

RICHTER

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**J.S.N. JEWELLERY INC., J.S.N. JEWELLERY UK LIMITED, GMJ CORP.,
2373138 ONTARIO INC., ALWAYS & FOREVER FAMILY COLLECTION
INCORPORATED, AND P.M.R. INC.**

REPORT OF THE PROPOSED RECEIVER

August 8, 2016

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

BETWEEN:

SALUS CAPITAL PARTNERS LLC

Applicant

- and -

**J.S.N. JEWELLERY INC., J.S.N. JEWELLERY UK LIMITED, GMJ CORP., 2373138 ONTARIO INC., ALWAYS
& FOREVER FAMILY COLLECTION INCORPORATED, AND P.M.R. INC.**

Respondents

**APPLICATION UNDER section 243 of the *Bankruptcy and Insolvency Act*,
R.S.C. 1985, c. B-3, as amended, and under section 101 of the
Courts of Justice Act, R.S.O. 1990, c. C.43**

**REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS PROPOSED RECEIVER OF
J.S.N. JEWELLERY INC., J.S.N. JEWELLERY UK LIMITED, GMJ CORP., 2373138 ONTARIO INC., ALWAYS
& FOREVER FAMILY COLLECTION INCORPORATED, AND P.M.R. INC.**

August 8, 2016

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I. INTRODUCTION

1. Richter Advisory Group Inc. ("**Richter**") understands that an application will be made before the Ontario Superior Court of Justice (Commercial List) (the "**Court**") by Salus Capital Partners, LLC as lender and agent for other lenders ("**Salus**" or the "**Lender**") for an order (the "**Receivership Order**"), among other things: (a) appointing Richter as a receiver to exercise the powers and duties set out in the Receivership Order, pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**"), and section 101 of the *Courts of Justice Act* R.S.O. 1990 c. C.43, as amended (the "**Receiver**"), without security, of all the assets, properties and undertakings (the "**Property**") of J.S.N. Jewellery Inc. ("**JSN Jewellery**"), 2373138 Ontario Inc., Always & Forever Family Collection Inc. ("**A&F**" or "**Always and Forever**"), and P.M.R. Inc. ("**PMR**"), (collectively, the "**Canadian Debtors**"), GMJ Corp. ("**GMJ**" or the "**U.S. Debtor**"), and J.S.N. Jewellery UK Ltd. ("**JSN UK**" or the "**UK Debtor**", and together with the Canadian Debtors and the U.S. Debtor, "**JSN**" or the "**Company**"); and (b) approving the Realization Process (hereinafter defined). The Lender is also seeking an order (the "**Approval and Vesting Order**") approving a proposed sale of certain Property of the Company on the terms of an offer to purchase (the "**Offer to Purchase**") from Unique Designs, Inc. (the "**Purchaser**") and directing the Receiver to accept the Offer to Purchase and complete the transaction contemplated therein (the "**Proposed Transaction**").
2. Richter is a licensed trustee within the meaning of section 2 of the BIA and has consented to act as Receiver in these proceedings in the event that this Court grants the relief sought by the Lender. We are writing this report as Proposed Receiver of JSN (the "**Proposed Receiver**").
3. Richter was previously retained by the Lender to assist in providing strategic advice on the Proposed Transaction, including to review the refinancing and sale efforts undertaken by or on behalf of the Company, and the sale or investment solicitation process undertaken in respect of Ben Moss Jewellers Western Canada Ltd. ("**Ben Moss**"), as part of its restructuring proceedings pursuant to the *Companies' Creditors Arrangement Act* (the "**CCA**"), and which process was run by the Court appointed monitor of Ben Moss, Alvarez and Marsal Canada Inc. and A&M Canada Securities ULC (together "**A&M**"). Richter understands that each of these processes was administered in consultation with the Lender's sales agent, Consensus Advisors LLC and Consensus Securities LLC (together "**Consensus**"). Richter has not been involved in the any of the above-referenced sale or investment solicitation efforts. Richter has consulted with the Lender's legal counsel, Aird & Berlis LLP ("**A&B**") and chief restructuring officer for the Company and Ben Moss, Faan Advisors Group Inc. ("**CRO**") with regard to the Proposed Transaction, as discussed below.

