreement executed and delivered to the Senior Lenders in connection therewith, shall remain in full force and effect;
3. the Debtor acknowledges, confirms and agrees that, since May 22, 2015, the Debtor's maximum borrowing availability under the Meridian Credit Facilities has been capped at \$1,320,000 (the "Meridian Borrowing Limit");
4. the Debtor acknowledges, confirms and agrees that, as at June 2, 2015, the Debtor is indebted to Meridian for, amongst other things, principal and interest under the Meridian Credit Agreement in the sum of \$1,324,059, together with any additional accruing interest thereafter and all costs and recovery expenses (including legal expenses) incurred by Meridian (collectively, the "Meridian Indebtedness");
5. the Debtor acknowledges, confirms and agrees that: (a), as at June 2, 2015, the Debtor is indebted to Roynat for, amongst other things, principal and interest under the Roynat Credit Agreement in the sum of \$1,552,212.83, together with any additional accruing interest thereafter and all costs and recovery expenses (including legal expenses) incurred by Roynat (collectively, the "Roynat Indebtedness", and together with the Meridian Indebtedness, the "Senior Lender Indebtedness") and (b) the Roynat Credit Agreement provides for a prepayment penalty of six months' interest on the principal amount repaid, on which Roynat continues to rely.

6. the Debtor acknowledges, confirms and agrees that it shall pay a \$15,000 fee to Meridian (the "**Initial Period Support Fee**"), which shall be added to the Meridian Indebtedness and repaid as part of final repayment of the Meridian Indebtedness;
7. each of the Senior Lenders authorizes the Debtor to, and the Debtor agrees that it shall, as soon as reasonably possible, but in any event, by no later than June 26, 2015, smelt substantially all of its "non-programme" gold inventory (the "**NPG Inventory**") and sell same, subject to the following conditions:
 - a. 65% of the net proceeds of the sale of the NPG Inventory shall be paid to the Proposal Trustee for future distribution to Meridian, and any such amounts distributed to Meridian shall be applied immediately upon such distribution: (i) against the Meridian Indebtedness, and (ii) as a permanent reduction to the Meridian Borrowing Limit, and
 - b. 35% of the net proceeds of the sale of the NPG Inventory shall be: (i) available to the Debtor in its NOI proceedings, and (ii) applied immediately as a permanent reduction to the Meridian Borrowing Limit;
8. each of the Senior Lenders authorizes the Debtor to, and the Debtor agrees that it shall, as soon as reasonably possible, but in any event, by no later than June 26, 2015, smelt up to \$150,000 of the smelting value of its "non-programme" silver inventory (the "**NPS Inventory**") and sell same, subject to the following conditions:
 - a. 65% of the net proceeds of the sale of the NPS Inventory shall be paid to the Proposal Trustee for future distribution to Meridian, and any such amounts distributed to Meridian shall be applied immediately upon such distribution: (i) against the Meridian Indebtedness, and (ii) as a permanent reduction to the Meridian Borrowing Limit, and
 - b. 35% of the net proceeds of the sale of the NPS Inventory shall be: (i) available to the Debtor in its NOI proceedings, and (ii) applied immediately as a permanent reduction to the Meridian Borrowing Limit;
9. the Debtor acknowledges, confirms and agrees that it shall not smelt more than \$150,000 of smelting value of the NPS Inventory during the Initial Period;
10. each of the Senior Lenders authorizes the Debtor to, and the Debtor agrees that it may, during the Initial Period (including, without limitation, and for greater certainty, dates prior to the date hereof that fall within the Initial Period), sell some of or all its "programme" inventory (the "**Programme Inventory**") to certain of its existing customers, including, without limitation, Shoppers Drug Mart, Rexall and/or Walmart, on the condition that the Debtor consult with both of the Senior Lenders ahead of any such sale of Programme Inventory and disclose the sale terms thereof, subject to the following further conditions:

- a. 50% of the net proceeds of the sale of the Programme Inventory shall be paid to the Proposal Trustee for future distribution to Meridian, and any such amounts distributed to Meridian shall be applied immediately upon such distribution: (i) against the Meridian Indebtedness, and (ii) as a permanent reduction to the Meridian Borrowing Limit, and
 - b. 50% of the net proceeds of the sale of the Programme Inventory shall be: (i) available to the Debtor in its NOI proceedings, and (ii) applied immediately as a permanent reduction to the Meridian Borrowing Limit;
11. the Debtor acknowledges, confirms and agrees that 100% of any and all accounts receivables (the "**Receivables**") collected after the date of this letter but during the Initial Period shall be subject to the following conditions
- a. 50% of the Receivables shall be paid to the Proposal Trustee for future distribution to Meridian, and any such amounts distributed to Meridian shall be applied immediately upon such distribution: (i) against the Meridian Indebtedness, and (ii) as a permanent reduction to the Meridian Borrowing Limit, and
 - b. 50% of the Receivables shall be: (i) available to the Debtor in its NOI proceedings, and (ii) applied immediately as a permanent reduction to the Meridian Borrowing Limit;
12. each of the Debtor and HoldCo acknowledges, confirms and agrees that they shall collectively cause the Vaughan Premises to be listed within three weeks from the date hereof and consult with both the Lenders regarding:
- a. the choice of listing agent; and
 - b. the terms of the listing agreement with the listing agent;
13. Each of the Debtor, Daco Real Estate, and Daco USA hereby acknowledges, confirms and agrees that the Senior Lender Indebtedness, together with interest accrued and accruing thereon, and fees, costs, expenses and other charges now or hereafter properly payable by the Debtor to the Senior Lenders under the Senior Lender Credit Agreements and any other document, instrument or agreement executed and delivered to the Senior Lenders in connection therewith, is unconditionally owing by the Debtor to the Senior Lenders, without any right of setoff, defence, counterclaim or reduction of any kind, nature or description whatsoever, and the Debtor is estopped from disputing such Senior Lender Indebtedness.
14. Each of the Debtor, Daco Real Estate, and Daco USA hereby acknowledges, confirms and agrees that the Senior Lender Security has not been discharged, waived or varied, that it is binding upon the parties hereto, and that the Senior Lender Security is enforceable in accordance with its written terms until the

obligations of the Debtor to the Senior Lenders have been indefeasibly paid and satisfied in full.

15. the Debtor acknowledges, confirms and agrees that it shall not, without the prior written consent of both the Senior Lenders, make any distribution or payment to any person or entity not dealing with the Debtor at arm's length (as such term is defined in the *Income Tax Act* (Canada)), except for:
- a. payments of salary at levels not in excess of those now in effect; and
 - b. payments in respect of any supply arrangement with the Debtor arising in the ordinary course of the Debtor's business, which are commercially reasonable and are competitive with payments that would be required to be paid to a comparable supplier acting at arm's length;
16. each of the parties hereto covenants and agrees to make, do, execute and deliver all such further and other acts and assurances or documents as may reasonably be required to implement the intent of this letter agreement;
17. all notices sent pursuant to this letter agreement shall be in writing, and

- (a) if to Meridian, sent to:

Meridian Credit Union Limited
75 Corporate Park Drive
St. Catharines, ON L2S 3W3

Attention: Brian Mocha
Email: brian.mocha@meridancu.ca

with a copy to:

Aird & Berlis LLP
Brookfield Place
181 Bay Street, Suite 1800
Toronto, ON M5J 2T9

Attention: Ian Aversa and Jeremy Nemers
Email: iaversa@airdberlis.com / jnemers@airdberlis.com

- (b) if to Roynat, sent to:

Roynat Inc.
5160 Yonge Street, Suite 1000
Toronto, ON M2N 2L9

Attention: Gaurav Chopra
Email: choprag@roynat.com

with a copy to:

Simpson Wigle LLP
1 Hunter Street East, Suite 200
Hamilton, ON L8N 3W1

Attention: David Jackson
Email: jacksond@simpsonwagle.com

(c) if to the Debtor and/or HoldCo, sent to:

Bennett Jones LLP
3400 One First Canadian Place
Toronto, ON M5X 1A4

Attention: Mark Laugesen
Email: laugesenm@bennetjones.com

(d) if to the Proposal Trustee, sent to:

Richter Advisory Group Inc.,
181 Bay Street, Suite 3320
Toronto, ON M5J 2T3

Attention: Adam Sherman
Email: asherman@richter.ca

with a copy to:

