



**ESTATE FILE NOS.: 31-2941764 & 31-2941767**

**IN THE MATTER OF THE BANKRUPTCY OF  
SCOTCH & SODA CANADA INC. AND  
SCOTCH & SODA RETAIL CANADA INC.  
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

**TRUSTEE'S REPORT TO CREDITORS ON  
PRELIMINARY ADMINISTRATION**

## **1.0 Introduction**

1. This report ("Report") is filed by KSV Restructuring Inc. ("KSV") in its capacity as Licensed Insolvency Trustee (the "Trustee") of Scotch & Soda Canada Inc. ("Wholesale") and Scotch & Soda Retail Canada Inc. ("Retail", and jointly with Wholesale, the "Companies"). This Report has been prepared on a combined basis and is being filed in the bankruptcy proceedings of each entity.
2. The Companies filed Notices of Intention to Make a Proposal ("NOI") pursuant to the *Bankruptcy and Insolvency Act* (the "BIA") on May 8, 2023 (jointly, the "NOI Proceedings"). KSV was appointed as the Proposal Trustee in the NOI Proceedings.
3. On July 6, 2023, the Companies filed an assignment in bankruptcy and KSV was appointed as Trustee of the Companies' estates, subject to affirmation at the first meetings of creditors, to be held on July 27, 2023.

## **1.1 Currency**

1. All references to currency in this Report are to Canadian dollars.

## **1.2 Restrictions**

1. The Trustee has not audited, or otherwise attempted to verify the accuracy or completeness of the financial information relied upon in this Report in a manner that complies with Canadian Auditing Standards ("CAS") pursuant to the Chartered Professional Accountants of Canada Handbook and, accordingly, the Trustee expresses no opinion or other form of assurance contemplated under the CAS in respect of such information.

## 2.0 Background

1. The Companies operated in the fashion retail and wholesale industry. Retail operated four stores in Canada. Wholesale had a showroom in Montreal (the “Showroom”) and distributed to retailers across Canada. The Companies’ major distribution center (the “Distribution Center”) was a third-party logistics provider located in the Greater Toronto Area, Ontario. The registered head office for each of the Companies is in British Columbia, being the office of its former legal counsel.
2. In March 2023, the Companies’ parent, Scotch & Soda Group B.V. (“Scotch & Soda Netherlands”), commenced insolvency proceedings in the Netherlands. The Companies utilized certain intellectual property of Scotch & Soda Netherlands (the “IP”) in their operations. The rights to the IP were sold in those proceedings. The Companies could not continue to operate without being able to utilize the IP, which the purchaser of the IP, S&S Brand Holdings (“Holdings”), advised the Companies could not use outside of the NOI Proceedings.
3. On May 16, 2023, the Court issued an order which, among other things, authorized the Companies, with the assistance of Tiger Asset Solutions Canada, ULC (the “Consultant”) to conduct a liquidation of its inventory through its retail stores. The liquidation concluded just prior to the end of June 2023.
4. On June 1, 2023, during the NOI proceedings, United Apparel Canada ULC purchased the furniture, fixtures and equipment located in the Showroom operated by Wholesale, for proceeds of \$30,000 plus HST. These assets had nominal book value.
5. Pursuant to an agreement with an effective date of July 6, 2023, the remaining inventory owned by Retail and Wholesale was sold to Traceman Industries (“Traceman”), for \$100,000 plus HST, with \$80,000 payable upfront and \$20,000 payable by the end of July. There is an adjustment mechanism in favour of the purchaser if the number of units sold to the purchaser is less than 25,000. In that circumstance, the purchaser will receive \$4 per unit multiplied by the number of units less than 25,000. As of the date of this Report, Traceman has not yet received all of this inventory, and accordingly, the Trustee is unable to determine the amount of the adjustment, if any. Inventory reports provided to the Trustee by the Companies suggest that Traceman should receive more than 25,000 units.
6. The Companies’ employees were terminated prior to the bankruptcies. The Trustee has retained one former employee of an affiliate of the Companies, on a term and task basis, to assist with the collection of Wholesale’s accounts receivable.

## 3.0 Assets

1. As of the date of this Report:
  - a. Retail and Wholesale have cash balances of \$1,291,604 and \$522,308, respectively; and
  - b. Wholesale has accounts receivable with a book value of approximately \$700,000. Wholesale’s receivables are owing from approximately 45 customers, all of which are retailers located in Canada.

There are no other known assets of the Companies.

## **4.0 Creditors**

1. The Companies have no secured creditors.
2. According to the Companies' books and records, the approximate total amount owing to the unsecured creditors of Retail and Wholesale, as of the date of this Report, was approximately \$2.4 million and \$5.3 million, respectively, before considering off-balance sheet obligations, such as employee claims for severance and termination, landlord claims (if any) and any tax amounts (if any). Of Retail's and Wholesale's total amounts owing to creditors, 99% was owing to Scotch & Soda Netherlands. S&S Operations LLC ("Operations"), a Bluestar entity, acquired certain accounts receivable owing to Scotch & Soda Netherlands, including the accounts receivable owing from the Companies to that entity. The transaction Operations the largest creditor of Retail and Wholesale, which amounts are unsecured.

### **4.1 Property of the Bankrupt Not Divisible Amongst Creditors**

1. The Trustee is not aware of any property that would not be divisible among the Companies' creditors by virtue of Section 67(1) of the BIA or otherwise.

## **5.0 Books and Records**

1. As of the date of this Report, the Trustee is working to obtain a copy of the Companies' accounting records.

## **6.0 Preferences and Transfers Undervalue**

1. As part of its statutory duties, the Trustee will conduct a review for preferences and transfers at undervalue by reviewing the Companies' bank statements and accounting records for the year preceding the date of the initial bankruptcy event, being May 8, 2023. The Trustee's ability to complete this review is subject to receiving access to the applicable records. The Trustee will provide an update in this regard at the first meeting of creditors.

## **7.0 Anticipated Realization and Projected Distribution**

1. Based on the claims filed to-date, the Trustee estimates that the distribution to creditors will be as follows:
  - Retail, approximately 50% to 55% of the proven claims; and
  - Wholesale, approximately 8% to 10% of the proven claims.

The foregoing estimates are subject to change, which may be material.

## 8.0 Other Matters

1. There are no other matters to discuss at this time.

\* \* \*

DATED at Toronto, Ontario, this 26th day of July, 2023.

*KSV Restructuring Inc.*

**KSV RESTRUCTURING INC.  
IN ITS CAPACITY AS LICENSED INSOLVENCY TRUSTEE  
OF SCOTCH & SODA CANADA INC. AND SCOTCH & SODA RETAIL CANADA INC.  
AND NOT IN ITS PERSONAL CAPACITY**