

ESTATE NO. 31-2961172

**TRUSTEE'S PRELIMINARY REPORT**  
**IN THE MATTER OF THE BANKRUPTCY OF**  
**HUNTER BOOT (CANADA) INC.**

*The information contained in this Preliminary Report has been prepared from the available books and records of the Company and discussions with Management. These books and records have not been reviewed or otherwise audited by the Trustee and, consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information taken from those records contained herein.*

**BACKGROUND**

On June 30, 2023, Hunter Boot (Canada) Inc. (the “**Company**”) filed an assignment in bankruptcy and the undersigned, MNP Ltd., was appointed as Trustee of the estate of the Bankrupt by the official receiver, subject to affirmation by the creditors of the Trustee’s appointment by the creditors.

The Company was incorporated on May 4, 2011 under the *Ontario Business Corporations Act*. The Company is a subsidiary of Hunter Boot USA LLC and is in the business of selling Hunter branded footwear, outerwear, and accessories.

The Trustee has been advised that the bankruptcy is attributable to the following factors:

- The adverse impact of the COVID-19 pandemic;
- Reduced demand for the products arising from, among other things, inflationary pressures;
- Supply chain disruptions;
- Inflationary pressures having an adverse impact on gross margins; and
- Ineffective Inventory management.

Hunter Boot Limited (“**HBL**”), a company incorporated within the United Kingdom and the ultimate parent company within the group of companies (the “**Hunter Group**”), was placed into administration on June 2, 2023. Clare Kennedy and Daniel Imison (the “**Administrators**”) of AlixPartners UK LLP (“**AlixPartners**”) are jointly acting as the Administrators of HBL. HBL held the rights to the group’s intellectual property. Upon its appointment, the Administrators sold HBL’s intellectual property to Authentic Brands Group, a global brand development, marketing, and entertainment platform (the “**HBL Transaction**”).

On June 14, 2023, HBL changed its name to HBL Realisations Limited.

On July 4, 2023, the Notice to Creditors advising of the bankruptcy and the First Meeting of Creditors, a list of creditors and a proof of claim form, along with a proxy, were sent to all known creditors of the Company. Pursuant to subsection 102(4) of the *Bankruptcy and Insolvency Act*

("BIA"), the Notice of Bankruptcy was published in the July 5, 2023, edition of the *National Post* newspaper.

The materials related to the bankruptcy proceedings are available on MNP's website at: <https://mnpdebt.ca/en/corporate/corporate-engagements/hunter-boot>.

## **TRUSTEE'S PRELIMINARY EVALUATION OF ASSETS**

Based on the Company's statement of affairs, the realizable value of the Company's assets (the "Assets") is summarized below:

Inventory	\$3,599,602
Accounts Receivable	\$126,181
Deposits in financial institutions	\$584,000
<b>Total</b>	<b>\$4,309,783</b>

As reported below, pursuant to a general security agreement dated October 19, 2017, Hunter granted a security interest in all of its property to Wells Fargo Capital Finance (UK) Limited ("**Wells Fargo**"), as agent and trustee for certain secured creditors.

Since the date of bankruptcy, the Trustee has:

1. directed correspondence to each of the Company's account debtors demanding payment on the accounts receivable;
2. directed correspondence to HSBC Bank Canada ("**HSBC**") to take control of the deposits in financial institutions; and
3. communicated with the third-party logistics firm to advise it of its appointment and interest in the inventory and attended at the third-party warehouse to inspect the inventory.

### **Deposits in Financial Institutions**

HSBC confirmed to the Trustee that it froze the Company's bank accounts and registered the Company's bank accounts to accept deposits only in accordance with the Trustee's instructions. The Trustee also asked that HSBC forward the funds on deposit to the Trustee.

The Trustee is advised that the Company's bank accounts are subject to a Blocked Account Agreement ("**BAA**") between Wells Fargo, the Company and HSBC. HSBC has advised that prior to remitting funds to the Trustee it needs to terminate the BAA and consult its counsel and that it may take a few weeks to process the Trustee's request.

Based on information provided by the Company and HSBC, as at July 12, 2023, there is \$632,912 in the bank accounts.

The Company also established a PayPal account, with approximately \$17,071 in that account. The Trustee is seeking to secure those funds.

## Accounts Receivable

The Company's accounts receivable has a book value of approximately \$877,000 owing from fifty-seven customers, with the largest ten (10) customer balances representing 85% of the total. As noted above, the Trustee recently sent notice to the Company's account debtors requiring that they remit payment to the Trustee.

