

District of Ontario  
Division No. 09-Mississauga

Court File No. 32-1859233  
Estate No. 32-1859233

Court File No. 32-1859237  
Estate No. 32-1859237

Court File No. 32-1869238  
Estate No. 32-1859238

**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.**

**THIRD REPORT OF THE PROPOSAL TRUSTEE  
July 25, 2014**

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## 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. The history of the Sales Process is set out in the Second Report of the Proposal Trustee dated June 11, 2014 (the "Second Report"), a copy of which is attached (without the Appendices thereto) as Appendix C.
6. On June 18, 2014, the Companies sought and obtained an order (the "Extension Order") granted by the Honourable Mr. Justice McEwen authorizing, among other things, 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 June 26, 2014 to August 11, 2014. A copy of the Extension Order is attached as Appendix D.
7. This is the Third 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 August 11, 2014 to September 25, 2014; and
    - (ii) Approves the Report and the conduct and activities of the Proposal Trustee described herein.
8. This Report is to be read in conjunction with the affidavit of Morris Leider sworn in connection with the Companies' motion returnable August 6, 2014.
9. 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

10. The Proposal Trustee has notified European's creditors that information regarding the proceedings can be accessed at the website, [www.extranets.bdo.ca/european/](http://www.extranets.bdo.ca/european/). The Proposal Trustee has posted the First and Second Reports, the Sales Order, the Extension Order, and related court documents on its website.
11. 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

12. 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

13. As noted in the Second Report, the Proposal Trustee initiated the Sales Process and implemented the Sales Procedures as described therein.
14. Thus far, the Proposal Trustee has been in contact with 62 parties regarding the potential sale or investment opportunity.
15. During June 2014, a number of parties submitted non-binding letters of intent to the Proposal Trustee outlining their proposed offer as well as any conditions or factors which would affect their offer. The Proposal Trustee was satisfied with the submissions by the parties and provided each of them with access to the Data Room so that the parties could further conduct their due diligence process.
16. 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. Although the Sales Process specified a deadline of 1:00 pm on July 18, 2014 for the submission of Offer Letters, the Proposal Trustee has since extended the deadline to 1:00 pm on July 25, 2014.
17. The Proposal Trustee supports the continuation of the Sales Process in accordance with the Sales Order.

#### **Monitoring Receipts and Disbursements**

18. 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.
19. The Proposal Trustee reviews all cash-flow and financial reporting prepared by management of the Companies. The Monitor also reviews daily receipts and disbursements.
20. European's actual cash-flow from operations for the 15 weeks ending July 19, 2014 (the most current numbers available), including a comparison to the forecasted amounts for that period, is summarized as follows:

	For the 15 weeks to date		
	FORECAST	ACTUAL	VARIANCE Positive / (Negative)
<b>Bank indebtedness, beginning</b>	\$ (3,169,813)	\$ (3,169,813)	
<b>CASH RECEIPTS</b>			
Sales and collections	11,415,544	9,404,996	\$ (2,010,548)
HST refunds	222,819	219,310	(3,509)
	<u>11,638,363</u>	<u>9,624,306</u>	<u>(2,014,056)</u>
<b>CASH DISBURSEMENTS</b>			
Shareholder	-	30,000	(30,000)
Vehicle loans	5,361	-	5,361
Cost of sales - materials	7,813,960	6,320,364	1,493,595
Cost of sales - overhead	558,062	464,963	93,099
Professional expense	120,000	169,635	(49,635)
Administration expenses	196,995	181,359	15,637
Building expense	498,513	430,834	67,679
Delivery expenses	190,250	149,863	40,387
Selling expenses	108,000	63,425	44,575
Payroll	1,514,047	1,328,497	185,550
Payroll deductions	472,849	516,279	(43,430)
HST on Purchases	269,856	-	269,856
	<u>11,747,894</u>	<u>9,655,219</u>	<u>2,092,674</u>
<b>Net change</b>	<u>(109,532)</u>	<u>(30,913)</u>	<u>\$ 78,618</u>
<b>Bank indebtedness, ending</b>	<u>\$ (3,279,344)</u>	<u>\$ (3,200,726)</u>	

21. Actual cash receipts for the period fell short of the forecasted amount by approximately \$2.01 million. The significant items contributing to the variance were as follows:

- a) Lower than forecasted sales to one of European's customers, Wal-Mart Canada Corp ("Wal-Mart"):
  - Sales of existing product lines to Wal-Mart were approximately \$840,000 lower than projected. Management attributes the reduction in sales to European's reduction in advertising in Wal-Mart's weekly flyers; and

- Certain delays experienced in launching two new product lines for Wal-Mart. The cash-flow projections assumed sales of the two product lines would total approximately \$750,000 by July 31, 2014. However, because of the delays encountered, actual sales to July 20, 2014 totalled approximately \$281,000;
  - b) 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 83 percent of the forecasted receipts; and
  - c) 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.
22. 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 \$2.09 million lower than the forecasted amount:
- a) A substantial portion of the reductions was made in the area of cost of sales (approximately \$1.59 million). Other notable variances are as follows:
  - b) Payroll costs are approximately \$185,000 lower than forecasted. The forecasted payroll cost assumed higher working hours for hourly staff which resulted in a difference of approximately \$63,000. The majority 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; and
  - c) The forecast segregated HST paid on purchases. However, the actual activity includes HST paid on any expenditure as part of the specific expenditure.
23. Despite the challenges encountered, European's bank indebtedness at July 19, 2014 is approximately \$79,000 lower than the forecasted amount.
24. The Companies' cash-flow projections, which were originally prepared for the 21-week period ending August 30, 2014, indicate the Companies have sufficient cash-flow to meet their financial obligations (with the exception of professional fees) to that date. The Proposal Trustee requested the Companies to prepare an updated



cash-flow projection for the additional time during the proposed extension period. The Proposal Trustee will provide the updated cash-flow projection, along with its comments on same, in the near future in a separate supplemental report.

25. 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.

#### **ADMINISTRATION CHARGE**

26. 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.
27. As at June 30, 2014, the aggregate professional fees and disbursements of the Professional Group total approximately \$447,000 (before Harmonized Sales Tax). Further professional fees and disbursements will be incurred. As such, the amount exceeds the Administration Charge.
28. 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**

29. The Sales Process is expected to run until the end of August 2014.
30. When designing the timeline for the Sales Process, it was anticipated that the Companies would require one 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).
31. The Companies previously sought and obtained extensions of the stay of proceedings and the time by which to file proposals to August 11, 2014.
  32. The Companies are requesting a further extension of the stay of proceedings of 45 days and the time by which to file proposals from August 11, 2014 to September 25, 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.
  33. The Companies' available cash-flow projections indicate the Companies have sufficient cash-flow to meet their financial obligations, with the exception of professional fees, until August 30, 2014. The Proposal Trustee anticipates receipt of updated cash-flow projections which will cover the balance of the proposed extension period and will report on same in a supplemental report to be filed shortly. However, the Proposal Trustee is not currently aware of any fact or circumstance which would affect the Companies' ability to continue meeting their financial obligations (other than to the professionals) during the balance of the proposed extension period.
  34. 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

- 35. Based on the above, the Proposal Trustee respectfully recommends that the Court grant an order providing the relief described in section 7(b) of this Report.

All of which is respectfully submitted this 25<sup>th</sup> day of July, 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