

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-047847-146
ESTATE NO.: 41-1938986

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

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

Mexx Canada Company

a body politic and corporate, duly
incorporated according to law and having its
head office and its principle place of business
at:
905 Hodge Street
Saint-Laurent, QC H4N 2B3

Debtor

- and -

Richter Advisory Group Inc.

Trustee

**TRUSTEE'S SECOND 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, Andrew Adessky, CPA, CA, CIRP, of Richter Advisory Group Inc. ("Richter" or "Trustee"), Trustee, with respect to the Notice of Intention to Make a Proposal ("Notice of Intention") filed by Mexx Canada Company (the "Company" or "Debtor"), an insolvent person, do hereby report to the Court the following:

1. On December 3, 2014, the Debtor filed a Notice of Intention in accordance with the *Bankruptcy and Insolvency Act* (the "Act").
2. The Company is part of the Mexx Group, which is an international fashion group engaged in the design and sale of clothing and accessories for men, women and children. At the time of the filing of the Notice of Intention, the Company operated 95 stores located across Canada and also operated a wholesale business and had point of sale locations in various department stores operated by the Bay. The Company employed approximately 1,700 in its retail operations and a further 85 people at its head office and distribution center located in Montreal, Quebec as of the filing of the Notice of Intention.
3. On December 10, 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.

4. On December 12, 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 November 30, 2014 to January 10, 2015, 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.
5. On December 18, 2014, the Debtor obtained an order extending the time for filing the proposal to January 30, 2015.
6. Also on December 18, 2014, the Debtor obtained an order authorizing the Debtor to enter into a Consulting Agreement with Merchant Retail Solutions ULC and Gordon Brothers Canada ULC ("Joint Venture") whereby the Joint Venture would assist the Debtor in the liquidation of all inventory (located primarily in its retail locations) as well as in disposing of its furniture, fixtures and equipment, all to enable it to potentially generate sufficient funds to enable the Debtor to file a proposal to its creditors ("Consulting Order").
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 Company.
8. We inform the Court that the Trustee has not conducted an audit or investigation of the information which has been provided to it by the Debtor and that accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this Second Report.

RESULTS OF OPERATIONS

9. The Trustee has compared the reported results to those projected since the filing of the first extension (December 14, 2014 to January 10, 2015) of which the cumulative summary is annexed hereto as "**Exhibit A**". The actual results to date have been favorable and can be summarized as follows:
 - Cash receipts for the Period amounted to approximately \$21.4 million, a \$1.2 million favourable variance as compared to the Projections (\$20.2 million) due primarily to a stronger than forecast start to the liquidation sales and earlier than forecast receipts from the sale of furniture, fixtures and equipment;
 - Operating disbursements for the Period were reported at \$8.0 million versus a budget of \$11.2 million resulting in a favourable variance of \$3.2 million. This variance is primarily timing related and is expected to reverse in future periods;
 - \$13.4 million net cash flow for the Period resulted in a favourable variance of \$4.4 million (versus a projected net cash flow of \$9.0 million);
 - During the Period, the Company paid in full, the balance of the \$3.8 million revolver with GE Canada Finance Holding Company and made a \$5 million payment to Crystal Financial LLC ("Crystal"), both of whom are secured creditors. On January 12, 2015, a further \$2.75

million loan reduction payment was made to Crystal, thereby reducing their outstanding balance to approximately \$5.3 million. On or about January 14, 2015, the Company was notified by Crystal that it had assigned its rights under the December 19, 2011 credit agreement with the Company to Gores Capital Partners (Alternative) III, L.P. ("GCP III") and Gores Co-Invest Partnership (Alternative) L.P. (collectively the "Gores Assignees") in exchange for a payment of \$5.3 million.

10. The Company 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.
11. As noted in the Trustee's First Report dated December 16, 2014, the Company was included in the insurance policy subscribed to by the Mexx Group, which expired on December 31, 2014. The relevant insurance policies (including property and liability insurance) have been extended for the Mexx Group, including the Company, to March 31, 2015.

