

Estate No: 33-1884683

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE PROPOSAL OF
K.F.S. LIMITED
OF THE CITY OF CORNWALL
IN THE PROVINCE OF ONTARIO**

MOTION RECORD

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Applicant

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**MOTION RECORD
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**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE PROPOSAL OF
K.F.S. LIMITED
OF THE CITY OF CORNWALL
IN THE PROVINCE OF ONTARIO**

NOTICE OF MOTION

K.F.S. Limited, an insolvent person, (the “Applicant”), of the City of Cornwall, will make a Motion without notice, to a Justice of this Court in Bankruptcy, at the Court House, 161 Elgin Street, Ottawa, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be in writing.

THIS MOTION IS FOR:

1. An Order extending the time for the Applicant to file a Proposal to its creditors from September 8, 2014, to October 23, 2014.
2. Such further and other relief as counsel may advise and this Honourable Court may permit.

THE GROUNDS FOR THE MOTION ARE:

1. The Applicant filed a Notice of Intention to Make a Proposal on June 24, 2014, pursuant to the provisions of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3.
2. The thirty (30) day stay as a result of the filing of the Proposal ended July 24, 2014. On July 22, 2014, this Honourable Court made an Order extending the time for the filing of a Proposal from July 24, 2014, to September 8, 2014.
3. The Applicant requires an extension of time within which to file its Proposal and asks that this delay be extended to October 23, 2014.
4. The extension being requested herein is required in order to reorganize the Applicant and to formulate a viable Proposal to the creditors of the Applicant. In the interim, the business is being carried on and is being monitored by the Trustee.
5. The Royal Bank of Canada is the main secured creditor in this matter and supports the Applicant with regard to its efforts to reorganize its business undertaking and make a viable Proposal to its creditors. The Royal Bank of Canada is aware of this application for a second extension and consents to same. It is anticipated that the Royal Bank of Canada will be repaid the amount owing to it, which is in excess of three million dollars, by the end of this year. No other creditors have been in contact with the Trustee or the Applicant with regard to this matter since the filing of the Notice of Intention to File a Proposal.

6. The Applicant has been acting in good faith and with due diligence and no creditors will be materially prejudiced if this extension is granted.
7. A liquidation arising from a bankruptcy of the Applicant would likely result in the unsecured creditors obtaining no payment whatsoever. If the Applicant is permitted to pursue its restructuring efforts, it will likely make a viable proposal which would provide for payment to the unsecured creditors. Additionally, by continuing to operate, the realizable value of the Applicant will be maximized and it will be able to maintain its existing supplier, customer and employee relationships.
8. The Applicant relies on Section 50.4(9) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3.
9. Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the Motion:

1. The Affidavit of Glenn Langburt sworn September 3, 2014;
2. Report of the Trustee dated September 2, 2014;
3. Such further and other material as counsel may advise and this Honourable Court may permit.

Date: September 4, 2014

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Applicant

IN THE MATTER OF THE PROPOSAL OF K.F.S. LIMITED OF THE CITY OF CORNWALL

Estate No. 33-1884683

SUPERIOR COURT OF JUSTICE
Proceeding commenced at Ottawa

NOTICE OF MOTION

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Law Society No. 19072K

Box No. 201
Our File No: 017-67116



**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

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

AND IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF K.F.S. LIMITED

**AFFIDAVIT OF GLENN LANGBURT
(SWORN SEPTEMBER 3, 2014)**

I, Glenn Langburt, of the City of Cornwall, in the Province of Ontario,
MAKE OATH AND SAY:

1. I am a duly authorized representative of K.F.S. Limited (the "**Applicant**").
As such I have personal knowledge of the matters to which I depose. To the extent that
I do not have personal knowledge, I verily believe the information to which I depose.

Background

2. The Applicant filed a notice of intention to make a proposal under the
Bankruptcy and Insolvency Act (the "**BIA**") on June 24, 2014, appointing Richter
Advisory Group Inc. (the "**Proposal Trustee**") as the trustee thereunder (the "**NOI**").

3. On July 22, 2014, the Applicant obtained a first extension of time to file a
proposal. Pursuant to the order rendered by Mr. Justice Kershman, the Applicant has
until September 8, 2014, to file a proposal.

4. The Applicant was incorporated in 1972 pursuant to the *Ontario Business Corporations Act* and maintains its head offices in Cornwall, Ontario.