II. PURPOSE OF REPORT

4. The purpose of this report (the “**Report**”) is to:
 - a) Provide this Court with certain background information concerning JSN, including the Company’s financial performance, debt structure and financial position;
 - b) Outline certain information relevant to the Proposed Transaction, including:
 - (i) Information regarding the marketing and sales processes undertaken by A&M and Consensus to refinance the Company or effect a sale of the Company’s assets prior the Proposed Receivership;
 - (ii) Information regarding the Proposed Transaction and the Offer to Purchase; and
 - (i) The Proposed Receiver’s views with respect to the Proposed Transaction.
 - c) Detail the post-filing realization strategy that Richter proposes to undertake, if the Court grants the Receivership Order, including an outline of the proposed process for: (i) the marketing and sale of the Company’s remaining loose gemstone (primarily diamonds) and finished goods inventories (the “**Sundry Jewellery Assets**”) not subject to the Proposed Transaction; and (ii) the liquidation of the Company’s fixed assets (collectively, the “**Realization Process**”).

III. QUALIFICATIONS

5. In preparing this Report, Richter has relied upon unaudited financial information, the Company’s books and records, financial information prepared by the Company and discussions with management (including the CRO), A&M and Consensus (collectively, the “**Information**”). Richter has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided, and in consideration of the nature of the evidence provided to this Court, in relation to the relief sought therein. Richter has not, however, audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards (“GAAS”) pursuant to the Canadian Institute of Chartered Accountants Handbook and, as such, Richter expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information. An examination of the Company’s financial forecasts in accordance with the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future-oriented financial information reported on or relied upon in this Report is based on management’s assumptions regarding future events; actual results achieved may vary from forecast and such variations may be material.
6. Unless otherwise noted, all monetary amounts contained in this Report are expressed in Canadian dollars (“**CAD**”).

IV. BACKGROUND

7. Reference is made to the Affidavit of Kyle Shonak, sworn August 3, 2016 (the "**Salus Affidavit**") and the Affidavit of Michael A. O'Hara, sworn August 2, 2016 (the "**Consensus Affidavit**") filed in support of the Lender's application for the Receivership Order and the Approval and Vesting Order, appended as **Exhibits "6"** and **"7"** to the Applicant's Motion Record dated August 4, 2016. While this Report summarizes some of the information set out in the Salus Affidavit and Consensus Affidavit for context, readers are directed to the Salus Affidavit and Consensus Affidavit for a more detailed explanation of the grounds for the Lender's application.

Company Overview & Corporate Structure

8. Joseph Shilon ("**Mr. Shilon**" or the "**Owner**"), a jewellery design specialist, diamond expert and cutter by trade, founded JSN in Toronto in 1985 (an Ontario corporation which is 100% owned by Mr. Shilon). The Company is comprised of two primary businesses; (i) a jewellery wholesaling and manufacturing business with global operations; and (ii) Ben Moss, a jewellery retail business, headquartered in Winnipeg and presently in the process of liquidating its 65 stores across Canada as part of its restructuring efforts pursuant to the CCAA.
9. JSN's product is largely manufactured in Thailand by JSN's affiliates, Utopia Jewellery Co. and Utopia Diamond Inc. (collectively "**Utopia**"), Thai corporations. Utopia is 100% indirectly owned by Mr. Shilon; however who controls Utopia's assets and operations is uncertain. JSN also has a manufacturing facility in Toronto, Ontario, which allows it to manufacture high margin and special orders, and complete in-house repairs.
10. JSN's primary customer in Canada, Ben Moss, is an indirect subsidiary. Ben Moss is a Manitoba corporation owned by the non-operating holding company 2373138 Ontario Inc. As previously noted, Ben Moss obtained protection under the CCAA by Order of the Court made May 18, 2016.
11. In 2013, JSN acquired Ben Moss to facilitate the growth of its wholesale business through an additional sales channel and to maximize profit. The acquisition was financed by the Owner's equity and senior credit facilities provided by Salus.
12. JSN also sells its products through the following ancillary sales channels in Canada:
 - a) Always and Forever, an Ontario corporation owned by Mr. Shilon, is a wholesale and internet retail jewellery business with a family-focused product offering. A&F operates out of the JSN head office and uses staff employed by JSN. The entity holds no inventory as all sales are special orders shipped directly from the supplier to customers; and
 - b) Forever Jewellery Inc. ("**FJI**"), an Ontario corporation owned by Mr. Shilon's daughter, operates a separate wholesale jewellery business. JSN is not affiliated with FJI, however, the companies cooperate with respect to advertising and sales activities. On the application of Salus, Richter was Court-appointed