RESTRUCTURING INITIATIVES

12. Following the issuance of the Consulting Order, the Company signed the Consulting Agreement and the liquidation sales commenced on December 19, 2014. As noted above, liquidation sales to date have exceeded forecast.
13. As of the end of January 2015, the Company expects to have closed approximately one-third of its 95 store locations, with the balance to be either closed or assigned by the end of February or early March 2015.
14. The Company, in coordination with the Joint Venture, and with the assistance of its counsel, the Trustee and the Trustee's counsel have resolved most landlord issues raised in connection with the liquidation and the closure of the stores.
15. The Company, assisted by its counsel and the Trustee, have negotiated the early termination of the lease for its head office and distribution center which will result in the vacating of these premises by March 31, 2015, as well as allow for reduced rent for the premises for February, and March 2015 and the return of a security deposit held by the landlord if all terms and conditions are met.
16. The Company with the assistance of the Trustee is working on the assignment of certain store leases to various interested parties. If successful, this will generate additional proceeds which will aid in the formulation of a proposal.

CARGO ARREST

17. On December 24, 2014, the Company was notified by its customs broker that a cargo arrest had been placed on various inventory which was located in various warehouses in Montreal and in respect of certain goods in transit ("Cargo Arrest"), despite the stay of proceedings in effect as a result of the filing of the Notice of Intention.

18. The cargo arrest was obtained from the Federal Court of Canada ("Federal Court") on December 23, 2014 on behalf of LF Centennial Pte Ltd. ("LF Centennial"). Prior to the filing of the Notice of Intention, LF Centennial acted as a buying agent of Mexx, through whom Mexx purchased approximately 70% of its inventory.
19. Further details regarding the Cargo Arrest can be found in the Motion to Declare a Seizure Unenforceable and to Enforce the Stay of Proceedings or Alternatively to Grant a Safeguard Order filed on January 5, 2015 ("Seizure Motion"), which can be found on the Trustee's website.
20. Following negotiations between the Company and LD Centennial, the terms of a Safeguard Order were agreed to whereby bail was granted in respect of the cargo arrest to enable the goods to be released so that they can be sold with the net proceeds to be held in an escrow account with the Trustee.
21. Notwithstanding the Safeguard Order, certain goods remained at Mexx's sufferance warehouse. This is because Mexx's freight forwarder requires original bills of lading to be surrendered before transferring the goods to Mexx's distribution center. The situation was finally resolved on January 19, 2015 such that the goods will now be transferred to Mexx's distribution center.
22. In addition to the Seizure Motion, the Company is also contesting the issuance of the cargo arrest in the Federal Court and seeking to have the cargo arrest quashed and striking LF Centennial's statement of claim as well as other ancillary requests including the payment of costs and damages to the Company. A hearing in the Federal Court is scheduled for January 27, 2015.

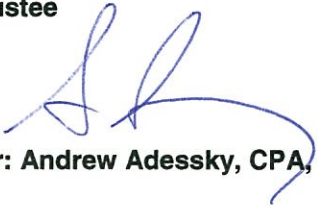
MOTION TO EXTEND

23. The Debtor is filing this Second Motion to Extend the Delay for the Filing of a Proposal, in order to allow it to continue with the liquidation of its inventory as well as pursue its other restructuring initiatives, the whole to maximize realization for all stakeholders and permit it to file a Proposal to its creditors.
24. The Debtor's secured creditor, Gores Assignees does not object to the requested extension and supports the Debtor in its reorganization efforts.
25. Annexed hereto as **Exhibit "B"** is the Statement of Projected Cash Flow covering the period from January 11, 2015 to March 12, 2015, 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.
26. Based on the information available to the Trustee, the Trustee does not believe that any creditor would suffer a material prejudice in the event that the stay of proceedings is extended as requested by the Debtor.

27. In the event that the extension is not granted and a Bankruptcy ensues, the reorganization efforts of the business would likely be negatively impacted. Given the quantum of the secured debt, any disruption to the liquidation and restructuring initiatives would significantly reduce the likelihood of the Debtor being in a position to pay a dividend to the unsecured creditors. Consequently, the creditors' best opportunity to maximize recovery in this matter is to allow the Company the time it requires to continue its reorganization efforts and attempt to formulate a Proposal.
28. Given the foregoing, the Trustee hereby recommends the granting of the extension by the Court to March 12, 2015.