5. The Applicant, along with two other companies, 2726556 Canada Inc. and Nathar Limited (collectively, the “**Companies**”), who also filed notices of intention to make a proposal under the BIA on June 24, 2014, operates several retail stores located in Ontario and the Maritimes.

6. The Companies, in operation since 1955, form a chain of 21 retail stores. Among other things, the Companies specialize in Ladies’ and Men’s fashions, kitchenware, home accessories and gourmet foods.

7. The Companies operate several brands, including Tweed and Hickory, Kastners Menswear, Flotron’s Tweed & Hickory, Bucovetsky’s and Dovers Menswear.

8. The Companies’ primary suppliers are based in Canada and in the United States of America.

9. As of the day of the filing of the NOI, the Companies had over 200 employees between their stores, warehouse and head office.

Secured Creditor

10. The Royal Bank of Canada (“**RBC**”) is the only secured creditor of the Companies. The Companies are indebted towards RBC in an amount of approximately \$3,367,489 plus interest.

11. RBC is aware of the second request for an extension and supports the Companies' restructuring process. Together with the help of its advisors, the Companies have established a restructuring plan which should allow for the total repayment of RBC's indebtedness, in addition to keeping some of the stores open.

12. As such, the Companies expect to fully repay the RBC indebtedness by December 2014, with major reductions of such indebtedness taking place from October to December of 2014 as a result of the Companies' business being rationalized.

Other Creditors

13. Other than the possible claims of its landlords, the Applicant is indebted in an amount of approximately \$3,179,445.67 towards its unsecured and contingent creditors.

The Financial Situation and Reasons for Insolvency

14. Over the past two years, the Companies have incurred operating losses as a result of a significant decrease in sales volumes. The Companies' gross profits declined by 20% in 2014 as compared to the same period the previous year.

15. The Companies' financial troubles are further exacerbated by their aging inventory which relates to fall 2013 and prior seasons. Furthermore, the Applicant attributes the decline in sales to the current unfavorable economic conditions in the retail industry, the general economic downturn as well as the highly competitive market.

16. Although the Applicant has attempted to correct the situation in the past months, the significant decrease in sales indicates that a formal restructuring is the only way of salvaging the Companies' affairs. In fact, the Companies do not have adequate cash flow to continue their operations.

17. Within the first few days of filing its NOI, the Applicant gave to the Proposal Trustee, for the purposes of providing a full review of its operations, access to its books, records, and other important documents.

18. Since the filing of the NOI, the Applicant has been paying, on a timely basis, its suppliers and employees in respect of the current business terms. Additionally, the current state of the finances of the Applicant is favorable compared to what had initially been projected since the filing of the NOI.

19. The Applicant seeks a second extension of the stay period for an additional 45 days to allow it to complete its dealings with regards to the identification and closure of underperforming stores, the negotiation of more favorable leases, the liquidation of the slow moving excess inventory, the reduction of operating overhead expenses, the search for potential investors who could participate in the restructuring efforts, as well as the determination of the terms of a viable proposal to settle with its numerous unsecured creditors.

20. Absent court protection, the Applicant's business will fail because it cannot pay all of its liabilities currently due or accruing due.

21. Filed herewith is the Proposal Trustee's Report on the state of the Applicant's business and financial affairs (the "Report"). Attached to the Report as Exhibit "A" is the statement of projected cash-flow for the Applicant for the period from September 1, 2014 to October 31, 2014.

Basis for Stay Extension


22. The Applicant has acted and continues to act in good faith and with due diligence toward achieving a successful restructuring of its business. If the extension sought is granted, the Applicant will likely be able to make a viable proposal to its creditors.


23. Extending the stay period for an additional 45 days will not be materially prejudicial to the Applicant's creditors inasmuch as RBC supports the Companies' restructuring efforts and consents to the extension sought.

24. A liquidation arising from a bankruptcy from the Applicant would likely result in its unsecured creditors obtaining no payment whatsoever. On the other hand, pursuing the Applicant's restructuring efforts may permit the Applicant to make a proposal that would provide for some form of payment to its unsecured creditors.

25. Moreover, continuing to operate the Applicant's business as a going concern will serve to maximize the realizable value of the Applicant's working capital and maintain its existing supplier, customer and employee relationships.

SWORN BEFORE ME at the City of
Montreal, on September 3, 2014.