on an ex-parte basis on June 27, 2016 as interim receiver of FJI and then as full receiver of FJI on June 30, 2016 (in such capacity, the “**FJI Receiver**”).

13. JSN's product is sold to retail customers in the United States (“**US**”) by GMJ and in the United Kingdom (“**UK**”) by JSN UK.
 - a) GMJ, a Delaware registered corporation, is a wholesale business operating out of Scottsdale, AZ through a sales service agreement with a third party. Owing to the third party agreement, GMJ does not have any employees or physical location. Inventory is located at JSN Jewellery and on consignment at U.S. retailers, as the sales agent processes any return of goods and then ships these goods to JSN Jewellery.
 - b) JSN UK is a wholesale business operating out of London, UK, employing a staff of 8 who operate JSN UK from a leased London, UK office. The Proposed Receiver understands that all JSN UK inventory is located at JSN Jewellery or on consignment at UK retailers.
14. PMR, an Ontario corporation indirectly owned by Mr. Shilon, is a precious metal, jewellery and gemstone recovery business operating at Ben Moss stores and purchasing and recycling or refurbishing jewellery from the stores' customers, and has been operated by JSN head office employees. PMR has ceased operations as a result of the Ben Moss CCAA proceedings.
15. A copy of the organization chart for these companies (other than FJI) and certain of their other affiliates is attached as **Appendix “A”**.

Company Operations

16. JSN has grown to become one of Canada's largest jewellery manufacturers and wholesalers and has established international operations and product distribution worldwide.
17. The Company offers thousands of SKU's, including a wide selection of products ranging from entry-level priced diamond designs to fully-certified, top-quality diamond jewellery available in 9-kt. to 18-kt. gold and platinum castings.
18. Exclusively designed and manufactured collections include trademarked Canadian Ice Diamonds, Blossom Diamonds, Always and Forever, Colour Couture and Passionate Heart Canadian Diamonds, as well as a number of private labels produced for major retail customers.
19. JSN sales originate in Canada, the United States, and the United Kingdom. The Company's fiscal 2016 revenue by geography was the following:

JSN		
<i>Revenue by Geography</i>		
<i>For the twelve month period ending</i>		
<i>March 31, 2016</i>		
<i>('000's)</i>		
Canada	\$	44,796
US	\$	16,822
UK	\$	22,318
Total	\$	83,936

20. The JSN head office is located at 64 Jardin Drive in Vaughan, Ontario (the “**Head Office**”). In addition to JSN Jewellery employees located at the Head Office (51), JSN UK employs staff located in the London, UK office (8). As previously outlined, GMJ is serviced through a third party agency, and PMR and A&F are serviced by JSN Jewellery employees.
21. The Company’s key management (“**Management**”) included Mr. Shilon (President), Carla Eisnor (interim CFO), Laura Fiscaletti (Director of Operations), Rishi Taki (Production Manager), JoAnne White (Assistant Controller) and Moses Saurympier (UK Managing Director). On May 12, 2016, JSN Jewellery, Ben Moss and certain other companies (including PMR, GMJ, and JSN UK), appointed a CRO and delegated the authority to direct operations and management to the CRO in place of Mr. Shilon and other members of Management. Subsequent to the appointment of the CRO, the employment of both Mr. Shilon and Ms. Eisnor was terminated by the Company. The Receiver understands the remaining Management is located at and operates from the Head Office and the UK office.
22. The Proposed Receiver understands that none of JSN’s employees are represented by a union and that the Company does not sponsor a pension plan for any of its employees.