Gowling Lafleur Henderson LLP
1600 One First Canadian Place
Toronto, ON M5X 1G5

Attention: Clifton Prophet
Email: clifton.prophet@gowlings.com

and any notice will be deemed to have been given or made: (i) if delivered in person, immediately upon delivery; (ii) if by email transmission, immediately upon sending if during regular business hours and the next business day if outside regular business hours; (iii) if by nationally recognized overnight courier service with instructions to deliver the next business day, one business day after sending; and (iv) if by registered mail, return receipt requested, five days after mailing;

13. this letter agreement may be executed in one or more counterparts and by facsimile transmission or other electronic transmission, each of which shall be

WSLegal\074383\00001\12028894v4

AIRD & BERLIS LLP
Barristers and Solicitors

deemed to be an original and all of which, when taken together, shall constitute one and the same agreement; and

14. this letter agreement shall be exclusively (without regard to rules or principles relating to conflicts of laws) governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein. Each party hereto irrevocably attorns to the exclusive jurisdiction of the Superior Court of Justice (Commercial List) of the Province of Ontario in the City of Toronto for all matters arising out of or in connection with this letter agreement.

If you are in agreement with the above, please execute this letter agreement as soon as possible and return a copy to the undersigned.

Yours very truly,

AIRD & BERLIS LLP




Ian Aversa
IA/jn

[Signature Page Follows]


ACKNOWLEDGED AND AGREED as of the date first referred to above.

DACO MANUFACTURING LTD.

By: 
Name: Matthew Lunetta
Title: Signing Officer


I have authority to bind the corporation.

DACO CANADA REAL ESTATE HOLDINGS LTD.

By: 
Name: STELLA R. VANDERKAM
Title: CEO

I have authority to bind the corporation.

DACO (USA) INC.

By: 
Name: STELLA R. VANDERKAM
Title: CEO

I have authority to bind the corporation.

ROYNAT INC.

By: _____
Name:
Title:

I have authority to bind the corporation.

ACKNOWLEDGED AND AGREED as of the date first referred to above.

DACO MANUFACTURING LTD.

By: _____

Name:

Title:

I have authority to bind the corporation.

DACO CANADA REAL ESTATE HOLDINGS LTD.

By: _____

Name:

Title:

I have authority to bind the corporation.

DACO (USA) INC.

By: _____

Name:

Title:

I have authority to bind the corporation.

ROYNAT INC.

By: *M. Francis*

Name: *Michelle Francis*


Title: *Director, Risk Management*

I have authority to bind the corporation.

WSI.org/NO74383V00001V2028894v4

AIRD & BERLIS LLP
Barristers and Solicitors

**RICHTER ADVISORY GROUP INC.,
in its capacity as the Proposal Trustee of
Daco Manufacturing Ltd. and not in its
personal capacity**

By: 

Name: Paul van Elk
Title: SUP Richter Advisory Group Inc.

I have authority to bind the corporation.

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AIRD & BERLIS LLP
Barristers and Solicitors

This is **Appendix “D”** to the
Second Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.,
dated July 14, 2015

RICHTER

TRANSACTION OPPORTUNITY: ESTABLISHED FINE AND FASHION JEWELRY WHOLESALER



Background

On May 19, 2015, Daco Manufacturing Ltd. (“Daco” or the “Company”) filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act (Canada)* (“BIA”) and Richter Advisory Group Inc. was named as the trustee under the NOI (the “Trustee”).

The Company is seeking interested parties to acquire the business and/or its assets under a court-supervised sales process (the “Bid Process”). The Trustee has overall supervision of the Bid Process and is assisting the Company with contacting potential interested parties to discuss this transaction opportunity.

Company Overview

With roots dating back to the 1940s, Daco is a designer and wholesaler of moderately-priced fashion and precious metal jewelry including chains, pendants, earrings, charms, bracelets and various accessories. The Company operates from a 27,000 square foot facility in Woodbridge, Ontario, a suburb just north of Toronto and approximately 15 minutes from Toronto Pearson airport.

Daco has the expertise and proven track record in designing and developing customizable product lines and programs for its customers’ private labels, including displays and tailored packaging. The Company markets its products to a customer base that includes department and specialty retailers in North America. The majority of Daco’s precious metal jewelry is sourced in North America, South Africa and India, whereas its fashion lines are largely from China through the Company’s representative office. Additionally, Daco is also engaged in light manufacturing activities at its Woodbridge location.

