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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT. No.:
ESTATE. No.:

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

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF:

BOUCLAIR INC., a legal person, duly constituted under the laws of the Province of Québec, having its principal executive offices at 152 av. Alston, in the city of Pointe-Claire, district of Montreal, Province of Québec, H9R 6B4

– and –

BOUCLAIR INTERNATIONAL INC., a legal person, duly constituted under the laws of the Province of Québec, having its principal executive offices at 152 av. Alston, in the city of Pointe-Claire, district of Montreal, Province of Québec, H9R 6B4

Debtors / Petitioners

– and –

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

Trustee

FIRST REPORT TO THE COURT SUBMITTED BY DELOITTE RESTRUCTURING INC. IN ITS CAPACITY AS TRUSTEE TO THE NOTICE OF INTENTION TO MAKE A PROPOSAL

(*Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3)

INTRODUCTION

1. On November 12, 2019, Bouclair Inc. ("**Bouclair**") and Bouclair International Inc. ("**Bouclair International**") (collectively the "**Companies**" or the "**Debtors**") filed a Notice of Intention to make a proposal ("**NOI**") under the relevant provisions of the *Bankruptcy and Insolvency Act.*

2. Deloitte Restructuring Inc. ("**Deloitte**") was appointed as trustee to the Debtors (the "**Trustee**") under the NOI.

PURPOSE OF THE FIRST REPORT

3. In this first report (the "**First Report**") of the Trustee, the following will be addressed:

    (i) Corporate structure of the Companies and Companies' operations;
    (ii) Bouclair's financial situation;
    (iii) Companies' creditors;
    (iv) Overview of the sale and investment solicitation process;
    (v) Overview of the proposed consulting agreement and contemplated liquidation of certain stores;
    (vi) Financing;
    (vii) Priority charges;
    (viii) Administrative Charge;
    (ix) Directors & Officers Charge;
    (x) CRO Charge;
    (xi) Projected cash flow; and,
    (xii) Trustee's conclusions and recommendations.

4. In preparing this First Report, the Trustee has relied upon unaudited financial information, the Companies' records, the Companies' Motion for an Order (i) creating Super-Priority charges; (ii) approving a consulting agreement; and (iii) approving related relief dated November 11, 2019 (the "**First Motion**"), and its discussions with the management of the Companies ("**Management**"), the Companies' Chief Restructuring Officer ("**CRO**") and their advisors. While the Trustee has reviewed the information, some in draft form, submitted in the abridged time available, the Trustee has not performed an audit or other verification of such information. Forward looking financial information included in the First Report is based on assumptions of the Companies' management regarding future events, and actual results achieved will vary from this information and the variations may be material.

5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this First Report are as defined in the First Motion.

6. A copy of this First Report and further reports of the Trustee will be available on the Trustee's website at www.deloitte.com/ca/Bouclair

CORPORATE STRUCTURE OF THE COMPANIES AND COMPANIES' OPERATIONS

7. Bouclair is a privately held company established in 1970 under the laws of the Province of Québec.

8. Bouclair designs and sells at retail window covering products including stylish curtains, rods, blinds and shades, and accessories. In addition, Bouclair designs and sells at retail a wide range of home decor products in the following subcategories: wall decor, home furnishings, kids/baby, home accents, lightings, seasonal, bath, storage, floral greenery, dining entertainment, and other home decor products as well as furniture.

9. In 2012, Bouclair started a wholesale business through a wholly-owned subsidiary, Bouclair International. Bouclair International revenues are generated primarily through the sale of Bouclair products and royalties generated through the license of intellectual property to an Australian retailer in exchange for commissions and royalty payments. The revenues are not material and Bouclair International's major unsecured creditor is Bouclair.

10. In addition to its online store, Bouclair currently operates 92 retail stores (the "**Stores**") in Canada and has one distribution center located in Montreal, Québec ("**DC**"). The breakdown by Province is below.

