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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF TERREBONNE
DIVISION No.: 18-Terrebonne
COURT No.: 700-11-017950-181
ESTATE No.: 41-2336274

S U P E R I O R C O U R T
Commercial Division

IN THE MATTER OF THE PROPOSAL OF:

CONCEPT GOURMET DU VILLAGE INC., a legal person incorporated under the laws of Canada, having its registered office at 539 Chemin du Village, in the city of Morin-Heights, Quebec, J0R 1H0.

Insolvent person

– and –

DELOITTE RESTRUCTURING INC.
(Martin Franco, CPA, CA, CIRP, LIT, designated responsible person) having a place of business at 1190 Avenue des Canadiens-de-Montréal, suite 500, Montreal, Quebec, H3B 0M7

Trustee

**REPORT TO THE COURT SUBMITTED BY DELOITTE RESTRUCTURING INC.
AS TRUSTEE TO THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
CONCEPT GOURMET DU VILLAGE INC. IN RELATION TO
ITS MOTION FOR THE ISSUANCE OF AN APPROVAL AND VESTING ORDER (the "Motion")**

INTRODUCTION

1. Concept Gourmet du Village Inc. (the "**Company**" or "**Gourmet**") is a private company which was incorporated in 1984 under the *Canada Business Corporation Act,* R.S.C., 1985, c. C-44, with its principal place of business in Morin-Heights, Quebec.

2. Over the past several years, the Company has grown to become one of the leading manufacturers of specialty gourmet foods to the gift and specialty markets in both Canada and the United States.

3. The Company has its operations in Morin-Heights and is leasing its premises from an affiliated company, 3522920 Canada Inc. ("**3522**").

4. As at the date of this report, the Company had twenty-five (25) non-unionized employees, all of which are located in Morin-Heights, in addition to the fifteen (15) sales representatives in Canada and ten (10) sales agents in the United States.

5. The Company has four shareholders: Tott Family Trust, 7950888 Canada Inc, 3522 and

Michael A. Tott, who is also the CEO of the Company.

6. The Company has been experiencing financial difficulties for the past several years, mainly due to the constant decrease of its sales. In early 2017, the Company contacted Deloitte Restructuring Inc. ("**Deloitte**") in order to prepare a detailed cash flow and determine a course of action in order to restructure its operations and reduce the pressure on its working capital.

7. Unfortunately, even though the Company implemented various measures to reduce to a minimum the operating costs, the Company was unable to generate sales to the targeted level and consequently, realized that it could no longer generate sufficient liquidities to allow it to meet its obligations as they become due and, as such, has become insolvent.

8. Once management realized that they wouldn't be able to turn around the operations, they decided to initiate a solicitation process to identify a strategic partner that could potentially take over the operations, maximize the realization value for all stakeholders, and secure the employment of a maximum of its employees.

9. This solicitation process was initiated in spring 2017 with the support of Tidewater Group Inc. ("**Tidewater**"), while the Company tried to maintain the going concern of the Company. As explained in more detail further in this report, the various parties that had an interest in the operations of the Company wanted any potential transaction to be approved by this Court so that all purchased assets would be transferred free and clear of all encumbrances.

10. Due to the above, the Company had no other choice but to file on January 23, 2018, a Notice of Intention to Make a Proposal (the "**NOI**") pursuant section 50.4 of the *Bankruptcy and Insolvency Act* (the "**BIA**"), with the objective of completing a sale transaction in respect of its assets with a third party dealing at arm's length, and keep its business and operations intact as a going concern to the greatest extent possible.

11. At this time, the Trustee notes that there are four (4) creditors of the Company that have registered security interest against some or all of the Company's assets: RBC, Farm Credit Canada, Investissement Québec, and Meridian. The creditors that have registered their security at the Register of personal and moveable real rights ("**RPMRR**") and the unsecured creditors, as at January 23, 2018, are detailed in Appendix A. The Trustee will obtain a legal opinion on the validity of the security held by each secured creditor.

PURPOSE OF THIS REPORT

12. As set out further below, the Company received a binding letter of intent (the "**LOI**") to purchase ("*as-is, where is*") all or substantially all of its assets (collectively, the "**Purchased Assets**"), including the following:

    a. All inventory (including all food items, hard goods, packaging, and displays);

    b. All accounts receivable;

    c. All tangible capital assets, including the Company's equipment; and

    d. All intangible assets.

13. The purpose of this Trustee's report to the Court (the "**Trustee's Report**") is to:

    a. Inform this Honourable Court on the activities of the Debtor;

b. Inform this Honourable Court on the sale efforts undertaken and initiated by the Company;

c. Inform this Honourable Court on the Company's proposed sale; and

d. Inform this Honourable Court on the proposed Administrative Charge.