Causes of Financial Difficulties

23. As described in the Salus Affidavit, primarily as a result of Ben Moss’ financial troubles (culminating in the CCAA filing), JSN is experiencing a liquidity crisis and has defaulted on various financial and other covenants with their primary secured lender, Salus.
24. The causes of the Company’s insolvency are detailed extensively in the Salus Affidavit and are, therefore, not repeated herein.

V. FINANCIAL POSITION

Historical Operating Results

25. The Company's most recent year-end financial statements are presented for the twelve month period ended March 31, 2016.

Set out below is a summary of the Company's consolidated income statement for: (i) the fiscal period ended March 31, 2015 (unaudited); and (ii) the fiscal period ended March 31, 2016 (unaudited):

JSN (excluding PMR and A&F)		
Income Statement		
('000's)		
	<i>For the 12 month period ended March 31, 2016</i>	<i>For the 12 month period ended March 31, 2015</i>
Net Sales	83,936	80,210
Cost of Sales	(69,035)	(64,409)
Gross Profit	14,901	15,801
Wages & Benefits	(2,597)	(2,373)
Operating Expenses	(3,860)	(4,577)
Management Fee Expense	(1,355)	(1,345)
Total Expenses	(7,812)	(8,295)
Operating Profit	7,089	7,506
Gain (loss) on foreign currency	(2,946)	1,536
Interest expense	(5,204)	(5,532)
Amortization of deferred costs	(1,316)	(1,316)
Taxes	(0)	(3)
Net Profit (Loss)	(2,378)	2,191

26. As noted above, JSN's financial results have deteriorated year over year. JSN experienced a net profit of approximately \$2.2 million in 2015 followed by a net loss of approximately \$2.4 million in 2016, due to a number of factors including significant foreign exchange losses. Results since March have been further negatively impacted when JSN's largest customer and affiliate Ben Moss filed for creditor protection under CCAA proceedings in May 2016.

Cash Flow and Cash Position

27. As a result of Ben Moss' financial troubles, JSN began to request a series of overadvances on its credit facilities with the Lender, which were granted by Salus in late March 2016. In support of the overadvances, Salus and the Company entered into an accommodation agreement (the "**Accommodation Agreement**"). The Accommodation Agreement is attached as **Appendix "B"**.

28. Cash flow continued to worsen at JSN, as significant funding was provided to Utopia (to fund operations and purchase raw material inventory) and required for the Ben Moss's CCAA proceedings. In July 2016 the total overadvance reached approximately \$9 million in excess of what was projected in the approved budget. A copy of a recent Company's borrowing base certificate shows a total overadvance of \$19 million and is attached as **Appendix "C"**.
29. In the absence of continued support from the Lender, JSN and Ben Moss would be unable to continue to carry on their businesses, and Salus was unwilling to provide funding for the additional losses.

Ability to Continue as a Going Concern

30. The Proposed Receiver understands that the Company's financial results year to date and current business conditions continue to be a concern. The Proposed Receiver is of the view that JSN will continue to experience challenges in operating as a going concern due to the following:
- a) Due to a breakdown in the Utopia relationship, JSN has been shut off from continued supply and has been unable to service the majority of its customer base. As a result, JSN's operations have effectively been shut down since the beginning of July;
 - b) Ben Moss's CCAA proceedings have not resulted in a going concern transaction and, as such, Ben Moss is moving to an outright liquidation of its assets, which will eliminate JSN's largest customer representing 38% of fiscal 2016 sales; and
 - c) Salus is no longer willing to support the Company through continued funding of overadvances and has moved for the appointment of a receiver to preserve and protect the Company's assets.

VI. CREDITORS

Secured Claims

31. The Salus Affidavit provides details with respect to the identity of the secured creditors of the Company and attaches copies of Salus' relevant loan and security documents. The following is the Proposed Receiver's understanding of the indebtedness under those loans and their status.