Operating Locations by Province			
Province	**Stores**	**DC**	**Total**
Quebec	43	1	44
Ontario	31	-	31
Alberta	9	-	9
Nova Scotia	2	-	2
British Columbia	2	-	2
New Brunswick	2	-	2
Manitoba	1	-	1
Newfoundland and Labrador	1	-	1
Saskatchewan	1	-	1
Total	**92**	**1**	**93**

11. Bouclair currently employs approximately 1,150 employees, 158 of which work at the head office. Out of the 1,150 employees, approximately 330 are employed full-time. None of the employees are unionized and there is no pension plan.

12. Bouclair leases all of its premises from third party landlords. The Company has 93 leases with 42 different landlords or landlord groups.

Rental Contracts by Landlord		
Landlord	**Number of Premises**	**%**
Smart Centres/Calloway	16	*17,2%*
Riocan	13	*14,0%*
CREIT	5	*5,4%*
Centrecorp	4	*4,3%*
Cogir	4	*4,3%*
Cominar	3	*3,2%*
First Capital	3	*3,2%*
Ivanhoe Cambridge	3	*3,2%*
8649162 Canada Inc.	2	*2,2%*
Beauward	2	*2,2%*
Cadillac Fairview	2	*2,2%*
Crombie	2	*2,2%*
Cushman & Wakefield	2	*2,2%*
One Properties	2	*2,2%*
Oxford	2	*2,2%*
Plaza	2	*2,2%*
Others (26 landlords)	26	*27,6%*
Total	**93**	***100,0%***

BOUCLAIR'S FINANCIAL SITUATION

13. Bouclair's financial situation has deteriorated due to several factors over the last few years, namely that traditional Canadian home furnishing retailers have experienced increasing levels of competition from large-scale discount US retailers and online retailers.

14. Additionally, and as further detailed in the First Motion, several factors have contributed to Bouclair's financial difficulties:

    a. Bouclair incurred additional costs following the implementation of a warehouse management system that lead to operational difficulties and disrupted both Bouclair's e-commerce order fulfillment capabilities and its ability to replenish its stores;

    b. the first 8 weeks of the 2019 fiscal year were negatively impacted by unfavorable weather;

    c. sales have been underperforming in the Québec City and Ontario regions, as well as in certain other regions;

    d. the increase of the minimum wage across several regions; and

    e. the high cost of certain store locations under long term leases at rates higher than current market prices.

15. Despite all its efforts, Bouclair has been unable to find its way back to profitability.

16. As presented below, according to the unaudited financial statements for the 8-month period ended September 28, 2019, Bouclair had revenues of approximately $96.6M and a net loss of approximately $1.2M.

Historical Results ($ 000)			
Income Statement for the year ended	27-Jan-18	26-Jan-19	28-Sep-19 [1]
Revenues	149,205	146,186	96,641
Cost of goods sold	56,737	52,007	34,309
Gross Profit	**92,468**	**94,179**	**62,332**
Expenses	88,742	88,024	59,749
EBITDA	**3,726**	**6,155**	**2,583**
Net Income (Loss)	**(773)**	**1,132**	**(1,207)**

[1] 8-month period

17. The latest unaudited balance sheet, as at September 28, 2019, is presented below.

Historical Results ($ 000)	
Balance sheet as at	28-Sep-19
ASSETS	
Cash and other current assets	3,135
Inventories	31,574
Property, plant and equipment	14,864
Non-Current assets	50
	49,623
LIABILITIES AND EQUITY	
Trade suppliers and accrued liabilities	15,389
Other current liabilities	1,243
Deffered revenue	1,700
Revolving credit facility	13,761
Capital lease obligations	205
Long-term debt	6,409
Long-term sub debt	2,664
Deffered lease inducement	814
TOTAL LIABILITIES	42,185
Retained earnings and equity	7,438
TOTAL LIABILITIES AND EQUITY	**49,623**

18. As shown above, as at September 28, 2019, Bouclair owned assets with a net book value of approximately $49.6M and had total liabilities of approximately $42.2M.

