

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT. No.: 500-11-057470-193
500-11-057469-195
ESTATE. No.: 41-2582132
41-2582130

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.

- and -

BOUCLAIR INTERNATIONAL INC.

Debtors

- and -

DELOITTE RESTRUCTURING INC.

(Martin Franco, CPA, CA, CIRP, LIT designated
person in charge)

Trustee

**THIRD 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 11, 2019, Bouclair Inc. ("**Bouclair**") and Bouclair International Inc. ("**Bouclair International**") (collectively the "**Companies**" or the "**Debtors**") each filed a Notice of Intention to make a proposal (collectively, the "**NOIs**") under the relevant provisions of the *Bankruptcy and Insolvency Act*.
2. Deloitte Restructuring Inc. ("**Deloitte**") has been appointed as the Debtors' proposal trustee (the "**Trustee**").
3. The factual background which led to the filing of the NOIs is described in the Debtors' *Motion for the Issuance of an Order (i) Creating Super-Priority Charges, (ii) Approving a Consulting Agreement and (iii) Approving Related Relief* (the "**Initial Motion**"), as well as in the *First Report to the Court submitted by Deloitte in its Capacity as Trustee to the Notice of Intention to Make a Proposal*, both in the Court record.
4. On November 12, 2019, following the presentation of the Initial Motion, the Superior Court of Quebec (Commercial Division) (the "**Court**") rendered an order (the "**First Day Order**"):

- a. Approving the creation of a super-priority charges over all Affected Assets (as defined in the First Day Order);
 - b. Approving retroactively the CRO Engagement Letter (as defined in the First Day Order);
 - c. Authorizing the payment of certain pre-filing obligations to certain suppliers located outside of the jurisdiction of this Court; and
 - d. Approving related relief.
5. On November 15, 2019, the Court rendered an order (the "**Liquidation Order**") approving the Consulting Agreement pursuant to which Gordon Brothers Canada ULC acts as the liquidator of the Liquidation Stores (as defined in the Initial Motion).
 6. On December 6, 2019, the Debtors filed a motion to the Court for an order (i) extending the stay period ("**Stay Period**") and (ii) expanding the scope of super-priority charges.
 7. On December 10, 2019, the Court rendered an order (i) extending the Stay Period until January 24, 2020, and (ii) declaring that the scope of super-priority charges shall be extended to cover all the assets of Bouclair.

PURPOSE OF THE THIRD REPORT

8. This third report of the Trustee (the "**Third Report**") addresses the following matters:
 - (i) Activities of the Trustee since the issuance of the Trustee's Second Report;
 - (ii) Activities of the Companies;
 - (iii) Financial performance and cash flow projections;
 - (iv) The sought extension of the time limit to file a proposal; and
 - (v) Trustee's conclusions and recommendations.
9. In preparing this Third Report, the Trustee has relied upon unaudited financial information, the Companies' records, the Companies' *Motion for an order extending the stay period* (the "**Motion for a second extension**"), and its discussions with the management of the Companies ("**Management**") and the Companies' Chief Restructuring Officer ("**CRO**"). 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 Second 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.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Third Report are as defined in the Initial Motion or the Motion for a second extension.
11. A copy of this Third Report and further reports of the Trustee will be available on the Trustee's website at www.insolvencies.deloitte.ca/bouclair.

ACTIVITIES OF THE TRUSTEE

12. The Trustee continues to monitor the receipts and disbursements and, on a weekly basis, performs a comparison and variance analysis against the cash flow statement.
13. Since the issuance of the Second report, the Trustee continued to participate in several meetings and conference calls with the Companies, the CRO and their advisors in connection with their restructuring efforts.
14. The Trustee assisted the Debtor in its dealings with a number of suppliers and landlords in order to ensure an uninterrupted flow of goods and services.

ACTIVITIES OF THE COMPANIES

Liquidation

15. As of the date of this Third Report, the liquidation sale ("**Liquidation Sale**") of all the Liquidation Stores has been completed. Considering that notices of disclaimer or rescission were sent in respect of all Liquidation Stores, with effective dates of December 25, 2019, December 31, 2019, and January 7, 2020, Bouclair has now vacated all of the Liquidation Stores.
16. The results of the Liquidation were better than originally anticipated by Bouclair. The Liquidation Sale generated revenues of more than \$8.3M which represents a positive variance of \$1.7M in comparison with the revenue anticipated by Bouclair and the Liquidator when the Liquidation Sale started in November 2019.
17. The Company has continued its operations at the other stores in the normal course.