DATED AT MONTREAL, this 21st day of January 2015.

Richter Advisory Group Inc.
Trustee



Per: Andrew Adessky, CPA, CA, CIRP

Exhibit A

Mexx Canada Company
Reported results vs. projected from December 14, 2014 to January 10, 2015

(\$000's)	Reported	Projected	Variance	Notes
Receipts				
Gross Receipts	\$ 21,155	\$20,196	\$ 959	1
FF&E Proceeds	289	-	289	
	21,444	20,196	1,248	
Disbursements				
Purchases, Duty & Freight	411	674	263	2
Rent	3,020	3,127	107	
Store expenses & Other	747	2,284	1,537	
Payroll	2,759	3,150	391	
Sales Tax	-	-	-	
Interest	145	184	39	
Deposits	86	700	614	
Professional Fees	861	1,070	209	
	8,028	11,189	3,161	
Net Cash Flow	\$ 13,416	\$ 9,007	\$ 4,409	
Opening Bank Cash	\$ 4,582	\$ 4,587	\$ (6)	3
Net Cash Flow	13,416	9,007	4,409	
Revolver/Term Loan Repayment	(8,848)	(8,839)	(9)	
Ending Bank Cash	\$ 9,149	\$ 4,755	\$ 4,394	
Opening Revolver/Term Loan	\$ 16,848	\$ 16,839	\$ (9)	3
Revolver/Term Loan Repayment	(8,848)	(8,839)	(9)	
Ending Revolver/Term Loan	\$ 8,000	\$ 8,000	\$ (18)	

⁽¹⁾ Favourable variance of receipts represents a stronger than forecasted start of sale and may reverse in the future.

⁽²⁾ Majority of favourable variance is timing and is expected to reverse in future periods.

⁽³⁾ Includes \$3.8MM repayment in full of GE Canada Finance Holding Company revolver and \$5MM paydown of Crystal Financial LLC.

Exhibit B

Mexx Canada

Cash Flow Forecast For the Period January 11, 2015 to March 21, 2015

(\$000's)	17-Jan-15	24-Jan-15	31-Jan-15	07-Feb-15	14-Feb-15	21-Feb-15	28-Feb-15	07-Mar-15	14-Mar-15	21-Mar-15	Total
Receipts											
Gross Receipts	\$3,526	\$5,579	\$2,682	\$1,815	\$1,715	\$1,309	\$995	\$493	\$0	\$0	\$18,114
FF&E Proceeds	291	50	50	50	50	50	35	34	-	-	610
	3,817	5,629	2,732	1,865	1,765	1,359	1,030	527	-	-	18,724
Disbursements											
Purchases, Duty & Freight	-	564	200	200	200	100	100	-	-	-	1,364
Rent	68	-	-	3,052	-	-	-	302	-	-	3,422
Store expenses & Other	964	1,007	667	515	413	397	364	211	25	-	4,565
Payroll	1,093	-	1,403	-	1,241	-	1,245	-	466	-	5,449
Sales Tax	-	-	1,621	-	-	-	-	1,532	-	-	3,153
Interest	45	-	-	39	-	-	-	39	-	-	124
Deposits	46	200	-	-	-	-	-	-	-	-	246
Professional Fees	343	223	194	141	63	62	46	45	40	45	1,201
	2,559	1,994	4,085	3,947	1,917	559	1,755	2,130	532	45	19,523
Net Cash Flow	\$ 1,258	\$ 3,635	\$ (1,353)	\$ (2,082)	\$ (153)	\$ 800	\$ (725)	\$ (1,603)	\$ (532)	\$ (45)	\$ (799)
Opening Bank Cash	\$ 9,149	\$ 7,670	\$ 8,305	\$ 6,952	\$ 4,871	\$ 4,718	\$ 5,518	\$ 4,793	\$ 3,190	\$ 2,658	\$ 9,149
Net Cash Flow	1,258	3,635	(1,353)	(2,082)	(153)	800	(725)	(1,603)	(532)	(45)	(799)
Revolver/Term Loan Repayment	(2,736)	(3,000)	-	-	-	-	-	-	-	-	(5,736)
Ending Bank Cash	\$ 7,670	\$ 8,305	\$ 6,952	\$ 4,871	\$ 4,718	\$ 5,518	\$ 4,793	\$ 3,190	\$ 2,658	\$ 2,614	\$ 2,614
Opening Revolver/Term Loan	\$ 8,000	\$ 5,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 8,000
Revolver/Term Loan Repayment	(2,736)	(3,000)	-	-	-	-	-	-	-	-	(5,736)
Ending Revolver/Term Loan	\$ 5,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264	\$ 2,264