19. The assets were mainly comprised of inventory ($31.6M) and property, plant and equipment ($14.9M). The reader should note that most of the book value of the property, plant and equipment category arises from furniture and fixtures, computer software and website.

20. The total liabilities are further discussed in the following section of this report.

COMPANIES' CREDITORS

Secured creditors

21. The following table presents the secured creditors and the amount of indebtedness:

Secured Creditors as at Nov 7, 2019	Amount of Indebtedness ($ 000)
NBC Loans	18,800
BDC Loan	1,200
AST Trust Company (Subordinated Loan)	1,500
Aljusa Investments Inc. (Subordinated Loan)	1,200
Total	**22,700**

22. The Trustee has also been advised that certain landlords (listed in **Schedule "A"** to the First Motion) hold certain security registrations. The amount of claims secured thereunder and the effectiveness of such registrations, if any, is currently undetermined.

National Bank of Canada

23. Bouclair obtained a first lien revolving credit facility ("**Revolving Facility**") and a term loan facility ("**Term Facility**" and, collectively with the Revolving Facility, the "**NBC Loan**"), with National Bank of Canada ("**NBC**").

24. The NBC Loan is stated to be secured by a first-ranking security on all assets, tangible and intangible, present and future, of Bouclair in favour of NBC.

25. The amount due under the Revolving Facility as at November 8, 2019 is estimated at approximately $13.6M, excluding interest, fees and expenses while the amount due under the Term Facility is estimated at $5.2M.

26. The NBC Loan has been in default for several months. The NBC agreed, on several occasions, to forbear from exercising its rights as secured lender. It is anticipated that, prior to the hearing on the First Motion, NBC and the Companies shall have agreed upon the terms of a Fourth Forbearance Agreement pursuant to which NBC agreed to forbear from exercising its rights as secured creditor until December 29, 2019, provided certain conditions are met.

27. The Trustee has requested an independent opinion from its counsel on the validity, opposability and perfection of the NBC security.

28. The Trustee understands that Bouclair has initiated these NOI proceedings with the knowledge and consent of NBC.

Business Development Bank of Canada

29. A Business Development Bank of Canada loan ("**BDC**") is stated to be secured by a hypothec on the universality of all, present and future, moveable property located at the Anjou Store.

30. The BDC Loan is stated to be subordinated in rank, but only in respect of claims and inventory, to any security interests granted by Bouclair in favour of any bank or financial institution providing operating loans or credit.

31. The Trustee will determine whether an independent opinion from its counsel with respect to the validity, opposability and perfection of the security granted under the BDC Loan is necessary.

32. The amount due in respect of the BDC loan is estimated, as at November 7, 2019, at $1.2M.

AST Trust Company

33. An AST Trust Company loan ("**AST**") is stated to be secured by a hypothec for the sum of $2M on all of Bouclair's present and future moveable property.

34. The AST loan is stated to be subordinated to the NBC security, as agreed between the parties on February 14, 2019.

35. The amount due in respect of the AST loan is estimated, as at November 7, 2019, at $1.5M.

Aljusa Investments Inc.

36. Aljusa Investments Inc. ("**Aljusa**"), a party related to Bouclair, is stated to have granted a loan secured by a hypothec for the sum of $2.5M on all of Bouclair's present and future moveable property.

37. The Aljusa loan is stated to be subordinated to the NBC security, as agreed between the parties on February 14, 2019.

38. The amount due in respect of the Aljusa loan is estimated, as at November 7, 2019, at $1.2M.

Unsecured creditors

39. As at November 7, 2019, an amount of approximately $10.3M is due by Bouclair to trade creditors.

40. Of that amount, an estimated amount of $2.3M is due to trade creditors located outside of Canada, for the most part in the People's Republic of China.