Landlords

18. On December 9, 2019, the Debtors and the Trustee received an Application to Contest a Notice of Disclaimer or Resiliation of a Commercial Lease (the "**Contestation**"), based on section 65.2 of the BIA, from 9230-1890 Québec Inc. for the Jonquière location (the "**Contesting Landlord**").
19. As indicated in the Motion for a second extension, discussions took place between the Contesting Landlord, the Debtor's counsel and the Trustee's counsel on next steps to adjudicate the Contestation but as of the date of the Third Report, the attorney of the Contesting Landlord has yet to respond with his position.

Sought Transaction

20. As indicated in the Motion for a second extension, the Companies have continued to engage in discussions with their principal secured lender, as well as with third party lenders. A financing proposal was received from a third-party source and discussions are taking place on terms and conditions that would be acceptable to all parties involved.
21. In order to mitigate as much as possible the negative impact on the operation of the Debtors, the parties involved are putting the necessary efforts in order to find a solution that would enable the Debtors to finalize the Transaction (as defined in the Motion for a second extension) before February 28, 2020.

Other matters

22. The Companies, with the assistance of the Trustee, have been in communication with suppliers affected by the NOIs and have been successful in maintaining a continued supply of goods and services to the business, either on a cash-on-delivery basis or negotiated terms.
23. On December 20, 2019, the Debtors and the NBC agreed on a Fifth Forbearance Agreement pursuant to which NBC agreed to forbear from exercising its rights as secured creditor until January 24, 2020. As of the date of this Third Report, discussions are taking place between the Debtors and NBC with a view of agreeing upon a sufficient extension of the Fifth Forbearance Agreement.
24. As authorized in the First Day Order, the Debtors, with the Trustee's approval, have paid a total amount of approximately \$314K to certain Key Suppliers (as defined in the Initial Motion) for Pre-Filing Obligations (as defined in the Initial Motion).

FINANCIAL PERFORMANCE AND CASH FLOW PROJECTIONS

Cash flow results for the 7-week period ended January 18, 2020

25. When the first Motion for an extension Order was filed, the Debtors submitted a projected cash flow statement for the period from December 1, 2019, to January 25, 2020 (the "**Revised Cash Flow**").
26. Since the filing of the NOIs, the Debtors have been paying their suppliers in the ordinary course of business based on negotiated terms or on cash-on-delivery basis. The Debtors have advised the Trustee that they have not incurred significant unpaid liabilities since the NOIs were filed.
27. **Appendix A** contains the comparative cash flow statement for the 7-week period ended January 18, 2020. The net cash flow of approximately \$1.8M for the 7-week period was approximately \$3.7M greater than initially forecasted:
 - a. Total receipts were approximately \$24.0M, or approximately \$1.7M higher than initially forecasted. This is due to higher liquidation receipts than anticipated in the Liquidation Stores (approx. \$1.2M), as well as higher than forecasted sales in the other stores (approx. \$0.5M).
 - b. Total disbursements were approximately \$22.3M, or approximately \$1.9M less than initially forecasted. This is primarily due to timing since some suppliers have not yet submitted their invoices.
28. At the time of writing the Third Report, the Debtors advised the Trustee that they were in compliance with the conditions under the Fifth Forbearance Agreement, including in respect of the borrowing base calculation.

Cash flow forecast for the 6-week period ending February 29, 2020

29. In support of their Motion for a second extension, the Debtors revised and extended their cash flow projections (the "**Second Extension Cash Flow Forecast**") for the period from January 19, 2020, to February 29, 2020 (refer to **Appendix B** and the summary below).

Bouclair Inc. and Bouclair International Inc.
Weekly Cash Flow Forecast
For the 6-week period ending February 29, 2020
(Unaudited, in \$000s CAD)

RECEIPTS	
Sales receipts	11,154
Other	-
TOTAL RECEIPTS	11,154
DISBURSEMENTS	
Trade vendor payments (third party)	3,442
Rent	1,913
Payroll & related payments	2,765
Other expenses	1,059
Professional fees - restructuring	1,044
Freight & Duty	1,110
Marketing & Advertising	534
Liquidation disbursements	(100)
Warehouse contractants	637
Professional fees	170
Financial expenses	226
IT	452
Sales taxes	1,360
Loan repayment	263
Contingency	150
TOTAL DISBURSEMENTS	15,025
NET CASH FLOW FROM OPERATIONS	(3,871)

30. The projections reflect the following general assumptions:

- a. Granting of the 35-day period extension to file a Proposal;
- b. Continued operation of the remaining stores; and
- c. Compliance with the conditions under the Fifth Forbearance Agreement, including with the borrowing base calculation, and agreement upon a sufficient extension thereunder.