Through collaboration with its customers, and monitoring fashion trends, Daco’s products are designed for maximum appeal and sell-through.

Investment Highlights

The Company offers potential investors an attractive opportunity due to the following positive attributes:

Continuous Product Innovation

The Company’s primary focus on refreshing its collections has fueled the Company’s growth while maintaining a competitive advantage. Collaborating with its key customers has enabled Daco to maintain a strong market position.

Superior Inventory and Supply Chain Management

High customer satisfaction regarding on time and complete order fulfillment. Rigorous monitoring procedures enable Daco and its customers to maximize sales while carrying optimal levels of inventory.

RICHTER

Expertise in Product Sourcing

The Company has developed strategic business relationships and alliances with vendors throughout Canada and abroad.

Daco maintains an international representative office in China. This allows the Company to outsource production of its goods directly from factories in China, bypassing intermediary agents, leading to lower costs. The Company offers significant advantages to retailers in sourcing, quality assurance and order fulfillment. All of Daco's products are manufactured in InterTech compliant factories with SGS Lab compliance for Lead, Cadmium & Nickel free products.

Long-Standing Customer Relationships

Daco is an established player in this space and has a long history with many major North American retailers. Under its customer agreements, Daco maintains rights to market its products under the retailer's own private label brand names.

Large Selection of Finished Goods Inventory

The Company currently has a significant selection of finished goods inventory, including items related to current programs with Daco's customers. This could allow a potential investor the opportunity to continue supplying key customers on a going concern basis.

Financial Summary

The following chart summarizes the Company's historical financial performance:

<i>(\$ in thousands)</i>	<i>Fiscal Years Ending June 30</i>			<i>9 Months Ending</i>
	2012	2013	2014	<i>March 31</i>
Total Revenue	\$8,137	\$8,688	\$6,245	\$4,106
Gross Margin	3,069	2,579	2,140	1,236
<i>% of Revenue</i>	38%	30%	34%	30%
EBITDA	484	(87)	(28)	(263)

Solicitation Process

The Bid Process contemplates the following general steps to conclude a transaction:

- Interested parties shall be required to execute a non-disclosure agreement ("NDA") and return it to the Trustee in order to gain access to confidential information maintained in a data room.
- Upon execution of the NDA, parties that wish to view and inspect the Company's inventory and other assets will be required to schedule an appointment with the Trustee and/or Company.
- **Parties will be required to submit binding offers to the Trustee by 12pm EST on July 9, 2015.**
- A template asset purchase agreement shall be made available in the data room and will form the basis of all offers to be submitted.
- If an offer is acceptable to both the Company, its secured lenders and the Trustee, such offer will then be submitted to Court for approval, with the closing to occur as soon as possible thereafter.

If you would like to execute an NDA or discuss any specific questions regarding this opportunity, please direct all enquiries to:

Adam Sherman
Vice President
(416) 642-4836
ASherman@Richter.ca

Pritesh Patel
Vice President
(416) 642-9421
PPatel@Richter.ca

This is **Appendix “E”** to the
Second Report of Richter Advisory Group Inc.,
in its capacity as Proposal Trustee of Daco Manufacturing Ltd.,
dated July 14, 2015

Court File No. _____

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


**IN THE MATTER OF THE RECEIVERSHIP OF
DACO MANUFACTURING LTD.**

CONSENT TO ACT AS RECEIVER

Richter Advisory Group Inc. hereby consents to act as receiver pursuant to Section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended of Daco Manufacturing Ltd.

Dated this 14th day of July, 2015.

RICHTER ADVISORY GROUP INC.

By: _____ 

Name: Paul van Eyk
Title: Senior Vice President

Court File No.: 31-1995891
Estate No.: 31-1995891

IN THE MATTER OF *THE BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS AMENDED

**AND IN THE MATTER OF THE NOTICE OF INTENTION OF DACO MANUFACTURING LTD. OF THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO**

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

(PROCEEDING COMMENCED AT TORONTO)**

**SECOND REPORT OF RICHTER ADVISORY GROUP
INC., IN ITS CAPACITY AS PROPOSAL TRUSTEE
OF DACO MANUFACTURING LTD.**

DATED JULY 14, 2015

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