OVERVIEW OF THE SALE AND INVESTMENT SOLICITATION PROCESS

41. As indicated above, due to the poor financial results of the last few years and more specifically in the current fiscal year, there was significant pressure on the working capital of the Companies.

42. Over the last three years, revenues have decreased as a result of a targeted reduction in store count in an effort to eliminate underperforming locations.

43. Bouclair implemented an e-commerce sales platform to facilitate the sale of its products online and expand sales outside of its typical in-store network. It also invested in capital expenditures mainly related to the development of Bouclair's new e-commerce platform, experiential store concept, and predictive inventory allocation tool.

44. Unfortunately, even though the Companies implemented various measures to reduce operating costs, the Companies were unable to generate sales to the targeted level and consequently, were unable to generate sufficient liquidities to allow them to meet their obligations as they became due.

45. Once Management realized that it would not be able to turn the operations around, a decision was made to initiate a restructuring process ("**Restructuring Process**") to attempt to identify a strategic partner that could potentially take over the operations, with a view to maximizing the realization value for all stakeholders, and securing the employment of as many of its employees as possible.

46. The Restructuring Process may be summarized as follows:

    a. Provide the opportunity for existing bank lenders (or new lenders, as the case may be) and investors willing to inject new equity into the Companies' business, or to loan or invest in a new entity which would acquire the business, in order to capitalize on the Companies' ongoing growth of the e-commerce platform and new store format, without carrying forward certain of the Companies' legacy liabilities and unprofitable leases, the whole with the support of and in consultation with the Companies' principal secured lender, NBC; and

    b. As part of its restructuring plan, Bouclair intends to close and liquidate 29 unprofitable stores (with an additional potential six (6) stores, which may be liquidated following consultation between Bouclair and its landlords) (the "**Liquidation Stores**"). The net proceeds of the liquidation would be remitted to the secured creditors that hold security over said liquidated assets.

47. As outlined in the First Motion, in order to achieve the objective outlined in Section 46 (a) above, a sale and investment solicitation process (the "**SISP**") was conducted by the Companies with the assistance of the CRO and Ernst & Young Orenda Corporate Finance Inc. ("**EYI**").

48. On or around August 19, 2019, the SISP was launched and comprised, *inter alia*, the following steps:

    a. Performing analyses to develop a list of potential purchasers;

    b. Contacting 36 potential purchasers across Canada, the United States of America and Europe;

    c. Providing teasers to seventeen (17) different parties as well as confidentiality agreements to five (5) potentially interested parties; and

    d. Providing confidential information memorandums and access to an electronic data room to three (3) potentially interested parties.

49. The Trustee understands that Mr. Peter Goldberg, President of Bouclair and Bouclair International, indicated to the Companies at the beginning of the Restructuring Process that he would most likely present, together with a group of other investors, an offer to restructure the business and assets of the Companies (the "**Indication of Interest**") which would include, among other things:

    a. The creation, by a group of investors comprised of Peter Goldberg and others, of a new entity (the "**Proposed Purchaser**") with the support of and in consultation with NBC;

    b. The closure and liquidation of the Liquidation Stores;

    c. The acquisition by the Proposed Purchaser of all or substantially all of the Companies' assets and properties related to the head office, the warehouse and Stores other than the Liquidation Stores; and

    d. The assumption of certain liabilities related to the NBC Loan, the AST Subordinated Loan, the Aljusa Subordinated Loan and certain other liabilities to be identified.

50. The Trustee is advised that interested parties participating in the SISP were informed that all offers would need to be submitted to EYI by no later than October 18, 2019. The three parties which had initially indicated their interest to participate in the SISP declined to submit an offer by the bid deadline. As such, other than the Indication of Interest, EYI did not receive any indications of interest or offers in connection with the SISP.

51. As of the date hereof, the Indication of Interest represents the only proposal which contemplates a going concern transaction.