Salus

32. The Proposed Receiver understands the Company's secured debt facilities consist of revolving and term loans made available by the Lender (the "**Facilities**") to JSN Jewellery, JSN UK, GMJ and Ben Moss as borrowers (the "**Borrowers**") and 2373138 Ontario Inc., Forever Jewellery Inc., A&F, PMR, and Mr. Shilon, as guarantors (the "**Guarantors**"), pursuant to the original credit agreement dated July 18, 2013, and the First Amending Agreement made September 25, 2014 (the "**Credit Agreement**"). Pursuant to the Credit Agreement, the Facilities are:

JSN Facilities		
Revolving Loan	\$	50,000,000
Term Loan A (CAD)	\$	7,000,000
Term Loan B (CAD)	\$	13,000,000
Term Loan C (USD)	\$	3,500,000

33. Pursuant to the terms of the Accommodation Agreement, the Lender amended the terms of the Credit Agreement. The outstanding balances owing to the Lenders as at July 2016 are:

JSN			
Summary of Outstanding Loan Balances			
As at July, 2016			
	Principal	Interest	Total
CDN Revolving Loan (CAD)	\$ 21,379,649	\$ 71,038	\$ 21,450,688
USD Revolving Loan (USD)	\$ 22,348,642	\$ 87,960	\$ 22,436,602
Term Loan A (CAD)	\$ 4,750,000	\$ 23,070	\$ 4,773,070
Term Loan B (CAD)	\$ 4,871,987	\$ 27,182	\$ 4,899,169
Term Loan C (USD)	\$ 3,500,000	\$ 21,170	\$ 3,521,170

34. The Proposed Receiver understands that the Facilities are secured by general security agreements (and secured debentures in the UK) representing a charge over all assets of the Company. The Proposed Receiver has not, at this time, obtained an independent legal opinion with respect to Salus' loans and security.

Other Secured Creditors

35. Information on other secured creditors is set out in the Salus Affidavit and is, therefore, not repeated herein. The Proposed Receiver does not at this time possess information on the nature of these claims.

Potential Priority Claims

36. Based upon discussions with the CRO, it appears to the Proposed Receiver that the Company has the following liabilities that rank, or may rank, in priority to the secured claims of Salus (as of July 31, 2016):
- a) Approximately \$30,000 is owed to JSN Jewellery employees, and \$20,000 to the JSN UK employees, in respect of vacation pay; and
 - b) Wages and source deduction payments are current, with the possible exception at any point in time of one payroll cycle being approximately \$100,000 (for all employees including JSN UK). As previously outlined, as GMJ is serviced through a third party sales agency, there are no GMJ employees.
37. Given the nature of the business and state of operations, HST is generally in a receivable position. As at June 30, 2016, HST refunds claimed across JSN, A&F, and PMR totaled \$384,030. CRA has held refunds owing, as corporate tax returns have not been filed for the 2015 fiscal year.

38. The Proposed Transaction does not contemplate that any of the JSN employees will be offered employment by the Purchaser, and provides that the Company will remain responsible for any outstanding employee wages, statutory deductions, remittances, assessments, bonuses, vacation pay, sick leave, severance pay, termination pay, amounts paid in lieu of notice, and any other remuneration, benefits and deductions for the employees (the “**Employee Amounts**”) that become due and payable prior to the Proposed Receivership.
39. The Proposed Receiver understands that Canadian wages, source deductions and vacation pay will be paid in priority to Salus, and intends to enquire into the priority of foreign employee claims and report back to the Court, as appropriate, prior to any repayment of the obligations owed to Salus.
40. It is contemplated that, if the Receivership Order is made, any distribution of proceeds from the Proposed Transaction or any other realizations from the Property (excluding payment of the expenses of the Proposed Receivership) will be made upon further direction from the Court.

Unsecured Trade Creditors

41. The Proposed Receiver understands that the Company had unsecured trade payables owing of approximately \$9.3 million as at July 15, 2016 detailed as follows:

JSN	
<i>Trade Payables</i>	
<i>Presented in CAD</i>	
<i>As at July 15, 2016</i>	
JSN Jewellery	1,980,277
JSN UK	228,884
GMJ	15,501
A&F	22,258
PMR *	7,055,908
Total	9,302,828

** balance entirely intercompany owing to Ben Moss stores*

42. The Offer to Purchase does not contemplate the assumption by the Purchaser of any outstanding trade payables or other liabilities of the Company.
43. As mentioned above, if appointed, the Proposed Receiver would propose to distribute proceeds of realization only in accordance with further express direction from the Court. In seeking that direction the Proposed Receiver will have regard to potential priority claims to the assets realized upon, and applicable rights of unpaid suppliers, if any.

