

SUPERIOR COURT OF JUSTICE
Commercial List
Bankruptcy and Insolvency Act

First Interim Report of Receiver
(Subsection 246(2) of the *Bankruptcy and Insolvency Act*)

In the Matter of the Receivership of
HMV Canada Inc.
of the City of Toronto
in the Province of Ontario

The Receiver gives notice and declares that:

1. On January 27, 2017 (the “**Date of Appointment**”), pursuant to an Order (the “**Receivership Order**”) of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”), Richter Advisory Group Inc. (“**Richter**”), was appointed as receiver (the “**Receiver**”) of the assets, undertakings and properties (the “**Property**”) of HMV Canada Inc. (“**HMV**” or the “**Company**”) to exercise the powers and duties set out in the Receivership Order.
2. The Receivership Order was granted pursuant to an application made by HUK 10 Limited (“**HUK10**”), pursuant to security held by HUK10 in the Property of the Company, including a general security agreement, representing a charge over all assets of HMV.
3. Subsequent to the granting of the Receivership Order, the Court issued an order (the “**Approval Order**”) approving the agency agreement entered into among the Company, the Receiver and a contractual joint venture comprised of Gordon Brothers Canada ULC and Merchant Retail Solutions ULC (together, the “**Agent**”) dated January 26, 2017 (the “**Agency Agreement**”), pursuant to which, among other things, the Agent conducted a sale of the Company’s inventory and furniture, fixtures and equipment (the “**Liquidation Sale**”).
4. As at November 30, 2016, the Company’s Property consisted of the following:

Assets	Net Book Value
	(\$000s)
Cash and cash equivalents	\$ 5,913
Accounts receivable	1,303
Inventory	56,553
Prepaid expenses	126
Property, plant, and equipment	4,137
Total	\$ 68,032

Note: The above amounts represent book values of the Company’s assets as detailed in the Company’s books and records and do not necessarily represent the sale or liquidation value of the Property.



5. Pursuant to the Receivership Order, HMV remained in possession and control of the Property, and the day-to-day operation of the Company's business, and the Receiver was not in or deemed to be in possession and control of the Property as at the Date of Appointment, save and except for the Company's treasury assets and any amounts to which the Company is entitled to under the Agency Agreement.
6. The Liquidation Sale was completed on April 15, 2017 upon the Agent vacating the final two HMV retail store locations. On April 28, 2017, with the Liquidation Sale complete and no remaining operations or employees, the remaining two (2) directors of HMV tendered their respective resignations effective immediately. Accordingly, the Receiver expanded its role and exercised its permissive powers granted pursuant to the Receivership Order to conclude, among other things, the Company's obligations with respect to the Agency Agreement.
7. On June 2, 2017, the Agent and the Receiver, on behalf of itself and HMV, signed off on the final reconciliation as required under the Agency Agreement, and the Agent made payment to the Receiver on the final net amounts owing to HMV on the same date.
8. On June 19, 2017, the Court issued an order approving the application for bankruptcy made by HUK10 and appointing Richter as the trustee in bankruptcy (the "Trustee"). On the same day, the Court also granted an order (the "**Distribution Order**") authorizing and directing the Receiver to, among other things, (i) make an interim distribution in the amount of \$31,975,000 to HUK10, or as HUK10 may direct, in respect of its secured claim against HMV, and (ii) transfer the amount of \$50,000 to the Trustee to provide funding for the administration of HMV's bankruptcy proceedings.
9. The Receiver's actions to date include:
 - Monitoring the receipt of proceeds, as well as remittances of proceeds to the Agent, and the payment of expenses by HMV, all pursuant to the Agency Agreement;
 - Working with the Company and the Agent as part of the periodic reconciliations of proceeds and expenses related to the Liquidation Sale pursuant to the Agency Agreement;
 - Working with the Agent to complete the final reconciliation pursuant to the Agency Agreement;
 - Reviewing and responding to demands for repossession of goods received from suppliers pursuant to section 81.1 of the BIA;
 - Pursuing the recovery of any unclaimed HST input tax credits paid during these proceedings and certain security deposits/prepays held by the Company's utility companies and landlords; and
 - Effecting a distribution of the proceeds from the Property to HUK10 pursuant to the Distribution Order.
10. During the period from January 27, 2017 to July 24, 2017, the Receiver had realized approximately \$38.9 million from the proceeds of the Property.
11. As at the date of this report, the Receiver has realized on all of the Company's Property and does not anticipate any substantial realizations going forward, other than the potential recovery of any unclaimed HST input tax credits paid during these proceedings. In the Receiver's view, it has completed its duties as set out in the Appointment Order and continues to work on completing its statutory duties.
12. Attached as Appendix "A" is the Receiver's Statements of Receipts and Disbursements for the period January 27, 2017 to July 24, 2017. As indicated in Appendix "A", the Receiver's cash receipts have exceeded disbursements by approximately \$33.1 million of which approximately \$31.2 million has

been distributed to HUK10 in part satisfaction of the indebtedness owed by the Company, as permitted by the Distribution Order. As at July 24, 2017, a balance of \$1,121,856 was held by the Receiver.

