

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

Division No.: 01 - Montréal
Court No.: 500-11-045951-148
Estate No.: 41-1828720

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

IN THE MATTER OF THE BANKRUPTCY
OF

Public Bike System Company, a not-for-profit body corporate duly incorporated under Part III of the Companies Act, having had its head office at 2113, 32nd avenue, City of Montréal, Province of Quebec, H8T 3J1.

Debtor

– AND –

RICHTER ADVISORY GROUP INC.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

The purpose of this report is to apprise the creditors as to the affairs of the bankrupt as well as to the current status of the administration of Public Bike System Company (the "Debtor" or "PBSC"). We caution the readers that certain of the information contained in this report has been prepared from representations of management and the unaudited books and records of the Debtor. The Trustee has not conducted an audit and has not reviewed in detail the books and records of the Debtor. Consequently, the Trustee expresses no opinion whatsoever with respect to the reliability or completeness of such information.

I. History and presentation of the Company

1. In 2008, the Debtor was incorporated as a not-for-profit organization whose mandate was to provide and operate a bike sharing system. PBSC essentially promoted the "BIXI" system, which is a complementary service to traditional means of public transportation, made up of bikes, bike docks and automated pay stations strategically located throughout the territory of a municipality. Users access the bike system using an access card and by paying a cash consideration based on the use of the bike from one docking station to another (hereinafter "BIXI System").

(français – au recto)

2. Following the development and implementation of the BIXI System on the territory of the Greater Montréal Area, PBSC received several international recognitions. These recognitions led the Debtor to market and sell its product to other cities around the world.
3. The Debtor had two (2) sectors of activities:
 - The bike share activities using the BIXI System in the Greater Montréal Area. Moreover, PBSC operated a bike share service using the BIXI System for the city of Toronto (through its wholly-owned subsidiary BIXI Toronto Inc.) and the Gatineau-Ottawa region;
 - The marketing and sale of the BIXI System across the world.
4. In June 2011, the City of Montréal (the "City") granted a loan of \$37 million to PBSC, and to secure that loan, PBSC granted security in the form of a general hypothec on the universality of its assets to the extent of \$44 million on its assets in favor of the City ("Hypothec"). Furthermore, the National Bank of Canada (the "NBC") granted a line of credit up to a limit of \$11 million to PBSC, which was guaranteed by the City (the "Guarantee").
5. Richter has requested and obtained an independent legal opinion on the validity of the securities held by the City. The legal opinion provided by McMillan LLP confirmed that the Hypothec is valid and opposable up to \$44 million.

II. Events leading to the Bankruptcy

1. Since the foundation of the Company, the sales increased to \$63 million for the fiscal year ended December 31, 2013 but still generated a loss of approximately \$757,000. Even more important, during the last five years, PBSC accumulated losses of approximately \$22 million. These losses, combined with the fact that PBSC was unable to obtain more advances or bridging financing, led to an important liquidity crisis. The financial results for the last five years are presented below:

PUBLIC BIKE SYSTEM COMPANY					
2008-2013 Sales (in thousands of CDN\$)					
Fiscal Year	2013	2012	2011	2010	2009
	Internal	Project	Audited	Audited	Audited
Income					
Sales of the bike sharing system concept in foreign countries	57,909	39,697	27,055	44,093	1,478
Subscriptions, bike rentals and other income	5,235	5,585	4,792	3,464	2,888
	63,144	45,282	31,847	47,557	4,366
Cost of sales	40,815	30,174	22,575	30,914	-
Gross income	22,329	15,108	9,272	16,643	4,366
as a % of sales	35%	33%	29%	35%	100%
Expenses					
Operation	9,962	8,907	6,615	5,606	2,530
Sales and Marketing	774	1,021	1,076	1,114	1,292
Administration	7,366	7,443	3,170	6,236	4,727
	18,101	17,371	10,861	12,956	8,549
Income (loss) before amortization and financial charges					
	4,228	(2,262)	(1,588)	3,687	(4,183)
Amortization	(3,917)	(3,104)	(2,812)	(3,012)	(2,406)
Financial charges	(1,068)	(1,095)	(421)	(2,663)	(1,420)
Net Loss	(757) \$	(6,461) \$	(4,821) \$	(1,989) \$	(8,009) \$