52. The Trustee understands that the Companies have been continuing discussions with NBC as well as with third party lenders who may be willing to refinance the NBC Loan and that, while certain non-binding term sheets have been executed, no binding agreement has been reached to date between the Proposed Purchaser, NBC and other potential lenders.

53. As appears from the First Motion, the Companies hope to file, as soon as possible, a motion for the approval of the proposed transaction. At such time, the Trustee intends to file an additional report in connection with such proceeding, to provide further comments in respect of the SISP, the proposed transaction and the approval of the Court being sought in respect thereof.

OVERVIEW OF THE PROPOSED CONSULTING AGREEMENT AND CONTEMPLATED LIQUIDATION OF CERTAIN STORES

54. As part of its restructuring efforts, Bouclair engaged RC Benson Consulting Inc. (Randy Benson) as its CRO.

55. As indicated above, as part of their Restructuring Process, the Companies determined, along with the CRO, that the appropriate course of action was to engage in a sale ("**Liquidation Sale**") of all their inventory and furniture, fixtures and equipment located in the Liquidation Stores, in the context of these NOI proceedings, in order to maximize realization.

56. During the Liquidation Sale, Bouclair will continue to operate all other stores in the normal course of business.

57. In order to facilitate the Liquidation Sale and to maximize realization for its creditors, Bouclair has negotiated and executed an agreement (the "**Consulting Agreement**") with Gordon Brothers Canada ULC (the "**Consultant**"), to advise the Company with respect to the Liquidation Sale. The Consultant shall be entitled to a fee for its services (the "**Consultant Fee**"). The Consultant will also be entitled to supervision costs and reimbursement of certain expenses. As appears from the proposed order, Bouclair will remit a deposit of $250k to the Consultant, to secure the payment of the Consultant Fee and all other amounts owing to the Consultant under the Consulting Agreement.

58. Under the terms of the Consulting Agreement, the Liquidation Sale will commence from the date of the issuance of the Liquidation Order and shall terminate no later than December 29, 2019 (the "**Termination Date**"), however Bouclair or the Consultant may mutually agree in writing to terminate the Liquidation Sale at any Liquidation Store prior to the Termination Date.

59. Bouclair will be responsible for all expenses of the Liquidation Sale, including operating expenses and reasonable, documented out-of-pocket expenses of the Consultant.

60. Bouclair intends to continue to honour all outstanding gift certificates and store credits. All sales made during the Liquidation Sale will be final.

61. The Trustee supports the engagement of the Consultant. The Consultant has extensive experience in conducting liquidation sales and will assist Bouclair in maximizing realization, the whole in the

best interests of the stakeholders. The Consulting Agreement and the fees payable thereunder are consistent with market practice. Moreover, the Trustee understands that NBC is also supportive of the Consulting Agreement.

FINANCING

62. As previously indicated, it is anticipated that Bouclair will be operating under the terms of the Fourth Forbearance Agreement. Thereunder, NBC would continue to forebear from exercising its rights and remedies until the earlier of December 29, 2019 or the occurrence of certain specified termination events.

63. It is anticipated that, except as otherwise set forth in the Fourth Forbearance Agreement, the NBC facilities shall generally operate on the same terms and conditions as were in place prior to the filing of these NOI proceedings. In addition, the Companies shall be required to comply with a 7-week cash flow, in accordance with the anticipated Fourth Forbearance Agreement.

PRIORITY CHARGES

64. As explained in the First Motion, it is expected that, as of the date of the hearing on the First Day Order, the Companies will have provided advance notice of the proceedings to NBC and to subordinated secured lenders, namely Aljusa and AST, but will not have provided any advance notice of these proceedings to the affected parties listed in **Schedule "A"** to the First Motion (the "**Affected Parties**").

65. The Affected Parties include, at Section A of **Schedule "A"**, certain parties which have registered security interests over assets in specific Bouclair stores (without admission as to effectiveness of such registrations). As a result, the super-priority charges are proposed to only affect the "Affected Assets" (as defined in the proposed First Day Order) and exclude the assets over which the parties listed in Section A of **Schedule "A"** have registered security interests.