EXTENSION OF THE TIME LIMIT TO FILE A PROPOSAL

31. The Debtors advised the Trustee of their intention to file a second motion for a 35-day extension of the time limit to file a proposal to its creditors pursuant to Subsection 50.4(9) of the BIA.

32. The Companies require additional time to (i) seek to implement the Transaction, and (ii) potentially formulate a Proposal.

TRUSTEE'S RECOMMENDATION

33. The Trustee is of the opinion that the reasons invoked in the Motion for a second extension are reasonable and supports the relief sought therein.
34. The Trustee is of the opinion, based on the relief requested in the Motion for a second extension, that:
- a. It is in the creditors' best interest that an extension of the stay proceedings be granted in order to allow the Companies additional time, for the reasons detailed in paragraph 32;
 - b. The Debtors have acted, and are continuing to act, in good faith and with due diligence; and
 - c. No creditor will be materially prejudiced by the granting of the extension.

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

DATED AT MONTREAL, this 22nd day of January 2020.



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

DELOITTE RESTRUCTURING INC.
In its capacity as Trustee

APPENDIX A – Comparative Cash Flow Statement

BOUCLAIR INC. - Weekly Report Consolidated - (in \$000 CAD)	For the cumulative period of seven-week ended on 01-18-2020			Note
	Actual	Budget	Variance	
Receipts				
Sales receipts	18,016.1	17,549.0	467.1	1
Liquidation receipts	5,979.8	4,795.0	1,184.8	2
Other	60.2	-	60.2	3
Total receipts	24,056.1	22,344.0	1,712.1	
Disbursements				
Trade vendor payments (third party)	5,127.9	5,529.0	401.1	4
Payroll & related payments	3,632.0	3,573.0	(59.0)	
Freight	796.7	926.0	129.3	5
Duty	390.0	595.0	205.0	5
Sales taxes	2,708.2	2,548.0	(160.2)	6
Rent	4,444.9	4,666.0	221.1	
Professional fees	259.8	395.0	135.2	7
Warehouse Contractors	818.6	841.0	22.4	7
Marketing & Advertising	760.8	1,102.0	341.2	7
Insurance	247.5	275.0	27.5	
IT	343.3	460.0	116.7	7
Other expenses (non trade)	972.4	832.0	(140.4)	8
Liquidation disbursements	164.5	137.0	(27.5)	
Professional fees - restructuring	861.1	1,287.0	425.9	9
Credit card fees	398.1	471.0	72.9	
Financial expenses	103.1	132.0	28.9	
Utilities / deposits	270.0	300.0	30.0	
Contingency	-	175.0	175.0	
Total disbursements	22,298.9	24,244.0	1,945.1	
Net cash flow from operations	1,757.2	(1,900.0)	3,657.2	
Opening cash balance	(8,033.0)	(8,033.0)	-	
Closing cash balance	(6,275.8)	(9,933.0)	3,657.2	

Note 1: Sales receipts - The positive variance is mainly explained by the exposure Bouclair received in the media after the NOI filing which materialized in unbudgeted sales growth (budgeted 0% sales increase compared to last year's sales).

Note 2: Liquidation receipts - The positive variance is mainly due to the fact that for the seven-week period ended January 18, 2020, the average discount applied on regular sales' prices was lower than initially forecasted combined with a higher volume of items sold.

Note 3: Other - The positive variance is due to an unbudgeted amount collected in Bouclair International Inc.

Note 4: Trade vendor payments - The positive variance is mainly due to timing as some suppliers have granted Bouclair payment terms and some invoices are yet to be received. Management expects to receive these invoices and pay them in the upcoming weeks.

Note 5: Freight and Duty - The positive variance is mainly due to the fact that Bouclair spent less than expected during the seven-week period ended January 18, 2020.