2. In addition to the liquidity crisis that occurred during the summer of 2013, the Debtor had to face the following:
 - a. Substantial cost overruns and difficulties regarding the development and implementation of the payment and managing software, which is essential to the BIXI System;
 - b. Claims and payment holdbacks from some important clients (including the New York City Bike Share and Chicago Department of Transportation).
3. To address its financial hardship, PBSC hired a chief restructuring officer, namely Mr. Dominic Deveau (the "CRO"), a crisis management specialist from Evology Management Inc., to help the Company manage its financial difficulties and to represent management during negotiations with clients and suppliers. The CRO started working at the beginning of October 2013 and remained until the date of bankruptcy.
4. On January 19, 2014, the City in its capacity as the secured creditor (the "Secured Creditor") sent an advanced notice to PBSC pursuant to Section 244 of the *Bankruptcy and Insolvency Act* (the "BIA") to enforce its legal rights regarding the securities held by the City on the assets of the Debtor.

5. On January 20, 2014, in order to protect the value of all its assets, the Debtor filed a Notice of Intention to Make a Proposal in accordance with the BIA (the "Notice of Intention"). The Notice of Intention was sent to all affected creditors on January 23, 2014 and the statement of forecasted cash flows was filed with the Official Receiver on January 29, 2014.
6. On February 19, 2014 and April 7, 2014, the Court extended the time to Make a Proposal until April 7, 2014 and April 30, 2014 respectively, to allow sufficient time for PBSC to complete a process to solicit offers to sell its assets. After the process and other steps, PBSC was unable to file a Proposal and, consequently, bankruptcy occurred on May 1, 2014.

III. Disposal of Assets

a. Sale Process of International Assets

1. Following the filing of the Notice of Intention, the Debtor offered for sale its business activities and assets relating to the marketing of the BIXI System internationally ("International Assets").
2. The Debtor requested that Richter administer the sales process of the International Assets. The assets related to the operation of the BIXI System in the Greater Montréal Area were excluded from this sale process.
3. On February 7, 2014, the sale process of International Assets was launched and numerous measures were taken to identify potential purchasers and encourage them to present offers. The bid process led by Richter is broadly presented in the following table and explained hereafter:

Public Bike System Company Summary of sale process			
	Strategic Purchasers	Financial Purchasers	Total
Number of companies approached	56	75	131
Number of confidentiality agreements signed and accesses to virtual data room granted	6	13	19
Soumissions reçues	3	3	6

4. More than one hundred and thirty one (131) potential purchasers were approached. The latter represented entities a field compatible to the Debtor's business (56) or private investment firms (75).
5. The potential purchasers received, by email and/or by mail, a document summarizing the relevant information including terms and conditions governing the filing of formal offers to purchase the International Assets.
6. Nineteen (19) prospective purchasers signed confidentiality agreements and were granted access to a virtual data room containing information they needed to analyze the International Assets.
7. Richter performed follow-ups with the bidders during the following weeks. Richter coordinated and took part in meetings between the Company and representatives of some potential bidders. Several interested purchasers visited the Company and inspected the assets.
8. The sale process was completed in three different rounds between February 7, 2014 and April 4, 2014.
9. On April 11, 2014, the Court issued an order authorizing the sale of the International Assets to 9257-7865 Québec inc. ("Rodi"), a Quebec company, for a sale price of \$4 million fully payable in cash upon closing of the transaction. This transaction was concluded on April 22, 2014.

b. Disposition of Montréal Assets

1. Since the beginning of the proceedings and on numerous occasions, the City has taken the view that it is in the public interest to pursue the bike share activities in Montréal. It had therefore been decided not to sell the Montréal Assets, but rather commence preparation for the 2014 season of bike share activities in the Greater Montréal Metropolitan Area.
2. The City, after reviewing the initial offers received as part of the sale process of International Assets, noted that the initial amounts offered would be insufficient to cover the amounts owed to it. On March 19, 2014, the City, as secured creditor, served a "Notice of exercise of hypothecary right to take in payment" regarding the property subject to a charge in favour of the City (hereinafter the "Notice of the City").