Commissioner for Taking Affidavits


Glenn Langbart



IN THE MATTER OF THE PROPOSAL OF K.F.S. LIMITED OF THE CITY OF CORNWALL

Estate No. 33-1884683

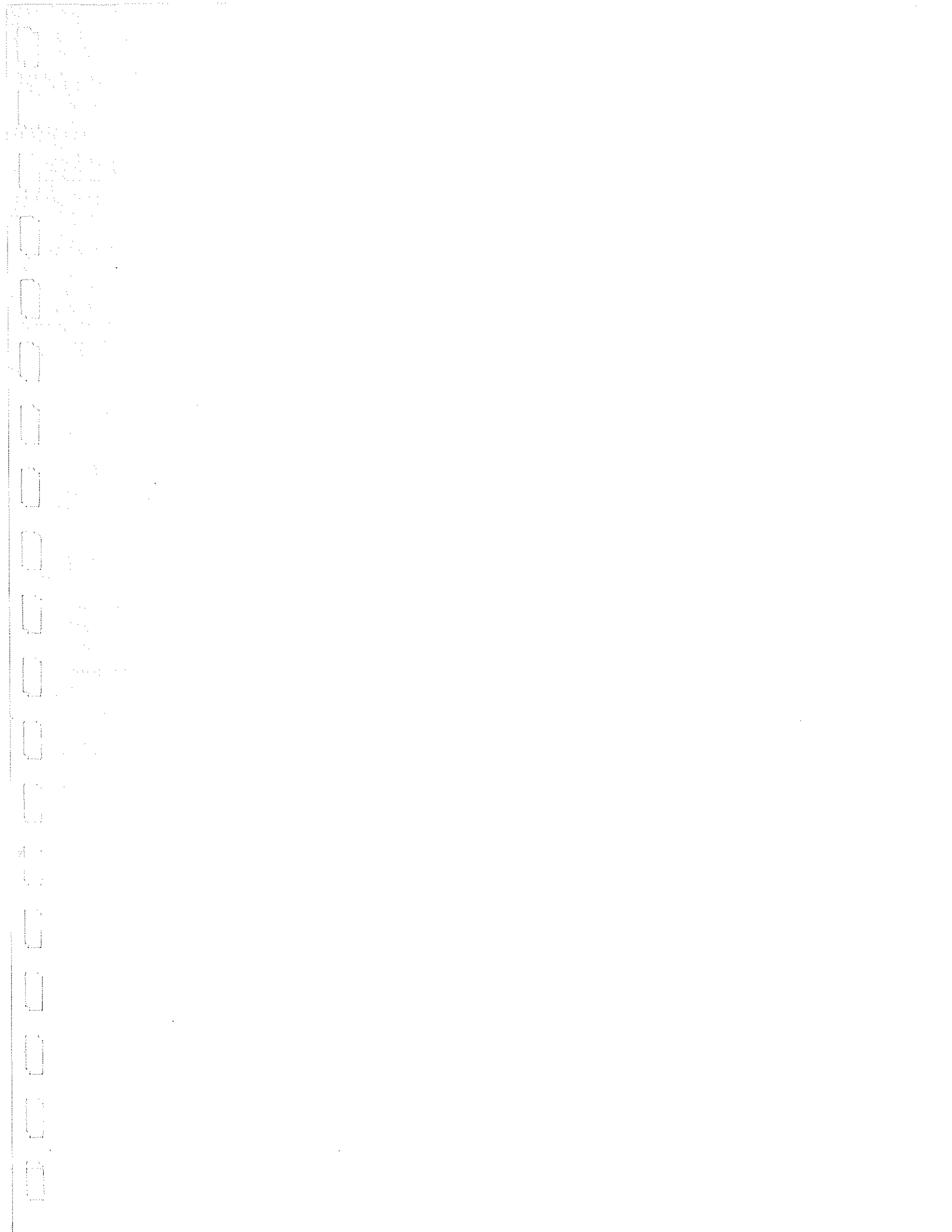
SUPERIOR COURT OF JUSTICE
Proceeding commenced at Ottawa

AFFIDAVIT

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CANADA
PROVINCE OF ONTARIO
DISTRICT OF ONTARIO
DIVISION NO.: 12-OTTAWA
COURT NO.: 33-1884683
ESTATE NO.: 33-1884683

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

IN THE MATTER OF THE NOTICE OF
INTENTION TO MAKE A PROPOSAL OF:

K. F. S. Limited, a body politic and
corporate, duly incorporated according to law
and having its head office and its principal
place of business at 27 First Street East, of
the City of Cornwall, in the Province of
Ontario, K6H 1K5.