VII. PRE-FILING SALE PROCESS

44. As described in the Salus Affidavit and the Consensus Affidavit, three separate sale and investment solicitation processes (one subject to court approval under the Ben Moss CCAA) have been run by two different advisors, A&M and Consensus, respectively (collectively, the “Prior Sale Processes”).
45. The Proposed Receiver has reviewed the Salus Affidavit and the Consensus Affidavit and discussed the Prior Sale Processes, particularly as they relate to JSN, with senior management personnel of Salus, Consensus, A&M and the CRO. On the basis of those discussions and the activities detailed in both the Salus Affidavit and the Consensus Affidavit, the Proposed Receiver is of the view that the Prior Sale Process, including the timelines and extent of marketing therein, constituted a robust and reasonable process in the circumstances.
46. The deteriorating financial position of JSN and Ben Moss, the supply interruption with Utopia and liquidity constraints (significant overadvance, lack of continued funding) referenced in the Salus Affidavit rendered time of the essence in respect of a value-maximizing sale transaction. The Proposed Transaction will preserve the Company’s customer programs which, in turn, will protect JSN asset value for the benefit of Salus and the Company’s other stakeholders.
47. The continuation of customer programs is at risk without continued supply and, as a result, customers may start returning consignment goods on hand. Without customer programs in place, there is no channel through which to sell these goods at the retail level, and realizations may be significantly reduced; furthermore, JSN’s significant accounts receivable outstanding is likely to be diluted by increased disputes and offsetting claims when attempting to collect from disrupted customers.
48. As detailed in the Salus Affidavit, Salus has reviewed and is supportive of the Proposed Transaction as it represents the highest and best offer received through the Prior Sale Processes and preserves customer programs, including a key program with Fred Meyers Jewellery (“**Fred Meyers**”) with whom the Purchaser has an existing relationship. Additionally, the preservation of customer programs should maximize recovery on the assets excluded from the Proposed Transaction, including the accounts receivable balances outstanding with those customers.

VIII. PROPOSED TRANSACTION

49. As described in the Salus Affidavit, the APA of the Proposed Transaction contemplates the purchase of certain assets of JSN Jewellery, JSN UK, GMJ and A&F (collectively the “**Vendors**”) by the Purchaser. These assets include, but are not limited to:
 - a) intellectual property;
 - b) inventory on consignment with customers (excluding Ben Moss);

- c) finished goods inventory subject to customer orders and certain finished goods inventory not subject to open orders;
 - d) open customer orders, including memo (also known as consignment) orders, and any corresponding open orders with suppliers for goods required to fill such customer orders;
 - e) certain assigned contracts/memos; and
 - f) documents and records with respect to transactions between the Vendors and customers.
50. The Salus Affidavit contains a copy of the Offer to Purchase, which has been irrevocably submitted by the Purchaser for acceptance by the Receiver, if appointed. The Offer to Purchase contemplates closing the Proposed Transaction by no later than August 15, 2016.
51. The Proposed Transaction contemplates the sale of certain Property belonging to GMJ and JSN UK, both foreign entities, and all such property is presently situated in Canada with the exception of certain intellectual property registered in the UK and the US. The Offer to Purchase contemplates that GMJ and JSN UK will execute intellectual property assignment agreements with respect to that intellectual property. It is contemplated that those assignment agreements will be executed by GMJ and JSN UK and delivered in escrow prior to the hearing for the granting of the Receivership Order pending closing of the Proposed Transaction.
52. As previously detailed in this Report, fulfillment of customer orders by Utopia has ceased. The continuation of customer programs is at risk without continued supply, and as a result customers may start returning consignment goods on hand. Without customer programs in place, there is no channel through which to sell these goods at the retail level, and realizations may be significantly reduced; furthermore, JSN's significant accounts receivable outstanding is likely to be diluted by increased disputes and offsetting claims when attempting to collect from disrupted customers.
53. The Company continues to operate in a significant overadvance position, as outlined in the Company's BBC and as detailed in the Salus Affidavit. The Proposed Receiver does not expect a significant reversal of the current overadvance position in the foreseeable future, given that Salus is not willing to support an incremental overadvance to restore supply, and has made application to the Court for the appointment of a receiver. Additionally, the Proposed Receiver has reviewed a realization analysis prepared by Salus (the "**Realization Analysis**"), and based upon the information included therein, Salus is expected to experience a significant shortfall on its security in a liquidation scenario. Although the Proposed Receiver has not obtained liquidation offers on the Property, based on our limited review, it is the Proposed Receiver's view that the underlying assumptions upon which the Realization Analysis is based appear reasonable.

