

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-063673-244
ESTATE NO.: 41-3048548

SUPERIOR COURT

Bankruptcy and Insolvency Act

IN THE MATTER OF THE BANKRUPTCY
OF:

Transport Dsquare Inc.

*a body politic and corporate, duly
incorporated according to law and having its
head office and its principal place of business
at: 4505 Hickmore, Montreal, QC H4T 1K4*

Bankrupt

-and-

RICHTER INC.

Trustee

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

On February 27, 2024, Transport Dsquare Inc. (the “**Company**”, “Transport” or “**Bankrupt**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) in accordance with the *Bankruptcy and Insolvency Act* (“**BIA**”). The Company did not file a projected cash-flow statement by the prescribed deadline and accordingly the Company was deemed to have made an assignment of its assets, pursuant to the BIA. Consequently, on March 9, 2024, Richter Inc. was appointed Trustee (“**Richter**” or “**Trustee**”) of the Estate of the Bankrupt by the Official Receiver, subject to confirmation by the creditors at the first meeting of creditors.

The purpose of this report is to inform all interested parties about the Trustee’s preliminary administration and our findings.

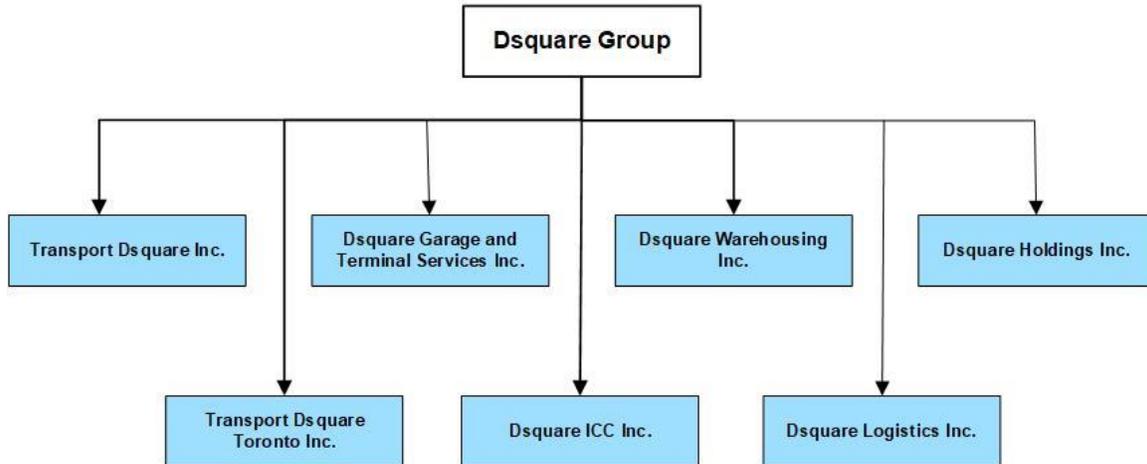
The information contained in this report has been prepared based on the books and records of the Company and from discussions with the Company’s management. The books and records have not been audited or verified by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the accuracy or the reliability of the information contained herein.

I. INTRODUCTION

The Company, founded in 2007, offered transport and logistic services and operated out of leased premises in Quebec. During 2021, the Company began expanding its warehousing space / services to Ontario and Western Canada based on market demand for industrial warehouse space. During the expansion period, the Company operated from seven locations. The Company achieved extensive revenue growth in F2022 and in 2023, the owners of the Company decided to split the Company into

several different entities in an attempt to grow the overall business and diversify its services (the “**Dsquare Group**”). The Dsquare Group is owned by various trusts, which the Trustee understands are controlled by Corey Darbyson and Christopher Doure. The organizational chart is presented below:

Organizational Chart



The Bankrupt experienced stagnant activity in F2023 and coupled with substantially higher fixed costs resulting in significant losses. At its peak, the Company employed 87 people many of whom were subsequently employed by other entities in the Dsquare Group.

The Bankrupt attributes its financial difficulties to the following:

- Rising inflation and supply chain disruption;
- Increasing fuel costs coupled with higher wages in the workforce;
- Insufficient warehousing revenue to support the additional fixed costs of leased space (undertaken at higher rents); and
- Significant debt servicing costs.

Prior to the bankruptcy of Transport, in order to avoid disruptions to their clients, to preserve jobs and to preserve overall value, Transport entered into an agreement with a related company, Dsquare Logistics (“**Logistics**”), whereby Logistics is able to use Transport’s fixed assets to service existing customers of the Dsquare Group. Consequently, as of the date of bankruptcy, payment of certain contracts relating to operations have been assumed by Logistics enabling it to continue operations and no employees remain in Transport.

