

**District of Ontario
Division No. 09-Mississauga**

**Court File No. 32-1869233
Estate No. 32-1869233**

**Court File No. 32-1869237
Estate No. 32-1869237**

**Court File No. 32-1869238
Estate No. 32-1869238**

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY**

**IN THE MATTER OF THE PROPOSAL OF
733907 ONTARIO LTD. O/A EUROPEAN QUALITY MEATS & SAUSAGES
OF THE CITY OF BRAMPTON,
IN THE REGIONAL MUNICIPALITY OF PEEL,
IN THE PROVINCE OF ONTARIO**

AND

**IN THE MATTER OF THE PROPOSAL OF
1268549 ONTARIO INC.
OF THE CITY OF BRAMPTON,
IN THE REGIONAL MUNICIPALITY OF PEEL,
IN THE PROVINCE OF ONTARIO**

AND

**IN THE MATTER OF THE PROPOSAL OF
LEIDER PROPERTIES INC.
OF THE CITY OF BRAMPTON,
IN THE REGIONAL MUNICIPALITY OF PEEL,
IN THE PROVINCE OF ONTARIO.**

**SECOND REPORT OF THE PROPOSAL TRUSTEE
June 11, 2014**

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Appendix B Sales Order

INTRODUCTION

1. 733907 Ontario Ltd. o/a European Quality Meats & Sausages (“European”), Leider Properties Inc. (“LeiderCo”), and 1268549 Ontario Inc. (“HoldCo”) (collectively, all three are referred to as the “Companies”) filed a Notice of Intention to Make Proposal (“NOI”) under the *Bankruptcy and Insolvency Act* (Canada) (“BIA”) on April 14, 2014. BDO Canada Limited was named as the Proposal Trustee (“Proposal Trustee”) in each of the Companies’ proposal proceedings (“Proposal Proceedings”).
2. European carries on business as a manufacturer and seller of meat products for wholesale distribution to the food services industry and retail distribution to the public. LeiderCo and Holdco are related companies to European which legally and beneficially own (respectively) the land, equipment and other personal property used by European in its business. The history of the filing of the NOIs and the Companies’ business operations are set out in the First Report of the Proposal Trustee dated April 28, 2014 (the “First Report”), filed in the within proceedings. A copy of the First Report is attached (without the Appendices thereto) as Appendix A.
3. On May 6, 2014, the Companies sought and obtained identical orders in each of the Proposal Proceedings (collectively, the “Sales Order”) granted by the Honourable Mr. Justice Penny authorizing, among other things, the following:
 - a) Implementation of the Sales Process (as defined therein and described in detail in the First Report), together with the authorization for the Proposal Trustee to carry out the Sales Process and take such incidental steps as it considers necessary or desirable in the circumstances to complete the Sales Process;
 - b) The consolidation of the Proposal Proceedings for administration purposes, including, without limitation, the preparation and filing of motions and reports to creditors, the Official Receiver, and the Court, as may be required by the BIA; and

- c) An extension of the stay of proceedings of 45 days and the time by which to file proposals in accordance with the provisions of the BIA from May 12, 2014 to June 26, 2014.
- 4. A copy of the Sales Order which was issued in the estate of European is attached as Appendix B.
- 5. This is the Second Report of the Proposal Trustee (“Report”), the purpose of which is to:
 - a) Provide this Court with information regarding the activities of the Proposal Trustee including an update on the status of the Sales Process; and
 - b) Support the Companies’ request for an order which:
 - (i) Approves an extension of the stay of proceedings of 45 days and the time by which to file proposals from June 26, 2014 to August 10, 2014; and
 - (ii) Approves the Report and the conduct and activities of the Proposal Trustee described herein.
- 6. This Report is to be read in conjunction with the affidavit of Morris Leider sworn in connection with the Companies’ motion returnable June 18, 2014.
- 7. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Companies’ representatives, the Companies’ books and records and discussions with its representatives. The Proposal Trustee has not performed an audit or other verification of such information. An examination of the Companies’ financial forecasts as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this Report is based on assumptions formulated by the Companies’ representatives regarding future events; actual results achieved may vary from this information and these variations may be material.

ACTIVITIES OF THE PROPOSAL TRUSTEE

Updates to Creditors

8. The Proposal Trustee has notified European's creditors that information regarding the proceedings can be accessed at the website, www.extranets.bdo.ca/european/. The Proposal Trustee has posted the First Report, the Sales Order and related court documents on its website.
9. In accordance with the terms of the forbearance agreement (referred to in the First Report) between Bank of Montreal ("BMO", a secured creditor of the Companies) and the Companies, the Proposal Trustee has updated BMO on all relevant issues of European's operations, activities, and restructuring efforts. The updates have been in the form of weekly written reports.