The Trustee will monitor the collection of the accounts receivable and consult the Inspectors appointed to the estate, as necessary, on further collection techniques to be utilized to maximize collection of the Company's accounts receivables.

The Trustee also claimed an unclaimed dividend from the Office of the Superintendent of Bankruptcy in the amount of \$4,324 arising from the Chaussures Gtx International Inc.

## Inventory

The Company's inventory is stored at National Logistics Services' distribution center in Mississauga, Ontario (the "**Distribution Centre**"). On the Date of Bankruptcy, the Trustee advised National Logistics Services ("**NLS**") of its appointment and instructed them that no goods should be leaving the Distribution Centre except under the direction of the Trustee and any stock arriving to the Distribution Centre should be accepted, segregated, and identified as goods arriving after the bankruptcy.

The Company also has goods in transit. The Trustee is gathering information from affected suppliers, the Company's 3PL freight forwarder and the Administrators to assess whether the estate derives a benefit from these goods in transit. This investigation is ongoing.

On June 2, 2023, the Company entered into a Put Option Deed with ABG Hunter LLC ("**ABG**" or the "**Purchaser**") and ABG Intermediate Holdings 2 LLC pursuant to which the Purchaser is obliged, if required by the Company, to acquire the Company's apparel, footwear, accessories and stock on consignment with Amazon, including any stock which is in transit from a supplier to the Distribution Centre. The Trustee understands that the purchase price under the Put Option Deed is consistent with the purchase price governing the sale of the inventory belonging to the other members of the Hunter Group. The Put Option Deed also provides for the sale of the Company's intellectual property rights and goodwill in the business, which together with the inventory, represent the "Transferred Assets" under the proposed transaction.

The Trustee has until August 1, 2023 (the "**Put Option Deadline**") to exercise its right under the Put Option Deed before it expires.<sup>1</sup>

Prior to and in anticipation of the bankruptcy, AlixPartners and the Company provided the Trustee with certain information to assist it in evaluating the reasonableness of the purchase price. This information included a Stock Value and Appraisal prepared by European Valuations (in respect of inventory on hand as at April 30, 2023) (the "**EV Appraisal**"), an inventory list and the Put Option Deed. The EV Appraisal was prepared as a desktop appraisal and no test stock count was conducted to verify the composition of the inventory.

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<sup>1</sup> On June 30, 2023, the Company, through the Administrators extended the Exercise Period to August 1, 2023 by serving notice on the Purchaser.

In preparing the EV Appraisal, European Valuations made certain assumptions, including

- a) An unfettered use of any Hunter Boot brand names and intellectual property during the tenure of the liquidation, noting that “should the Liquidator or Administrator not be able to use the IP to trade in an insolvency, the net orderly liquidation value presented in this report may be materially lower”;
- b) An orderly liquidation sale would occur over an approximately 12-week period;
- c) The Company would minimize disruption to the existing customer base by continuing to supply them with product, including major customers who may buy larger quantities to take advantage of discounts on products;
- d) In calculating the costs of liquidation, European Valuations factored a 5% commission into its analysis;
- e) That the existing infrastructure, including e-commerce, would be available during the liquidation and access to certain of the Company’s key personnel, including its sales representatives would be possible; and
- f) E-commerce and sales to existing wholesale customers represented approximately 85% of the projected sales during the liquidation.

After the preparation of the EV Appraisal and as noted herein, the:

- a) Trade names and HBL intellectual property were sold as part of the HBL Transaction; and
- b) E-commerce activities were terminated as of June 2, 2023.

Having regard to the foregoing developments and recognizing that the EV Appraisal was requisitioned by HBL, and not the Trustee, the Trustee retained the services of Infinity Asset Solutions (“**Infinity**”), of Concord, Ontario, to provide it with an independent desktop appraisal of the Stock (the “**Infinity Appraisal**”). The Trustee provided Infinity with an updated inventory listing.

European Valuations estimated the Company’s inventory to represent approximately 60 weeks of supply under the Company’s normal business activity. As a result of the significant quantity of product, the adverse impact of not having use to the Hunter trade name/intellectual property and the cessation of ecommerce activities, the Infinity Appraisal estimates a materially lower liquidation value and assumed that it would require approximately sixteen (16) weeks to liquidate the inventory. Infinity also estimated higher liquidation costs, due to: (i) the longer estimated liquidation period; and (ii) a higher rate of commission than assumed by European Valuations.