3. The Notice of the City indicated that, as of March 14, 2014, the amount owing to the City by the Debtor amounted to \$31,746,575. As mentioned above, the sale of the International Assets generated an amount of \$4,000,000 at closing. Once the sale was completed, the secured debt of the City totaled approximately \$27,000,000 (hereinafter the "Residual Debt").
4. Considering the anticipated amount of the Residual Debt after the sale of the International Assets, the City decided on April 11, 2014 to present the Debtor and the Trustee with a Sale and Purchase Agreement of the Montréal Assets in consideration of the reduction of the secured debt in an amount of \$11,915,069, which represented the amortized value of the Montréal Assets (hereinafter, the "Sale Agreement"), instead of requesting the Debtor to proceed with a formal sale process of the Montréal Assets or of taking in payment of the assets. On April 14, 2014, this Sale Agreement was accepted by the Debtor.
5. On April 14, 2014, the Debtor filed a Motion asking the Court to approve the Sale Agreement or authorize the Debtor to sign a voluntary surrender under the Notice of the City issued on March 19, 2014. On April 16, 2014, the Court granted an Order authorizing the Debtor to sign, in favour of the City, a voluntary surrender for the City to take in payment the Montréal Assets under the Notice of the City (hereinafter the "Taking in Payment"). The effect of the Taking in Payment was to discharge all of the Residual Debt of the City. Notwithstanding the foregoing, the City remains an ordinary creditor of the Debtor for approximately \$6,000,000, resulting from a distinct payment made by it to NBC, in subrogation, pursuant to the Guarantee which had been issued by the City. The Taking in Payment has no effect on eradicating this latter debt.

IV. **Statement of Affairs (amended)**

As of May 1, 2014, the Debtor's balance sheet was summarized as follows:

Liabilities	
Secured creditor	Nil
Ordinary creditors	\$17,105,590
	<hr/>
	\$17,105,590
Assets	
Inventory	Nil
Accounts receivable	Nil
Other assets (Note 1)	Nil
	<hr/>
Deficit	\$17,105,590
	<hr/>

(français – au recto)

Note 1:

Only one known asset has neither been sold nor relinquished. It consists of shares of a subsidiary company, Bixi Toronto Inc., which have no value since Bixi Toronto Inc. ceased its operations and has no remaining assets.

The Debtor also has an account receivable from Revenu Québec regarding input sales taxes credits. We understand that Revenu Québec intends to offset the credits owed in exchange for amounts payable to suppliers. The Trustee believes that this position is questionable. In addition, the City, under the Taking in Payment, is asserting rights to these amounts in the event that the refunds are received; in which latter case, the City's legal right to a refund will be reviewed by the Trustee's counsel.

1. ASSETS

- a) All of the known assets have been disposed of, with the sale of the International Assets concluded on April 22, 2014 and the voluntary surrender signed on April 29, 2014 pursuant to the Taking in Payment of the Montréal Assets. Each transaction has been approved by the Court. The Trustee is not aware of other assets, except those mentioned in Note 1 above ("Other Assets").

2. LIABILITIES

a) Secured creditor

The voluntary surrender to the City has been approved by the Court on April 16 and accepted by the Debtor on April 29, 2014. Consequently, the secured debt is extinguished by the Taking in Payment. The Trustee is not aware of other secured creditors.

b) Ordinary Creditors

The Debtors' books and records (unaudited) reflect amounts due to the ordinary creditors amounting to \$17,105,590.45. Of this amount, approximately \$6,500,000 are bank advances provided by NBC to the Debtor which had been guaranteed by the City. At the present date, as mentioned above, the advances of NBC had been repaid by the City, in subrogation.

The Trustee has not yet received sufficient proofs of claim to confirm the total amount owed to ordinary creditors.