Update on Status of the Sales Process

10. The Sales Process as approved by this Court is designed to be completed by the end of August 2014. The proposed timeline (subject to reasonable adjustment) is as follows:

Distribution Date for Teaser.....	May 6, 2014
Suggested deadline for receipt of LOIs.....	May 30, 2014
Deadline for receipt of Offer Letters.....	July 18, 2014
Deadline for negotiations with an offeror and the completion of the Agreement(s).....	August 5, 2014
Transaction approval hearing at court.....	August 19, 2014
Closing of approved transaction.....	August 29, 2014

11. In accordance with this timeline, the Proposal Trustee, with the assistance of the Companies' management, has thus far completed the following:
 - Finalized a list comprising 49 potential bidders to approach regarding the opportunity to purchase or invest in the Companies' business;

- Prepared and distributed a “teaser” setting out the purchase opportunity to be delivered to potential bidders to elicit interest;
 - Prepared a confidentiality agreement (the “CA”) which potential bidders are required to execute in order to receive confidential information regarding the purchase or investment opportunity;
 - Prepared a confidential information memorandum (the “CIM”) which provides a concise summary of the Companies assets and operations and which allows potential bidders to assess the Companies’ financial and operating situation and the purchase or investment opportunity;
 - Published an advertisement in the national edition of The Globe and Mail on May 13, 2014 to canvas further interested parties, all of whom shall be added to the list of potential bidders;
 - Prepared a comprehensive electronic data room (the “Data Room”) that includes relevant financial, operational and corporate data that would reasonably be required by a potential bidder in the due diligence process.
12. Thus far, the Proposal Trustee has been in contact with 58 parties regarding the potential sale or investment opportunity. A number of parties have executed the CA and received a copy of the CIM. The Proposal Trustee has arranged a number of site tours in connection with the due diligence stage of the Sales Process.
13. The Proposal Trustee is satisfied with the progress to date in the Sales Process and is encouraged by the level of interest expressed so far. The next milestone in the Sales Process is the deadline for receipt of Offer Letters.
14. The Proposal Trustee supports the continuation of the Sales Process in accordance with the Sales Order.

Monitoring Receipts and Disbursements

15. The Proposal Trustee arranged reporting and monitoring processes with management, including reviewing all cash-flow and financial reporting and daily receipts and disbursements of the Companies.

16. The Proposal Trustee reviews all cash-flow and financial reporting prepared by management of the Companies. The Monitor also reviews daily receipts and disbursements.
17. European's actual cash-flow from operations for the eight weeks ending May 31, 2014, including a comparison to the forecasted amounts for that period, is summarized as follows:

	<u>For the 8 weeks to May 31, 2014</u>		
	FORECAST	ACTUAL	VARIANCE Positive / (Negative)
Bank indebtedness, beginning	<u>\$ (3,169,813)</u>	<u>\$ (3,169,813)</u>	
CASH RECEIPTS			
Sales and collections	5,250,968	4,526,016	\$ (724,952)
HST refunds	144,708	101,795	(42,913)
	<u>5,395,676</u>	<u>4,627,811</u>	<u>(767,865)</u>
CASH DISBURSEMENTS			
Shareholder	-	12,000	(12,000)
Vehicle loans	2,542	-	2,542
Cost of sales - materials	3,471,658	3,063,567	408,091
Cost of sales - overhead	264,599	165,839	98,760
Professional expense	85,000	103,592	(18,592)
Administration expenses	96,312	89,766	6,546
Building expense	242,883	150,505	92,378
Delivery expenses	94,000	70,860	23,140
Selling expenses	52,875	22,174	30,701
Payroll	798,868	702,996	95,872
Payroll deductions	247,512	278,769	(31,257)
HST on Purchases	133,005	-	133,005
	<u>5,489,254</u>	<u>4,660,068</u>	<u>829,186</u>
Net change	<u>(93,578)</u>	<u>(32,257)</u>	<u>\$ 61,321</u>
Bank indebtedness, ending	<u>\$ (3,263,391)</u>	<u>\$ (3,202,070)</u>	

18. Actual cash receipts for the period fell short of the forecasted amount by almost \$768,000. The significant items contributing to the variance were as follows:

- a) The assumptions relating to the collection of cash receipts during the first four weeks of the forecast period have proven to be too optimistic as European collected approximately 73 percent of the forecasted receipts. However, collection results for the remaining four weeks of the forecast period were significantly improved as European collected approximately 98 percent of the forecasted receipts;
 - b) The tight cash-flow posed certain challenges as it restricted management's ability to purchase raw materials for immediate production needs. As a result, European short-shipped a number of orders to its customers;
 - c) The decrease in receipts required management to decrease European's expenditures accordingly. As a result of lower purchases, European's refunds on Harmonized Sales Tax ("HST") paid on purchases also decreased.
19. As mentioned above, the lower than forecasted cash receipts required management to defer various purchases to ensure that European's bank indebtedness did not exceed its authorized borrowing limit. As a result, actual cash disbursements for the period are approximately \$829,000 lower than the forecasted amount. A substantial portion of the reductions was made in the area of cost of sales (approximately \$507,000). Other notable variances are as follows:
- a) Payroll costs are approximately \$99,000 lower than forecasted. The forecasted payroll cost assumed higher working hours for hourly staff which resulted in a difference of approximately \$63,000. The balance of the variance of the variance represents a timing difference for various payroll benefits such as Employer Health Tax, group insurance, WSIB premiums, vacation pay, etc. which are not remitted at the time of the payroll being issued but at a later date;
 - b) The forecast segregated HST paid on purchases. However, the actual activity includes HST paid on any expenditure as part of the specific expenditure; and
 - c) Payroll deductions are approximately \$31,000 higher than forecasted as European remitted a payment to Canada Revenue Agency for payroll deductions related to a payroll issued prior to the Date of Filing which was not contemplated in the forecast. European remitted payroll deductions totalling

\$53,186.42 for the pay period of March 2, 2014 to March 15, 2014 plus an additional \$5,000.00 towards expected interest and penalties for late payment. As unremitted payroll deductions enjoy a super-priority in any event, the payment minimizes any further penalties and interest that may be levied against European.

20. Despite the challenges encountered, European's bank indebtedness at May 31, 2014 is approximately \$61,000 lower than the forecasted amount.
21. During the proposed extension period, the Companies' cash-flow projections indicate the Companies have sufficient cash-flow to meet their financial obligations (with the exception of professional fees).
22. With respect to professional fees, and as discussed in detail in the First Report, European will not generate sufficient cash-flow during the restructuring period to satisfy all professional costs as they are incurred. As a result, professional fees are being incurred and are accruing unpaid.
23. To secure payment of professional fees and disbursements incurred in the Proposal Proceedings, the "Professional Group", comprising the Proposal Trustee, Cassels Brock & Blackwell LLP (counsel to the Proposal Trustee), Davis LLP (counsel to the Companies) and Gilmore & Company LLP (accountant and financial advisor for the Companies) sought an administration charge (the "Administration Charge") over the property and assets of the Companies. The Administration Charge was granted by this Court and has the priority set out in the Sales Order.
24. The Sales Order also provides that the Professional Group may come back before this Court to seek additional relief as may be appropriate from the Court with respect to the Administration Charge. At this time, no further relief is sought but the Proposal Trustee will continue to monitor professional fees as they are incurred and report in due course as to the status of the Administration Charge.

EXTENSION OF STAY OF PROCEEDINGS

25. The Sales Process is expected to run until the end of August 2014.

26. When designing the timeline for the Sales Process, it was anticipated that the Companies would require two further extensions of the stay of proceedings and the time by which to file a proposal in order to reach the anticipated completion of the Sales Process (including the request currently before this Court).
27. The Companies previously sought and obtained an extension of the stay of proceedings and the time by which to file proposals from May 12, 2014 to June 26, 2014.
28. The Companies are requesting a further extension of the stay of proceedings of 45 days and the time by which to file proposals from June 26, 2014 to August 10, 2014 on the following grounds:
 - a) The Sales Process is proceeding on schedule as anticipated in the First Report but is not scheduled to be completed until August 2014, after the current deadline for the filing of proposals;
 - b) The Companies seek the extension to permit them to fully pursue the Sales Process and assess whether a sale or a proposal (or a combination of the two) would be most beneficial to the Companies' creditors;
 - c) The extension will increase the likelihood of a feasible sale transaction or a proposal;
 - d) The continuation of operations will aid the Companies' efforts in marketing the assets and operations of European on a going-concern basis; and
 - e) The Proposal Trustee supports the continuation of the Sales Process.
29. The Companies' cash-flow projections indicate the Companies have sufficient cash-flow to meet their financial obligations, with the exception of professional fees, during the proposed extension period.
30. The Proposal Trustee supports the Companies' request to extend the stay of proceedings of 45 days and the time by which to file a proposal. The Proposal Trustee does so for the following reasons:
 - a) Thus far, European has continued operations in the normal course and, in the opinion of the Proposal Trustee, has complied with the requirements of the BIA;

- b) The Companies have acted, and continue to act, in good faith and with due diligence; and
- c) In the opinion of the Proposal Trustee, no creditor will be materially prejudiced if the extensions are granted.

CONCLUSION AND RECOMMENDATION

- 31. Based on the above, the Proposal Trustee respectfully recommends that the Court grant an order providing the relief described in section 5(b) of this Report.

All of which is respectfully submitted this 11th day of June, 2014.

BDO CANADA LIMITED
in its capacity as Trustee under the Notices of
Intention to Make a Proposal filed by
733907 Ontario Ltd. o/a European Quality Meats &
Sausages, 1268549 Ontario Inc., and Leider
Properties Inc.
and not in its personal capacity
Per:



Eugene P. Migus, CPA, CA, CIRP
Senior Vice President