54. Without the certainty resulting from the Proposed Transaction, it appears likely that value will quickly deteriorate for assets both subject to – and outside of – the Proposed Transaction, for the reasons previously noted in this Report and in the Salus Affidavit.
55. The Proposed Receiver was provided with the form of the Proposed Transaction before it was finalized, and any concerns raised were addressed to our satisfaction. In the circumstances, the Proposed Receiver is of the view that the Proposed Transaction appears to be the best option to maximize value to Salus and other stakeholders.

IX. REALIZATION PROCESS

Sundry Jewellery Assets

56. The Proposed Receiver, in consultation with Salus, Consensus and 360 Merchant Solutions (the “**Jewellery Consultant**”), has developed the Realization Process described in this section as a means of gauging market interest in the Company’s Sundry Jewellery Assets not included in the Proposed Transaction. The Proposed Receiver understands that Consensus and the Jewellery Consultant have recently marketed these assets on an informal basis to various contacts and that approximately ten (10) interested parties have viewed or have scheduled site visits to view the Sundry Jewellery Assets; however, solicitation of offers to purchase the Sundry Jewellery Assets was delayed pending a formal process to be run by or under the supervision of the Receiver, if appointed.
57. Should the Receivership Order be granted, it is the intention of the Proposed Receiver to engage the CRO, Jewellery Consultant, and Consensus to assist with the Realization Process and certain other aspects of the receivership administration. Consensus and the Jewellery Consultant possess significant industry expertise and familiarity with the Prospective Purchasers (as herein after defined) on the Contact List (as herein after defined), and are familiar with the Sundry Jewellery Assets having previously advised Salus on same. Additionally, the CRO has in-depth knowledge of JSN operations.
58. As soon as reasonably practical upon the Proposed Receiver’s appointment as Receiver and approval of the Realization Process by the Court, marketing materials in the form of an interest solicitation letter (the “**Teaser**”) will be circulated to a list of prospective purchasers (the “**Contact List**” or “**Prospective Purchasers**”). The Contact List, developed by Consensus, the Jewellery Consultant and the CRO, and reviewed by the Proposed Receiver, includes over 60 Prospective Purchasers and encompasses significant players in the jewellery wholesale and precious gemstones sector, those parties who have already viewed the assets, liquidators, and Ben Moss’ liquidation sales agent.
59. The Receiver will, through Consensus, the Jewellery Consultant, or the CRO, follow up with the Prospective Purchasers to discuss the Sundry Jewellery Assets and determine interest in same. Interested parties will have

the opportunity to view the Sundry Jewellery Assets, and will be provided with supporting Sundry Jewellery Assets schedules (the “**Sundry Schedules**”) prepared by the Receiver in consultation with the CRO and the Jewellery Consultant, to perform their diligence. The requirement that interested parties execute a non-disclosure agreement (“**NDA**”) will be at the discretion of the Proposed Receiver, in consultation with Consensus.

60. The Realization Process contemplates a 3-week marketing and diligence period, including the opportunity to view the Sundry Jewellery Assets, as follows:

- | | |
|--|---|
| a) Realization Process commencement date | August 12, 2016 |
| b) Bid deadline | on or before September 2, 2016 5:00 pm (EST) |
| c) Successful bidder(s) to be informed | on or before September 9, 2016 12:00 pm (EST) |
| d) Complete transaction, subject to Court approval | on or before September 16, 2016 5:00 pm (EST) |

The Realization Process also contemplates that the Proposed Receiver will have the ability to extend deadlines by up to one week at its discretion, without Court approval.