ACTIVITIES OF THE DEBTOR

14. Events leading to the Company's insolvency and restructuring efforts:

    a. In 2011, sales started to drop as the effects of the shrinking gift industry hit. In order to finance its operations, the Company used a significant portion of its then accumulated retained earnings, as well as additional funds loaned by other long-term lenders;

    b. In 2012, the "La Grange" project opened, which was a restaurant in respect of which the Company guaranteed a portion of its obligations. The sales and traffic were good at the beginning, but the project then delivered losses;

    c. In the following years, despite reductions in the Company's expenses and the engagement of various consultants hired to assist the Company in becoming profitable again, the Company's revenues continued to decrease;

    d. In 2014, the restaurant and operations of the "La Grange" project were voluntarily bankrupted, resulting in not only an intercompany debt not being repaid in favour of the Company, but also in an additional debt load being assumed by the Company as indicated above. During that year, the Company's account with the RBC, its principal secured creditor, was transferred to special accounts;

    e. In early 2017, given its financial difficulties, the Company retained the services of Deloitte to act as its financial consultant and to assist in reviewing its financial projections and identify options to reduce the pressure on its working capital while management was concentrating its efforts in maximizing revenues;

    f. Despite its restructuring efforts, the Company's financial situation continued to deteriorate due to a lower order book than anticipated for the peak season. Cash flow continued to suffer and RBC bankers became increasingly vigilant. Gourmet became active looking for outside investors.

15. The Company retained the services of Tidewater in order to initiate a solicitation process, the purpose of which was to thoroughly canvass the market in order to find a suitable investor, financier or purchaser for the Company's business and assets, and ultimately, allow it to continue its business and operations as a going concern.

SALE EFFORTS UNDERTAKEN AND INITIATED BY THE COMPANY

16. As part of its mandate, Tidewater prepared the following solicitation package (Exhibit P-8):

    a) Personalized letters to each potential investors and purchasers to inform them of an opportunity to purchase the Company's assets;

    b) A detailed offering memorandum containing a detailed description of the Company's business and assets up for sale;

    c) A confidentiality agreement to be signed by those persons potentially interested in purchasing the Company's assets and obtaining further information on the Company.

17. In addition, the Company, with the assistance of another one of its consultant, also set up a virtual data room containing relevant information and documents regarding the Company's business and assets.

18. In total, based on various discussions with management, we understand that the teaser was sent to more than a thousand (1000) potentially interested parties and that twenty-three (23) of those were sent a copy of the detailed offering memorandum, and twelve (12) agreed to sign a confidentiality agreement.

19. We understand that several meetings took place between management, Tidewater representatives, and interested parties during summer 2017.

20. In the fall of 2017, a total of three (3) offers were submitted to the Company, each for the purchase of all or substantially all of its assets.

21. In order to maximize the recovery for the benefit of its creditors and other stakeholders, the Company, with the assistance of its advisors, began parallel negotiations with each of the three (3) interested parties, which resulted, in certain cases, in amended offers being submitted to the Company.

22. On December 15, 2017, after careful review of the three (3) offers submitted to the Company, and several weeks of negotiation with each of these parties, the Company selected and executed the offer ("**MSRF Offer**") received from MSRF Inc. ("**MSRF**" or "**Purchaser**") . A copy of the MSRF Offer has been filed, under seal, as Exhibit P-3 thereto.

PROPOSED SALE

23. We have attached to this report, under seal as Appendix C, a description of the MSRF Offer, the total estimated purchase price payable by MSRF based on the book value of the Purchased Assets as at December 13, 2017 (as indicated in the MSRF Offer) and an estimation of the purchase price using the book values as at January 23, 2018.

24. We have also attached to this report, under seal as Appendix D, a comparison between the MSRF Offer and the offer received from the two (2) other interested parties, which confirms that the MSRF Offer was the most beneficial for all stakeholders.

25. As indicated in the Motion, the MSRF Offer contemplates a transaction whereby all or substantially all of the Company's assets will be sold to MSRF, who will continue, potentially through a new company or legal entity, the Company's business and operations and will

preserve employment for substantially all of its employees.

26. Deloitte, acting as trustee under the NOI, believes that the transaction set forth under the MSRF Offer (the "**Transaction**"), under the terms and conditions of the MSRF Offer (including the purchase price), and taking into consideration the current financial crisis, is in the best interest of the Company and its stakeholders for the following reasons:

    a. It will preserve a significant number of jobs, which would otherwise be lost in a liquidation scenario (bankruptcy or receivership);

    b. It will maximize the value of the Company's assets which has limited value in a liquidation scenario considering the number of clients that have an amount owed to the Company and the nature of the inventory (some of it is perishable);

    c. It will preserve the ongoing contractual arrangements with many of the Company's suppliers;

    d. It is expected to provide for a better recovery than any other offer submitted to the Company as part of the Sale Process, for the benefit of the Company's creditors.