Debtor

- and -

Richter Advisory Group Inc.

Trustee

TRUSTEE'S REPORT ON THE STATE OF THE INSOLVENT PERSON'S
BUSINESS AND FINANCIAL AFFAIRS
(Pursuant to 50.4(7)(b)(ii) and 50.4(9) of the Bankruptcy and Insolvency Act)


I, Stéphane De Broux, CPA, CA, CIRP, of Richter Advisory Group Inc. ("Richter"), Trustee, with respect to the Notice of Intention to Make a Proposal ("Notice of Intention") filed by K. F. S. Limited (the "Company" or "Debtor"), an insolvent person, do hereby report to the Court the following:

1. On June 24, 2014, the Debtor filed a Notice of Intention in accordance with the *Bankruptcy and Insolvency Act* (the "Act"), the whole as appears from documents within the court records.
2. On June 24, 2014, Nathar Limited and 2726556 Canada Inc., which are controlled by the same entity as the Debtor, also filed a Notice of Intention. K. F. S. Limited, Nathar Limited and 2726556 Canada Inc. are herein collectively referred to as the "Companies".
3. On July 2, 2014, documents were sent by regular mail to all creditors of the Debtor, as identified by it, which included a copy of the Debtor's Notice of Intention, the whole as appears from documents within the court records.
4. On July 4, 2014, the Debtor filed with the Official Receiver a Statement of Projected Cash Flow ("Projections") together with his report pursuant to Section 50.4(2)(c) of the Act, covering the period from July 1, 2014 to July 31, 2014, which included the major Assumptions used in the preparation of the aforementioned Projections. Concurrently therewith, the Trustee filed its Report on the reasonableness of the Projections in accordance with Section 50.4(2)(b) of the Act, the whole as appears from documents within the court records.

5. On July 22, 2014, the Debtor was granted an extension of delay for the filing of a Proposal to September 8, 2014, in order to allow it to complete its dealings regarding the implementation of its restructuring plan.
6. Since our previous report, the Companies' restructuring plan has progressed in the following manner:
 - Four additional stores have been closed;
 - The Debtor renegotiated the leases of seven of its locations;
 - The Debtor continued liquidating its slow moving and excess inventory; and
 - The process for the identification of potential investors / new financiers has been initiated.
7. In order to monitor the affairs and finances of the Debtor, the Trustee has been provided with access to the books, records and other important documents of the Debtor.
8. The Debtor has been paying its suppliers and employees, on a timely basis, for goods and services provided subsequent to the date of the filing of the Notice of Intention, according to the current business terms. The Trustee has compared the actual results to those projected since the filing of the Notice of Intention. The actual results to date have been favorable.
9. The Debtor is filing a Motion to obtain an additional extension of the Delay for the Filing of a Proposal, in order to allow it to complete its dealings with regards to its restructuring plan and to enable the formulation of a viable Proposal to its creditors.
10. The Debtor's secured creditor, Royal Bank of Canada, does not object to the requested extension and supports the Debtor in its reorganization efforts.
11. Annexed hereto as **Exhibit "A"** is the Statement of Projected Cash Flow covering the period from September 1, 2014, to October 31, 2014, the Trustee's Report on the reasonableness of the Projections in accordance with Section 50.4(2)(b) of the Act and the Debtor's Report pursuant to Section 50.4(2)(c) of the Act.
12. If the extension is granted, the Trustee is not aware of any facts indicating that any creditor would suffer a prejudice.
13. Given the foregoing, the Trustee hereby recommends the granting of the extension by the Court to October 23, 2014.

DATED AT MONTREAL, this 2nd day of September 2014.

Richter Advisory Group Inc.
Trustee




Per: Stéphane De Broux, CPA, CA, CIRP

EXHIBIT A

K.F.S. Limited
Statement of projected cash-flow (note 1)
For the period ending October 31, 2014
(in 000's)

	<i>month ending:</i>	sept-14	oct-14
Receipts		\$ 1 120	\$ 1 122
Disbursements			
Operations		1 048	972
Administration		102	104
Restructuring expenses		70	50
		<u>1 220</u>	<u>1 127</u>
Net cash-flow		(100)	(4)
Opening bank indebtedness		<u>(1 409)</u>	<u>(1 509)</u>
Closing bank indebtedness		<u>\$ (1 509)</u>	<u>\$ (1 514)</u>

Note 1: This statement of projected cash-flow combines the operations of K.F.S. Limited, Nathar Limited and 2726556 Canada Inc.