II. FINANCIAL INFORMATION

The following financial data was extracted either from the books and records of the Bankrupt, the unaudited financial statements or from discussions held with Management. This information is submitted solely to assist the reader in assessing the current financial position of the Bankrupt.

The Trustee makes no representation or warranty as to the accuracy of said financial information.

Transport Dsquare Inc.			
Financial Results Summary	Preliminary	Unaudited	Unaudited
<i>(in 000's)</i>	<i>2023-12-31</i>	<i>2022-12-31</i>	<i>2021-12-31</i>
Revenue	\$ 7,427	\$ 45,362	\$ 21,630
Direct Costs	4,913	35,852	16,973
Gross Margin	2,514	9,510	4,657
	33.8%	21.0%	21.5%
<u>Expenses</u>			
Administrative expenses	5,047	6,534	3,339
Financial expenses	381	157	108
	5,428	6,691	3,447
Earnings (Loss) from Operations	(2,914)	2,819	1,210
Other	(231)	(32)	(492)
Earnings (Loss) before taxes	(3,145)	2,787	718
Income taxes	-	706	162
Net (Loss) Earnings	\$ (3,145)	\$ 2,081	\$ 556

As indicated, the Company reported a significant loss in F2023. The F2023 results of Transport are not fully comparable to F2021 and F2022 as the Company's operations were split into several entities in F2023. However, we have prepared the following table on a combined basis including all the entities in the Dsquare Group as follows:

Dsquare Group	
Financial Results Summary	Preliminary
<i>(in 000's)</i>	<i>12/31/2023</i>
Revenue	\$ 48,306
Direct Costs	41,007
Gross Margin	7,299
	15.1%
<u>Expenses</u>	
Administrative expenses	11,853
Financial expenses	391
	12,244
Loss from Operations	(4,945)
Other	(896)
Net Loss	\$ (5,841)

III. STATEMENT OF AFFAIRS

In accordance with the BIA, a Statement of Affairs showing the Bankrupt's assets and liabilities as at the date of bankruptcy ("**Statement of Affairs**") was prepared from the information provided by and pursuant to the sworn declaration of Christopher Doutre. The following summarizes the information contained in the Bankrupt's Statement of Affairs which has not been validated by the Trustee:

Transport Dsquare Inc.		
Statement of Affairs		
As at March 9, 2024		
<i>(in 000's)</i>	<i>Book value</i>	<i>Estimated Realizable value</i>
Assets		
Cash in bank	\$ 37	\$ 37
Accounts receivable	583	245
Machinery and equipment	1,803	742
Other fixed assets	341	-
Intercompany and other	4,771	-
	<u>7,535</u>	<u>1,024</u>
Liabilities		
Secured creditors	4,996	
Preferred creditors	TBD	
Unsecured creditors	6,976	
Contingent liabilities	-	
	<u>11,972</u>	<u>11,972</u>
Deficiency	\$ (4,437)	\$ (10,948)

A) Assets

- **Cash in bank (\$37k)**

As per the Company's books and records, cash held in the Company's bank accounts amounted to \$37k and the Statement of Affairs reflects the full realization of this amount.

- **Accounts receivable (\$583k)**

As per the Company's books and records, the gross accounts receivable approximate \$583k of which management classified \$338k as old and not collectible for various reasons including disputes, litigation and other matters. The receivables are pledged to the Bank of Montreal who has a first ranking security on most assets of the Company.

- **Machinery and Equipment (\$1,803k)**

The Trustee has commenced a sale by tender process as further detailed below. The Statement of Affairs reflects an estimated net realizable value of \$742k for the machinery and equipment. The

value of the equipment will be determined from the sale by tender process and submitted to the inspectors appointed at the first meeting of creditors (“**Inspectors**”) for their review and approval. The equipment is pledged as security to the various secured lenders.

- **Other Fixed Assets (\$341k)**

The books and records of the Company indicate that other fixed assets consist of computer equipment and leasehold improvements. The Statement of Affairs does not reflect any estimated realization from these assets. The computer equipment is included in the sale by tender process.

- **Intercompany and Other (\$4,771k)**

The Statement of Affairs does not reflect any recovery from the intercompany loan balances between the related companies. The Trustee will review these balances and discuss this matter further with the Inspectors.