61. All offers received from Interested Parties by the aforementioned September 2, 2016 bid deadline (the “**Bid Deadline**”) will be required to be on an “as is, where is” basis and without surviving representations or warranties of any kind, nature, or description by the Receiver.

62. The Proposed Receiver will not be required to accept the highest, best or any bid submitted, and may terminate the Realization Process at any time. Additionally, the Proposed Receiver shall have the discretion to consult and negotiate with any participating bidder, either directly or through Consensus or the Jewellery Consultant.

63. Depending on the value of the bids received at the Bid Deadline, or at any time, the Proposed Receiver, at its sole discretion, may examine available alternatives including – or in any combination of – the following:

- a) Complete one or more transaction(s) from bids received by the Bid Deadline;
- b) Convert loose gemstone inventory to finished goods for sale in fulfillment of a purchase order or consignment order placed by a customer such as Ben Moss. It is not contemplated, if the Proposed Receiver determines to take this avenue in the Realization Process, that a new or separate sale process would be run in respect on any new finished goods inventory; and
- c) Enter into an agency agreement with a third party (potentially one of the Prospective Purchasers) to market the loose gemstone inventory and finished goods on behalf of the Receiver.

64. The Realization Process contemplates that once offers are accepted, a period of approximately two weeks would likely be required to complete asset purchase/agency agreement(s), and seek Court approval of said

agreement(s), as required. At this time, the time that could be required to complete any production is unknown, as it depends on a number of factors, including the type and complexity of finished goods produced. All incremental costs associated with production time will be considered in the Proposed Receiver's evaluation of the alternatives previously detailed.

65. As detailed above, the proposed Realization Process contemplates a 21-day period to market the Sundry Jewellery Assets to Prospective Purchasers. In the Proposed Receiver's view, this timeline is sufficient to allow Interested Parties to perform due diligence and submit offers, especially in light of the circumstances detailed in this Report.

Furniture, Fixtures and Equipment

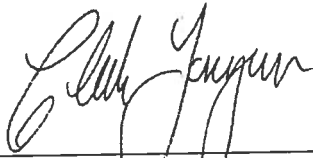
66. The Proposed Receiver plans to run a limited informal process to liquidate the Company's furniture, fixtures and equipment ("FF&E"), including owned specialized jewellery equipment, which is anticipated to have nominal realizable value. Specialized jewellery equipment may be included – as appropriate – in the Realization Process for the Sundry Jewellery Assets described above, should the market for the equipment be highly specialized, or as otherwise deemed appropriate. The Proposed Receiver will send out a listing of the Company's FF&E to liquidators and resellers with relevant experience. The Proposed Receiver will solicit offers for outright purchase of these assets, or alternatively a fee proposal to sell these assets at an auction to be held at a time and location yet to be determined. As previously stated, the Proposed Receiver will not be required to accept the highest, best or any bid submitted.

X. RECOMMENDATION

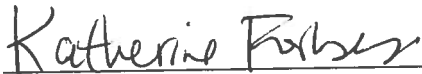
67. As detailed above, in the circumstances, the Proposed Receiver is of the view that the Proposed Transaction, together with the Realization Process, represent a reasonable and value-maximizing approach to realizing on the Property. If the Court sees fit to appoint a receiver in the circumstances, the Proposed Receiver recommends proceeding in this manner.

All of which is respectfully submitted on the 8th day of August, 2016.

Richter Advisory Group Inc.
as the Proposed Receiver of
J.S.N. Jewellery Inc., J.S.N. Jewellery UK Limited, GMJ Corp.,
2373138 Ontario Inc., Always & Forever Family Collection Incorporated,
and P.M.R. Inc. and not in its personal capacity



Clark Lonergan, CPA, CA, CIRP
Senior Vice-President



Katherine Forbes, CPA, CA
Vice-President