Dated at London, England, this ²² day of January, 2015.

Mexx Canada Company

Robbie Reynders

Richter Advisory Group Inc.

Per:

Andrew Adessky

District of: Quebec
Division No. 01 - Montréal
Court No. 500-11-047847-146
Estate No. 41-1938986

– 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
Mexx Canada Company
Of the City of Montreal, Borough Saint-Laurent
In the Province of Quebec

The attached statement of projected cash flow of Mexx Canada Company, as of the 20th day of January 2015, consisting of the period from January 11 to March 14, 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 or ☐ 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 or ☐ the insolvent person 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

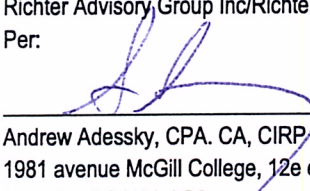
(c) the projection does not reflect the probable and hypothetical assumptions.

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 21st day of January 2015.

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



Andrew Adessky, CPA, CA, CIRP
1981 avenue McGill College, 12e étage
Montréal QC H3A 0G6
Phone: (514) 934-3400 Fax: (514) 934-8603

District of: Quebec
Division No. 01 - Montréal
Court No. 500-11-047847-146
Estate No. 41-1938986

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
Mexx Canada Company
Of the City of Montreal, Borough Saint-Laurent
In the Province of Quebec

Purpose:

Mexx Canada Company filed a Notice of Intention to Make a Proposal on December 3, 2014. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Mexx Canada Company (the "Company"), for the period from January 11 to March 14, 2015, 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 January 20, 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 from January 11 to March 14, 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 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;

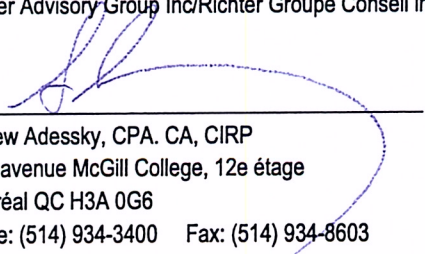
The current government remittances for source deductions and sales taxes are included in the disbursement assumptions.

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 21st day of January 2015.

Richter Advisory Group Inc/Richter Groupe Conseil inc - Trustee

Per:



Andrew Adessky, CPA, CA, CIRP
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District of: Quebec
Division No. 01 - Montréal
Court No. 500-11-047847-146
Estate No. 41-1938986

- 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
Mexx Canada Company
Of the City of Montreal, Borough Saint-Laurent
In the Province of Quebec

The management of Mexx Canada Company, has developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 20th day of January 2015, consisting of the period from January 11 to March 14, 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 London, in England, this 21st day of January 2015.



Mexx Canada Company
Debtor

Robbie Reynders, President

Name and title of signing officer

District of: Quebec
Division No. 01 - Montréal
Court No. 500-11-047847-146
Estate No. 41-1938986

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
Mexx Canada Company
Of the City of Montreal, Borough Saint-Laurent
In the Province of Quebec

Purpose:

Mexx Canada Company filed a Notice of Intention to Make a Proposal on December 3, 2014. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Mexx Canada Company (the "Company"), for the period from January 11 to March 14, 2015, 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 January 20, 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 from January 11 to March 14, 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 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 London, in England, this 21st day of January 2015.



Mexx Canada Company