B) Liabilities

It is important to note that the exact amount of the Bankrupt's liabilities as at March 9, 2024, will only be determined once all proofs of claim have been submitted by the creditors and have been compiled and analyzed by the Trustee. Nonetheless, the following is a summary of the Company's liabilities based upon preliminary information.

- **Secured Creditors**

As per the Statement of Affairs, the Company's secured creditors are as follows:

- Employees - \$14k primarily in respect of vacation pay (security interest over the Company's short-term assets by virtue of s 81.3 of the BIA).
- Bank of Montreal (“BMO”) - \$2,243k (first rank security interest on all assets of the Bankrupt, excluding certain specific equipment).
- Business Development Bank of Canada - \$1,711k (first rank security on certain specific equipment and second rank interest on all the assets of the Debtor, excluding certain specific equipment).
- Investissement Québec - \$616k (third rank interest on all the assets of the Debtor, excluding certain specific equipment).
- Capital leases - \$412k - (first ranking security on specific rolling stock under capital leases).

The Trustee has engaged independent legal counsel to provide a legal opinion as to the validity and enforceability of the security of the secured lenders as well as the respective ranking of the security. A copy of these opinions will be provided to the Inspectors.

In the event there is no equity in the realization of the assets (over and above the quantum of secured debt, which is likely), the Trustee has made arrangements with the BMO in respect of the Trustee's fees and expenses.

In addition, BMO has signed an agency agreement with Richter Inc. to potentially act on its behalf to realize upon its security and sell the encumbered assets of the Dsquare Group upon its request, subject to BMO's security being valid and enforceable.

- **Preferred Creditors**

The Company's Statement of Affairs indicated that there were no known preferred creditors as at the date of the bankruptcy. The Company included several landlords in the creditors' list that have drawn upon letters of credit to offset amounts owed. The Trustee is not aware of any amounts owing to any government authorities which would be considered a priority. Notice has been sent to all employees and other possible preferred creditors and the ultimate amount of this category of claims will only be subsequently determined. As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to preferred creditors.

- **Unsecured Creditors**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$6,976k. As of the date of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to the ordinary unsecured creditors.

IV. SUMMARY OF THE PRELIMINARY ADMINISTRATION

A) Books and Records

As at March 9, 2024, the Trustee made copies of the Company's computer systems available accounting information. The Trustee has access to the books and records which remain on the Bankrupt's former premises.

B) Security and Protective Measures

The Trustee has taken the necessary security and protective measures including:

- Continued the Bankrupt's insurance through the Bankrupt's insurer to April 22, 2024 and if so required, would be covered under the Trustee's policy thereafter;
- As previously indicated, the Company and related parties entered into a service agreement. As per the service agreement the related companies are responsible for the security of Transport's machinery and equipment, the majority of which is located in a fenced yard which is leased from CP;
- The Company operated out of leased premises in St. Laurent, Quebec. A related company is now leasing these premises and accordingly, the Trustee has not taken possession of the head office premises;
- At the time of bankruptcy, the Company also had leases in effect for the following premises:
 - Brampton, Ontario;

- Montreal, Quebec;
- Vaudreuil, Quebec;
- Town of Mount Royal, Quebec; and
- Calgary, Alberta

The Trustee understands that there are no assets at these locations and/or any value is minimal such that the Trustee has not taken possession of these locations and will abandon any interest in these locations with the approval of the Inspectors.

- The Trustee has opened a trust bank account.

C) Sale by Tender

Prior to the bankruptcy, the Trustee, under the NOI, initiated a call for tenders to acquire the assets of the Company. The Trustee proceeded to contact both strategic parties and liquidators in the sale process. The deadline to submit bids was March 27, 2024 and the results of the sales process will be reviewed with the Inspectors.

D) Reviewable Transactions and Preferential Payments

The Trustee will perform a review of the payments to creditors preceding the date of the bankruptcy which may be reviewable, preferential or undervalue as defined within the meaning of the BIA. The Trustee, upon completion of the review, will discuss its findings with the Inspectors.

V. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

Without completing a sales process, it is premature to determine if there will be a distribution to the preferred and ordinary creditors. However, as of the date hereof, based on the estimated realizable value of the assets, the amounts due to the various secured creditors, the Trustee does not anticipate that there will be any dividends available to the preferred and ordinary creditors.

DATED AT MONTREAL, this 27th day of March 2024

Richter Inc.
Licensed Insolvency Trustee



Andrew Adessky, CPA, CIRP, LIT
Administrator of the Bankruptcy