Note 6: Sales taxes - The negative variance is mainly due to sales and liquidation receipts being higher than budgeted over the seven-week period ended December 28, 2019. Furthermore, the taxable expenses were lower than budgeted during that period.

Note 7: Professional fees, Warehouse contractors, Marketing & Advertising and IT - The positive variance is mainly due to timing as some suppliers have not yet submitted their invoices.

Note 8: Other expenses (non-trade) - The negative variance is mainly due to deposit requests from certain services suppliers.

Note 9: Professional fees - Restructuring - The positive variance is mainly due to timing as some professionals have not yet submitted their invoices. Management expects to receive the invoices and pay them in the upcoming weeks.

APPENDIX B – Second Extension Cash Flow Forecast

Bouclair Inc. and Bouclair International Inc.								
Weekly Cash Flow Forecast								
For the 6-week period ending February 29, 2020								
(Unaudited, in \$000s CAD)								TOTAL
Week Ending >>>>	Note	25-Jan-20	1-Feb-20	8-Feb-20	15-Feb-20	22-Feb-20	29-Feb-20	
RECEIPTS								
Sales receipts	1	1,624	1,619	1,856	1,821	2,544	1,690	11,154
Other		-	-	-	-	-	-	-
TOTAL RECEIPTS		1,624	1,619	1,856	1,821	2,544	1,690	11,154
DISBURSEMENTS								
Trade vendor payments (third party)	2	597	508	723	663	629	322	3,442
Rent	3	-	1,032	-	881	-	-	1,913
Payroll & related payments	4	922	-	922	-	922	-	2,765
Other expenses	5	210	120	222	192	120	195	1,059
Professional fees - restructuring	6	190	287	167	91	34	275	1,044
Freight & Duty	7	185	185	185	185	185	185	1,110
Marketing & Advertising	8	32	46	351	38	29	38	534
Liquidation disbursements	9	-	-	-	(100)	-	-	(100)
Warehouse contractants	10	92	103	133	103	103	103	637
Professional fees	11	29	17	73	17	17	17	170
Financial expenses	12	-	70	156	-	-	-	226
IT	13	174	44	44	87	59	44	452
Sales taxes		-	654	-	-	-	706	1,360
Loan repayment	14	-	263	-	-	-	-	263
Contingency		25	25	25	25	25	25	150
TOTAL DISBURSEMENTS		2,456	3,354	3,001	2,182	2,123	1,910	15,025
NET CASH FLOW FROM OPERATIONS		(832)	(1,735)	(1,145)	(361)	421	(220)	(3,871)
Opening cash balance		(6,133)	(6,965)	(8,700)	(9,844)	(10,205)	(9,784)	(6,133)
CLOSING CASH BALANCE		(6,965)	(8,700)	(9,844)	(10,205)	(9,784)	(10,004)	(10,004)
Letters of credit (L/C)		(141)	(141)	(141)	(141)	(141)	(141)	(141)
Closing cash balance (including L/C)		(7,106)	(8,841)	(9,985)	(10,346)	(9,925)	(10,145)	(10,145)
Borrowing capacity		11,580	12,244	12,466	12,263	11,990	12,583	12,583
Surplus of coverage		4,474	3,403	2,481	1,917	2,065	2,438	2,438

**** 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. *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 during the NOI procedures). 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.
3. *Rent* includes rent payments to landlords (paid biweekly starting December 1, 2019) in accordance with the leases and the Liquidation Order. Amounts include sales tax.
4. *Payroll and related payments* include Stores, Liquidation Stores, Corporate related payroll, and fringe benefits.
5. *Other expenses* include utilities, insurance, and other general payments based on historical expense patterns. Amounts include sales tax.
6. *Professional fees - restructuring* includes estimated professional fees for the Trustee, the Trustee's legal 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.
7. *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.
8. *Marketing and advertising* include traditional media and social media payments based on historical expense patterns. Amounts include sales tax.
9. *Liquidation disbursements* include the refund of the remaining deposit made in accordance with the Consulting Agreement. Amounts include sales tax.
10. *Warehouse contractors* include fees paid to agencies for warehouse resources based on historical expense patterns. Amounts include sales tax.
11. *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.
12. *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.
13. *IT fees* include all IT-related payments based on historical expense patterns. Amounts include sales tax.
14. *Loan Repayment* includes all term loan repayments to the main secured lender, NBC.