27. In turn, should this Court refuse to approve the MSRF Offer and the Transaction:

    a. The Company will likely be forced to file for bankruptcy;

    b. The Company's employees will lose their employment;

    c. The Company will be forced to terminate its contractual arrangements with its suppliers, as well as with its landlord, 3522, which would then result in additional claims being filed against the Company, thereby reducing the expected recovery of its creditors.

28. The parties intend to close the Transaction within a few days after the date on which the Approval and Vesting Order is granted by this Court and after determining the book value of the Purchased Assets as at January 29, 2018. Per the MSRF Offer, the Transaction needs to be finalized on or before January 31, 2018 (**"Closing Date")**.

29. Although MSRF is a party dealing at arm's length with the Company, the MSRF Offer indicates that Mr. Michael Tott and Ms. Ashley Tott will both be retained as employees of the Purchaser should the Transaction be approved by this Court. However, none of them will hold any equity position in such company.

30. Based on the above, the Trustee is of the opinion that the Transaction should be approved by this Honourable Court as it will maximize the realization value of the Purchased Assets, for the benefit of the Company's creditors. In fact, the Trustee is of the opinion that the liquidation of the Purchased Assets in a liquidation scenario, either through a bankruptcy or a receivership, would likely generate an amount materially lower than the amount to be received through the Transaction.

ADMINISTRATIVE CHARGE

31. During these proceedings, the Company will require the assistance and the active involvement of the following professionals:

    a. The Company's counsels, to assist the Company in the conduct of these proceedings, including the sale process;

    b. Deloitte, to act as trustee under the NOI and to assist the Company in the context of this sale process;

    c. Deloitte's counsel (Robinson Sheppard Shapiro), in order to obtain an opinion on the validity of the security of the various secured creditors.

32. As of the date of this report, the Company does not have access to liquidities allowing it to pay the above professionals.

33. In this context, the Company seeks a $50,000 administrative charge, (the "**Administrative Charge**") which shall affect its assets, property, and undertaking to guarantee the payment of the fees and expenses to be incurred by its professionals in the context of these proceedings.

34. The Trustee is of the opinion that the Administrative Charge is necessary and appropriate to secure the full and complete payment of the fees and expenses of the above professionals, and should therefore be granted.

DATED AT MONTREAL, this 24th day of January 2018.

DELOITTE RESTRUCTURING INC.
Trustee in re: the proposal of
Concept Gourmet du Village Inc.

Martin Franco, CPA, CA, CIRP, LIT
Senior Vice President

Appendix A

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APPENDIX "A"
CREDITORS
In CAD

Creditors	Security registered (Note 1)	Est. Indebtedness
RBC **(Note 1)**	Hypothec on moveable assets	500,000
Farm Credit Canada **(Note 1)**	Hypothec on moveable assets	557,000
Investissement Québec **(Note 1)**	Hypothec on moveable assets	251,799
Meridian **(Note 1)**	Hypothec on servers	47,000
Unsecured long term lenders **(Note 2)**	N/A	399,488
Trade creditors	N/A	950,000
Intercompany debt **(Note 3)**	N/A	456,163
Total		**3,161,450**

Note 1

Creditors having registered at the RPMRR (Register of Personal and Movable Real Rights) security interests over moveable assets of the Company. This will be subject to a further analysis to be made by the Trustee's counsel. Take note that the order used for the presentation of this table should not be considered as the order of collocation.

Note 2

Represents total indebtedness towards DEC, SADC and CLD.

Note 3

Loan payable to 3522.

Appendix B

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APPENDIX "B"
DESCRIPTION OF THE PURCHASED ASSETS AS SET FORTH IN THE MSRF OFFER

Accounts Receivable

- All accounts receivable with third parties of whatsoever nature, kind or description mutually agreed to between the Company and the Purchaser (the "**Accounts Receivable**").

Inventory

- All non-obsolete and saleable inventories, finished goods, goods-in-transit, work-in-progress, raw materials, operating supplies, shipping supplies, maintenance items, and advertising materials, in each case on hand, in transit, ordered but not delivered, warehoused or wherever situated, of the business (the "**Inventory**").

Capital assets

- All machinery, spare parts, tools, test equipment, computers, furniture, and leasehold improvements used in connection with the business.

Other assets (will include)

- All prepaid expenses incurred in the ordinary course of business by the Company in connection with the business;
- Books and records, files and documentation, in whatever form, relating to the business;
- All written and oral contracts, agreements, commitments and orders in favour of the Company in connection with the business, except for real property leases related to the Company's business and all ancillary agreements related thereto (e.g., telephone, electricity), insurance policies, and such other agreements which do not have a material impact on the business, excluding, in all cases, all written and oral contracts, agreements, commitments and orders in favour of the Company in connection with the business that form part of the Excluded Assets;
- The list of all customers and suppliers of the business;
- All of the goodwill relating to the business; and
- All trademarks, trade dress, trade names, telephone numbers, domain names, and websites related to the Company and/or the business.

Appendix C
Under Seal

Appendix D
Under Seal