66. The Companies have advised the Trustee that they intend to return before this Court after the Affected Parties have been duly notified, to seek an order expanding the scope of the super-priority charges to cover all the assets of the Companies, with no exception.

ADMINISTRATIVE CHARGE

67. The First Motion seeks a $300k Administrative Charge (the "**Administrative Charge**") to secure the fees and disbursements relating to professional services rendered both before (in connection with preparing for the NOI) and after the filing of the NOI by the Trustee and its counsel and counsel to the Companies.

68. The Trustee is of the view that given (i) the anticipated timeline to complete the Liquidation Sale and these NOI proceedings (ii) the support of NBC (iii) the nature and value of the Companies' property and (iv) the fact that no creditors will be unduly prejudiced, both the quantum of the Administrative Charge and the recipients entitled to benefit therefrom is fair and reasonable in the circumstances.

69. As such, the Trustee supports the Companies' request for approval of the proposed Administrative Charge.

DIRECTORS & OFFICERS CHARGE

70. The Trustee understands that the Companies maintain directors' and officers' insurance in the aggregate amount of $5M with Chubb Insurance and that current coverage expires on October 16, 2020 (the "**D&O Insurance Policy**").

71. The Trustee further understands that there may be insufficient coverage in respect of potential directors' and officers' liability, notably in respect of wages, including accrued vacation pay, and source deductions, other employee related obligations and sales taxes. As presented in the cash flow in Appendix A, the estimated monthly Payroll & related payments total approximately $2.5M.

72. The First Motion provides for a charge in an aggregate amount of $2.2M to secure the indemnity provided to the directors and officers in respect of liabilities they may incur after the NOI in their capacity as directors and officers (the "**D&O Charge**"). As per the First Motion, the D&O Charge becomes effective only if the existing D&O Insurance Policy is not responsive or sufficient.

73. The D&O Charge is proposed to be composed of two tranches. The first tranche, of $600k, is proposed to rank behind the Administrative Charge and ahead of the security granted under the NBC Loan. The second tranche, of $1.6M, is proposed to rank behind the security granted under the NBC Loan and the CRO Charge (as defined below), but ahead of security granted to Aljusa and AST.

74. The Trustee is of the view that the continued support and service of Bouclair's directors and officers during the NOI is essential to Bouclair's efforts to preserve value and maximize recoveries for stakeholders through the completion of the Liquidation Sale and the contemplated Sale Transaction. The Trustee is of the view that the granting of the D&O Charge is fair and reasonable in the circumstances given (i) the anticipated amount of time it will take to complete the Liquidation Sale and these NOI proceedings (ii) the support of NBC (iii) the nature and value of the Companies' property and (iv) the fact that no creditors will be unduly prejudiced.

CRO CHARGE

75. The First Motion seeks a $500k CRO Charge (the "**CRO Charge**") to secure the obligations owing by the Companies to the CRO. The CRO Charge is proposed to rank behind the security granted under the NBC Loan and ahead of the second tranche of the D&O Charge.

76. The Trustee is of the view that the CRO will provide critical support and expertise to Bouclair's in the context of its restructuring. The Trustee is of the view that the granting of the CRO Charge is fair and reasonable in the circumstances given (i) the nature and value of the Companies' property and (ii) the fact that no creditors will be unduly prejudiced.

PROJECTED CASH FLOW

77. The Companies, with the assistance of the Trustee, prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 7-week period from November 11, 2019 to December 28, 2019 (the "**Cash Flow Period**") for the purpose of projecting the Companies' estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is attached as Appendix A to this First Report.

78. The Cash Flow Statement has been prepared by the Companies using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

79. The Trustee's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied to it by Management. Since the hypothetical

assumptions need not be supported, the Trustee's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Trustee also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

80. Based on the Trustee's review and the foregoing qualifications and limitations, nothing has come to its attention that causes it to believe that, in all material respects:

    (i) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;

    (ii) As at the date of this First Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Companies or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or

    (iii) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.

81. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Trustee expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The Trustee expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this First Report, or relied upon in preparing this report. Neither does the Trustee express any opinion as to the performance of the Companies' statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia* the payment of wages, the government remittances and the payroll deductions to be made by the Companies.

82. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

83. The key assumptions used in the Cash Flow Statement are based on the Companies' revised 2020 fiscal year operating plan. The Revolving Facility balance as at November 11, 2019 is estimated to be at approximately $13.6M out of the maximum availability of $15M. The Cash Flow Statement demonstrates that the Companies will be able to operate within the maximum amount authorized under the Revolving Facility, thus in accordance with the forthcoming Fourth Forbearance Agreement.

84. Management anticipates more restrictive payment terms for purchases from suppliers following the NOI. As such, Management has anticipated certain "cash on delivery" purchases and payment of deposits to certain utility providers.

85. In addition, as appears from the First Motion, Bouclair sources the majority of its inventory from suppliers located abroad, particularly in the People's Republic of China. The total amount owed to these suppliers is estimated at approximately $2.3M. Accordingly, Bouclair is seeking an order to allow for the payment of pre-filing obligations to these foreign suppliers ("**Key Suppliers**"), up to a maximum aggregate amount of $750k, with the consent of the Trustee and to the extent necessary.

86. Accordingly, the Cash Flow Statement includes certain provisions for payments which may be required to be made to the Key Suppliers. Considering the difficulty of enforcing a Canadian court order abroad and that it is in all stakeholders' interest to avoid disruption of Bouclair's supply chain, the Trustee is of the view that this request is reasonable in the circumstances.

87. Management has advised the Trustee that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

TRUSTEE’S CONCLUSIONS AND RECOMMENDATIONS

88. For the reasons set out in this First Report, the Trustee is of the view that the relief sought by the Companies in its First Motion is appropriate and reasonable in the circumstances. The Trustee is also of the view that the relief requested will enhance the Companies’ ability to achieve the best possible outcome for their stakeholders.

The Trustee respectfully submits to the Court this, its First Report.

DATED AT MONTREAL, this 12th day of November, 2019.

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

DELOITTE RESTRUCTURING INC.
In its capacity as Trustee

APPENDIX A – CASH FLOW

Bouclair Inc.
Weekly Cash Flow Forecast
For the 7-week period ending December 28, 2019
(Unaudited, in $000s CAD)