V. **Summary of the Preliminary Administration**

a) **Books and Records**

The Trustee took possession of the books and records of the Debtor for future reference.

b) **Conservatory and Security Measures**

Since the sale of the International Assets concluded on April 22, 2014 and the voluntary surrender had been signed on April 29, 2014, the Debtor has no longer any physical assets. Therefore, the Trustee has not taken special conservatory and security measures. The acquirers of the assets temporarily occupy the premises and the Trustee has renounced its interest in the premises. The Trustee has also been informed that some goods were previously rented from third parties. The Trustee consequently advised those third parties that it had no interest in the goods and they could take the appropriate measures to repossess their goods.

c) **Legal Proceedings**

Following the filing of the Notice of intention, a motion for the revendication of goods had been filed against PBSC by some suppliers, being C.I.F Métal Ltée, Groupe Poitras Inc., Fournier Industries Inc. and 9169-0362 Québec Inc. (the "Claimants"). The Debtor, the City as secured creditor and the Claimants had agreed on an amount of \$95,538.38 to be set aside in the trust account of the Trustee until the validity of claims has been determined. As of the date of this report, this remains unchanged.

Other than this matter, no legal proceedings have been commenced regarding the assets.

d) **Reviewable Transactions and Preferential Payments**

The Trustee has performed a cursory and preliminary review of the books and records of the Debtor to identify payments/transactions made by the Debtor which could be in the nature of a preference/reviewable transaction within the meaning of the BIA. The Trustee shall report its preliminary findings to the Inspectors of the Estate, however, at present there are no indications that material preferences or reviewable transactions have taken place but a more detailed study is required prior to coming to a definitive conclusion.

VI. Expected realization and planned distribution

At this stage, the Trustee expects no realization and as such, it is the Trustee's view that no dividends will be available to the secured and ordinary creditors.

Other matters

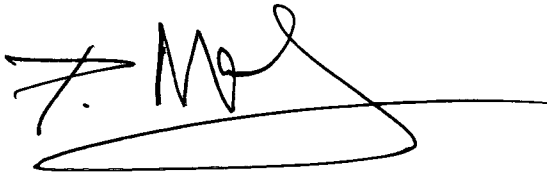
In order to provide a complete disclosure, the Trustee informs the creditors of the following:

- The Trustee has, during the previous months, worked closely with the Debtor and the City in order to restructure the Debtor and save the BIXI system for the benefit of Montréalers.
- The City has given the Trustee a limited and conditional guarantee of its professional fees so that the Trustee may administer the bankruptcy in the event that the assets of the Bankrupt Estate are insufficient to cover the professional fees and disbursements. The guarantee is limited to \$49,999. The guarantee only covers professional fees and disbursements relating to the duties that the Trustee is required to perform under the *Bankruptcy and Insolvency Act* or that the Trustee may deem necessary to accomplish in support of those duties, except for other professional fees and disbursements related to any other duty that the Trustee may judge appropriate to perform as Trustee of PBSC, whether requested or not by the Inspectors designated to assist him.
- The Trustee, although it does not represent NBC in the current matter, has previously represented NBC in other matters.
- The Trustee has been informed by the attorneys of at least two of the Claimants' creditors ("Attorneys") that these creditors or their representatives want to be named inspectors to the bankruptcy. The inspectors to the bankruptcy may give instructions to the Trustee, including to perform Section 163 examinations and to file legal proceedings against third parties in the bankruptcy process. These Attorneys have also advised the Trustee that they may possibly request the Trustee to file claims against the City or NBC.

The Trustee hereby informs the creditors that it does not intend to take actions against either the City or NBC. Accordingly, if the creditors wish to consider any legal proceeding against any either institution, the Trustee recommends it be replaced by another Trustee at the First Meeting of Creditors. The Trustee has prior hereto informed the aforementioned Attorneys and the Superintendent of Bankruptcy of its position.

Dated at Montréal, this 21st day of May 2014.

Richter Advisory Group Inc.
Trustee

A handwritten signature in black ink, appearing to read 'P. Manel', with a long horizontal flourish extending to the right.

Philip Manel, CPA, CA, CIRP