The Trustee recommends approval of the transaction contemplated by the Put Option Deed as the purchase price governing the sale is fair and reasonable in the circumstances and having regard to the Infinity Appraisal and EV Appraisal, and that the recoveries arising from the transaction will likely be greater and more certain than a liquidation.

The terms of the Put Option Deed do not require an order approving the Transaction and/or a vesting order vesting title in and to the Transferred Assets of the Company in and to the Purchaser. After the Trustee’s appointment, the Purchaser, through its counsel, advised the Trustee that the Purchaser prefers to take title to the Transferred Assets pursuant to a Vesting Order. In view of the Put Option Deadline, the Trustee arranged for the first meeting of creditors to be convened as soon as practicably possible after the bankruptcy and requested its counsel arrange for a July 19, 2023 court date for the Court to consider the Trustee’s request for an Approval and Vesting Order.

## **CONSERVATORY AND PROTECTIVE MEASURES**

In addition to the foregoing, upon its appointment, the Trustee took possession of certain of the Company's books and records to enable it to administer the bankruptcy.

The Trustee also arranged for ongoing insurance coverage in respect of the Company's property.

## **LEGAL PROCEEDINGS**

The Trustee has not initiated any legal proceedings prior to the first meeting of creditors.

The Trustee has retained WeirFoulds LLP ("WF") to provide it with legal advice, including but not limited to, providing the Trustee with a legal opinion in respect of the validity and enforceability of Wells Fargo's security.

## **PROVABLE CLAIMS**

As at 5:00 PM (Toronto time) on July 13, 2023, the following summarizes the proofs of claim that have been filed with the Trustee in respect of the Company.:

<b>Claim Type</b>	<b>As per the Statement of Affairs</b>	<b>Total Claims Filed To Date</b>
Secured	\$ 3,131,824.99	\$ 3,134,658.99
Preferred	Nil	Nil
Unsecured	\$ 2,465,198.32	\$ 1,881,938.79
<b>Total</b>	<b>\$ 5,597,023.31</b>	<b>\$ 5,016,597.36</b>

The Trustee has not determined whether these claims are admissible for the purposes of any distribution.

## **SECURITY INTERESTS**

Based on a search under the *Ontario Personal Property Security Act* registry, with a file currency of June 14, 2023, only Wells Fargo is registered as having security interest against HBC's personal property. Pursuant to a general security agreement (the "GSA") dated October 19, 2017, the Company granted a security interest in all of its property to Wells Fargo.

WF has provided the Trustee with a security opinion regarding Wells Fargo's security as against the Company. WF is of the view that, subject to standard assumptions and qualifications normal to this type of opinion, the security interest granted in the Company's personal property pursuant to the GSA is valid and enforceable as against the Company and is effective as against the Trustee.

The Trustee understands that at the Date of Bankruptcy, the Company's indebtedness to Wells Fargo was approximately \$3,131,825.

## **ANTICIPATED REALIZATIONS AND PROJECTED DISTRIBUTION**

At this time, the Trustee is unable to comment on whether the realizations from the Company's assets will be sufficient to satisfy the Company's obligations to Wells Fargo and/or the extent of any distribution to unsecured creditors.

## **TRANSFERS AT UNDERVALUE AND PREFERENCE PAYMENTS**

The Trustee has conducted a preliminary review of the Company's books and records for the purpose of identifying any potential transactions at undervalue or preferential payments.

The Trustee's preliminary review consisted of a review of the Bankrupts' bank accounts for the one-year period prior to the date of bankruptcy. The Trustee has not yet completed its review but will reports its findings to the Inspectors.

## **OTHER MATTERS**

Prior to the Trustee's appointment, the Trustee and Wells Fargo entered into an agreement whereby Wells Fargo agreed to subordinate any and all interest in the Company's property to the extent of the administrative costs related to the bankruptcy on the understanding that the Trustee would take appropriate steps to realize on the Company's property.

The Trustee understands that there are no employees entitled to claim under the Wage Earner Protection Program.

Dated at Toronto, Ontario this 13th day of July, 2023

**MNP Ltd.**  
***in its capacity as Trustee of the Estate of  
Hunter Boot (Canada) Inc., a bankrupt  
and not in its personal capacity***

Per:  
Sheldon Title



Sheldon Title, CPA CA, CIRP, LIT  
Senior Vice President