 Glenn Langburt
 K.F.S. Limited

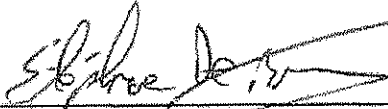
 Richter Advisory Group Inc.

K.F.S. Limited
Statement of projected cash-flow (note 1)
For the period ending October 31, 2014
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Net cash-flow	(100)	(4)
Opening bank indebtedness	<u>(1 409)</u>	<u>(1 509)</u>
Closing bank indebtedness	<u>\$ (1 509)</u>	<u>\$ (1 514)</u>

Note 1: This statement of projected cash-flow combines the operations of K.F.S. Limited, Nathar Limited and 2726556 Canada Inc.

Glenn Langburt
K.F.S. Limited



Richter Advisory Group Inc.

District of: Ontario
Division No. 12-Ottawa
Court No. 33-1884683
Estate No. 33-1884683

- 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
K. F. S. Limited
Of the City of Cornwall
In the Province of Ontario


The management of K. F. S. Limited has developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 2nd day of September 2014, consisting of the period from September 1 to October 31, 2014.

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 Cornwall in the Province of Ontario, this 2nd day of September 2014.


K. F. S. Limited
Debtor

Glenn Langburt, Controller
Name and title of signing officer

District of: Ontario
Division No.: 12-Ottawa
Court No.: 33-1884683
Estate No.: 33-1884683

- 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
K. F. S. Limited
Of the City of Cornwall
In the Province of Ontario

Purpose:

K. F. S. Limited filed a Notice of Intention to Make a Proposal on June 24, 2014. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of K. F. S. Limited (the "Company"), for the period from September 1 to October 31, 2014, relating to the filing of a Motion to extend the delay to make a proposal. This Statement of Projected Cash Flow has been prepared by management on September 2, 2014 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 from September 1 to October 31, 2014, 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 are estimated by management, based upon the collection experience of the Company.
- (b) Projected Cash Disbursements
The projected cash disbursements are based upon historical data adjusted to reflect the current level of activity and best estimates of the Company;
The current government remittances for source deductions and sales taxes are included in the disbursement assumptions.
The cash disbursements do not provide for the payment of arrears to unsecured creditors.

Dated at the City of Cornwall in the Province of Ontario, this 2nd day of September 2014.


K. F. S. Limited
Debtor

Glenn Langburt, Controller
Name and title of signing officer

District of: Ontario
Division No.: 12-Ottawa
Court No.: 33-1884683
Estate No.: 33-1884683

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
K. F. S. Limited
Of the City of Cornwall
In the Province of Ontario

The attached statement of projected cash flow of K. F. S. Limited, as of the 2nd day of September 2014, consisting of the period from September 1 to October 31, 2014, 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 Montréal in the Province of Quebec, this 2nd day of September 2014.

Richter Advisory Group Inc/Richter Groupe Conseil inc - Trustee
Per:


Stéphane De Broux, CPA, CA, CIRP
1981 McGill College, 12th Floor
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District of: Ontario
Division No.: 12-Ottawa
Court No.: 33-1884683
Estate No.: 33-1884683

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
K. F. S. Limited
Of the City of Cornwall
In the Province of Ontario

Purpose:

K. F. S. Limited filed a Notice of Intention to Make a Proposal on June 24, 2014. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of K. F. S. Limited (the "Company"), for the period from September 1 to October 31, 2014, relating to the filing of a Motion to extend the delay to make a proposal.

This Statement of Projected Cash Flow has been prepared by management on September 2, 2014 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 from September 1 to October 31, 2014, 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 are estimated by management, based upon the collection experience of the Company.

(b) Projected Cash Disbursements

The projected cash disbursements are based upon historical data adjusted to reflect the current level of activity and best estimates of the Company;

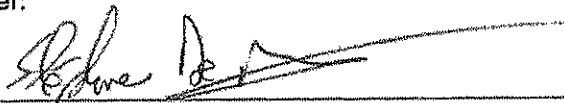
The current government remittances for source deductions and sales taxes are included in the disbursement assumptions.

The cash disbursements do not provide for the payment of arrears to unsecured creditors.

Dated at the City of Montréal in the Province of Quebec, this 2nd day of September 2014.

Richter Advisory Group Inc/Richter Groupe Conseil inc - Trustee

Per:



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