Week Ending >>>>	Note	16-Nov-19	23-Nov-19	30-Nov-19	7-Dec-19	14-Dec-19	21-Dec-19	28-Dec-19	TOTAL
RECEIPTS									
Sales receipts	1	2,569	3,289	2,707	3,528	2,498	2,909	2,198	19,698
Liquidation receipts	2	554	958	1,073	1,189	1,214	1,154	1,020	7,162
TOTAL RECEIPTS		**3,123**	**4,247**	**3,780**	**4,717**	**3,712**	**4,063**	**3,218**	**26,860**
DISBURSEMENTS									
Trade vendor payments (third party)	3	757	1,622	1,218	415	180	622	1,053	5,868
Rent	4	1,717	-	-	1,356	-	1,356	-	4,429
Payroll & related payments	5	1,225	-	1,225	-	1,225	-	1,218	4,892
Other expenses	6	199	500	500	87	125	125	125	1,661
Professional fees - restructuring	7	186	463	111	475	68	331	34	1,668
Freight & Duty	8	60	562	60	210	60	562	60	1,574
Marketing & Advertising	9	171	150	150	283	150	150	150	1,204
Liquidation disbursements	10	311	77	77	77	77	13	-	632
Warehouse contractants	11	95	95	95	95	95	95	95	665
Professional fees	12	110	35	35	110	35	35	35	395
Financial expenses	13	-	-	-	259	-	-	68	327
IT	14	55	55	55	55	55	55	55	385
Contingency		25	25	25	25	25	25	25	175
Sales taxes		-	-	516	-	595	-	544	1,655
TOTAL DISBURSEMENTS		**4,911**	**3,584**	**4,067**	**3,447**	**2,690**	**3,369**	**3,462**	**25,530**
NET CASH FLOW FROM OPERATIONS		**(1,788)**	**663**	**(287)**	**1,270**	**1,022**	**694**	**(244)**	**1,330**
Opening cash balance		(12,906)	(14,694)	(14,031)	(14,318)	(13,048)	(12,026)	(11,332)	(12,906)
CLOSING CASH BALANCE		**(14,694)**	**(14,031)**	**(14,318)**	**(13,048)**	**(12,026)**	**(11,332)**	**(11,576)**	**(11,576)**
Letters of credit (L/C)		(141)	(141)	(141)	(141)	(141)	(141)	(141)	(141)
Closing cash balance (including L/C)		(14,835)	(14,172)	(14,459)	(13,189)	(12,167)	(11,473)	(11,717)	(11,717)
Borrowing capacity		16,984	16,411	16,273	15,706	15,689	14,560	14,128	14,128
Surplus of coverage		**2,149**	**2,239**	**1,814**	**2,517**	**3,522**	**3,087**	**2,411**	**2,411**

***** To be read in conjunction with the attached Notes and Summary of Assumptions***

Notes and Summary of Assumptions

1. *Sales receipts* include product sales from Stores and e-commerce. Forecasted product sales from Stores (including sales tax) are gross of credit card fees. The Company's forecasted sales are based on historical sales patterns on a weekly basis.

2. *Liquidation receipts* include product sales from the Liquidation Stores. Forecasted product sales from Liquidation Stores (including sales tax) are gross of credit card fees, and Consultant Fees. The Consultant in collaboration with the Company determined the forecasted sales.

3. *Trade vendor payments (third party)* include payments to domestic and international suppliers, as well as pre-NOI amounts to international suppliers (up to a maximum of $750k). These payments are based on the actual purchase orders and future orders that will be needed for the Company to maintain the going concern. Amounts include sales tax when applicable.

4. *Rent* includes rent payments to landlords (paid bi-weekly starting December 1, 2019) in accordance with the leases. Amounts include sales tax.

5. *Payroll and related payments* includes Stores, Liquidation Stores, Corporate related payroll, and fringe benefits.

6. *Other expenses* include utilities, insurance, and other general payments based on historical expense patterns. Amounts include sales tax.

7. *Professional fees - restructuring* include estimated professional fees for the Trustee, the Trustee's counsel, the CRO, the Company's legal counsel, NBC's financial advisor, and NBC's legal counsel. The Company will incur all the fees mentioned above. Amounts include sales tax.

8. *Freight and duty* include inbound freight for purchased merchandise, outbound freight for shipments to stores, and duty for international purchases based on historical expense patterns.
Amounts include sales tax.

9. *Marketing and advertising* include traditional Medias and social media payments based on historical expense patterns. Amounts include sales tax.

10. *Liquidation disbursements* include the Consultant fees, supervision fees, advertising, and other costs related specifically to the Liquidation Sale. The Consultant and supervision fees are forecasted and payable in accordance with the Consulting Agreement. Amounts include sales tax.

11. *Warehouse contractors* include fees paid to agencies for warehouse resources based on historical expense patterns. Amounts include sales tax.

12. *Professional fees* include all other professional fees not related to the restructuring. These fees are to be incurred by the Company based on historical expense patterns. Amounts include sales tax.

13. *Financial expenses* include credit card fees which are forecasted at 1.7% for all Stores and Liquidation Stores sales, monthly bank fees, interests, and forbearance fees.

14. *IT fees* include all IT related payments based on historical expense patterns. Amounts include sales tax.