13. The realizations from the sale of the Property will be insufficient to pay, in full, the claims of HUK10. Accordingly, there will be no funds available for distribution to the unsecured creditors.
14. Further interim reports regarding the status of its appointment will be prepared approximately once every 6 months pursuant to subsection 246(2) of the BIA. Creditors who wish to receive a copy of this interim report may request a copy by writing to the Receiver at the following address:

Richter Advisory Group Inc.
Court Appointed Receiver of
HMV Canada Inc.
181 Bay Street, Suite 3320
Toronto, ON M5J 2T3

Attention: Pritesh Patel
Telephone: +1 416 642 9421
Facsimile: +1 416 488 3765

15. Further information regarding the receivership proceedings and materials relating to the proceedings may be obtained from the Receiver's website at www.richter.ca/en/Folder/Insolvency-Cases/H/HMV-Canada-Inc.

Dated at Toronto, Province of Ontario, this 28th day of July, 2017.

Richter Advisory Group Inc.,
in its capacity as Receiver of
HMV Canada Inc.,
and not in its personal capacity

Per:



Pritesh Patel
Vice-President

APPENDIX A

HMV Canada Inc. Statement of Receipts and Disbursements For the period January 27, 2017 to July 24, 2017		
Receipts		Notes
Guaranteed Amount	\$ 24,613,218	1
Company's Sharing Amount	1,419,084	1
Cash on hand at Date of Appointment	11,380,756	2
FF&E Proceeds (net)	550,121	3
Recovery of pre-filing taxes	626,689	4
Recovery of accounts receivable	139,471	5
Interest earned	133,082	
Total Receipts	\$ 38,862,421	
Disbursements		
Payroll and benefits	1,658,506	6,7
Occupancy costs	120,089	7
Other operating costs	33,854	7
Professional fees and disbursements	1,147,170	8
Pre-filing sales taxes	675,664	9
Gift card and loyalty redemptions	1,182,967	10
Sales taxes paid on disbursements	438,636	11
30 Day Goods payments	458,264	12
Bank charges / other fees	416	
Total Disbursements	\$ 5,715,566	
Excess Receipts over Disbursements	\$ 33,146,856	
Repayment to Lenders	31,975,000	13
Transfer to Trustee	50,000	13
Cash on hand	\$ 1,121,856	
Notes:		
1. Pursuant to the Agency Agreement and the Final Reconciliation Agreement.		
2. Represents cash in the Company's bank accounts as at the Date of Appointment.		
3. As per the Final Reconciliation. Amount shown is net of the Agent's FF&E Commissions (\$132k) and related out-of-pocket costs (73k).		
4. Refund from CRA for Non-Resident Taxes paid by HMV in 2007 and 2010.		
5. Recovery of prepaids and accounts receivable outside of the Liquidation Sale.		
6. Includes the Stub Period Wages, wages and benefits for Head Office and HMV Warehouse employees, and benefits for Closing Store employees in excess of the thresholds set forth under the Agency Agreement.		
7. Balances shown represent payments made by HMV or the Receiver to date, net of reimbursements received from the Agent for Expenses incurred during the Liquidation Sale.		
8. Represents the fees and disbursements of the Receiver, Gowling WLG (Canada) LLP, and the Company's counsel, Aird & Berlis LLP.		
9. Unremitted sales taxes (HST, QST and PST) for December 2016 and January 2017 that were paid by HMV after the Date of Appointment.		
10. Represents the reimbursement to the Agent for HMV gift cards and loyalty points redeemed by customers for Merchandise and/or Additional Merchandise during the Liquidation sale.		
11. Consists of sales taxes paid to the Agent in respect of the Agent's Fee, the FF&E Commissions, and the Agent's Sharing Amount pursuant to the Final Reconciliation, as well as disbursements paid by Receiver. This balance excludes sales taxes paid on disbursements by HMV.		
12. Represents the Canadian-dollar equivalent of the aggregate settlement payments made in connection with the Settled 81.1 Claims.		
13. Pursuant to the Distribution Order issued by the Court on June 19, 2017. Additionally, includes the payment of a \$50,000 deposit to the Trustee, in consideration for consenting to act as trustee to the estate of HMV as part of the Company's concurrent bankruptcy proceedings.		