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

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

IN THE MATTER OF A PLAN OF ARRANGEMENT OR COMPROMISE OF:

GROUPE DYNAMITE INC., a legal person having its head office at 5592 Ferrier street, in the city of Montreal, Province of Quebec, H4P 1M2;

- and -

GRG USA HOLDINGS INC., a legal person having its head office at 1209 Orange Street, Wilmington, County of New Castle, Delaware, United States of America;

-and-

GRG USA LLC, a legal person having its head office at 1209 Orange Street, Wilmington, County of New Castle, Delaware, United States of America;

Debtors

- and -

DELOITTE RESTRUCTURING INC., a company incorporated under the laws of Canada, having a place of business at 500-1190 av. Des Canadiens-de-Montreal, in the city of Montreal, Province of Quebec, H3B 0M7;

Proposed Monitor

FIRST REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED MONITOR ("PROPOSED MONITOR")
(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the Application for an Initial Order and an Amended and Restated Initial Order (the "**Application**") under the *Companies' Creditors Arrangement Act* (**"CCAA"**).

2. Unless otherwise stated, the Debtors are also collectively referred to as **"Groupe Dynamite"**.

3. This report (the **"First Report"**) has been prepared by the Proposed Monitor prior to its appointment as Monitor in these CCAA proceedings to provide information to this Court for its consideration in respect of Debtors' Application.

4. The purpose of the First Report of the Proposed Monitor is to provide information to the Court with respect to:

    I. Deloitte's qualification to act as Monitor (the "**Proposed Monitor**") (page 3);

    II. Recognition Proceedings in the United States (page 4);

    III. The business, financial affairs and financial results of Groupe Dynamite (page 5);

    IV. Groupe Dynamite's main creditors (page 7);

    V. The proposed restructuring (page 10);

    VI. Charges sought in the proposed First Day Order and in the proposed Amended and Restated Initial Order ("**Initial Order**") (page 11);

    VII. Payments to Critical Suppliers (as defined below) (page 13);

    VIII. Overview of the 4-week Cash Flow Projections (defined below) (page 14); and

    IX. The Proposed Monitor's conclusions and recommendations (page 15).

5. In preparing the First Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, Groupe Dynamite's books and records and financial information prepared by the Debtors and discussions with management ("**Management**") of Groupe Dynamite (collectively, the "**Information**"). Except as described in this First Report in respect of Groupe Dynamite's Cash Flow Statement (as defined below):

    (i) The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

    (ii) Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.

6. Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

7. Unless otherwise indicated, the Proposed Monitor's understanding of factual matters expressed in this First Report concerning Groupe Dynamite and their business is based on

the Information, and not independent factual determinations made by the Proposed Monitor.

8. The Information that was analyzed does not include the extent of the impact of Coronavirus ("**COVID-19**") on Groupe Dynamite's operations. At the time of the Report, the situation is continuing to evolve, and many uncertainties remain as to the effect the COVID-19 crisis has had and will continue to have on Groupe Dynamite and the broader domestic and global economies.

9. The Proposed Monitor relied, in part, on publicly available information, Management forecasts and other information provided by Management in relation to the effect COVID-19 has had and will continue to have on Groupe Dynamite.

I. DELOITTE'S QUALIFICATION TO ACT AS MONITOR

10. The Proposed Monitor, Deloitte Restructuring Inc., is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) ("**BIA**"). Even though the Proposed Monitor fulfills the requirements of section 11.7(1) of the CCAA, it is subject to the requirement set out in section 11.7(2) of the CCAA to seek the permission to act as Monitor, considering that **Deloitte LLP**, an affiliate of Deloitte Restructuring Inc. has been acting as auditor of the Debtors and its affiliates. Deloitte Restructuring Inc. and **Deloitte LLP** have put in place an ethical wall to prevent the inadvertent communication of information between the personnel involved with the audit engagement and the personnel involved in the proceedings under the CCAA. The ethical wall procedures include:

    a) Assignment of a Confidentiality Keeper within the Proposed Monitor team. The Confidentiality Keeper has day-to-day responsibility for overseeing the confidentiality of information related to the CCAA proceedings and any other related sensitive and confidential information;

    b) The Confidentiality Keeper maintains a current list of all team members;

    c) The Confidentiality Keeper has distributed a copy of the ethical wall procedures memo to each team member and has obtained an executed acknowledgement from each team member. The Confidentiality Keeper is making sure that no team member has access to any sensitive and confidential information prior to executing the acknowledgement;

    d) All electronic records related to the engagement have been saved in a secure electronic directory and the access to the directory has been limited to the Proposed Monitor team only who are covered by the ethical wall;

    e) All hard copy papers have been stored in a secure space accessible only to members of the Proposed Monitor team or shredded when they are no longer required;

    f) An "Above the Wall" person, from **Deloitte LLP** quality control team has been designated to monitor compliance with the ethical wall;

    g) Furthermore, the Proposed Monitor obligations, including those of confidentiality and disclosure, reside with the Debtors being served. Therefore, the Proposed Monitor team members do not discuss or otherwise communicate about the CCAA proceedings with other parties, except when explicitly authorized by the Debtors. Similarly, the Proposed Monitor team members do not discuss or otherwise communicate about the CCAA proceedings and any other related sensitive and confidential information with Deloitte practitioners from **Deloitte LLP** and its affiliates.

11. On or about March 26, 2020, the Proposed Monitor was retained by the Debtors to provide support to the Debtors' Management on the following matters:

    a) Assist Management with the preparation of financial projections and weekly cash-flow in order to establish the Debtors financing and timing requirements;

    b) Advise Management by providing an analysis of the viable financing alternatives; and

    c) Assist Management with regards to implementation of a revised business model that was impacted by the pandemic.

12. In the context of the foregoing, the Proposed Monitor's professional personnel associated with this matter have acquired material knowledge of Groupe Dynamite and its business. The Proposed Monitor has spent time with Management understanding the operations and financial structure as more fully described in this First Report, in order to provide assistance of the Court, and the Monitor is in a unique position to assume its role immediately without the duplication and significant costs that would be required for another insolvency professional firm to familiarize itself with the business and financial situation of the Debtors in order to act as monitor.

13. The Proposed Monitor is, therefore, in a position to act as court-appointed monitor of Groupe Dynamite without delay, in an efficient and diligent manner in the CCAA proceedings for the benefit of all of its stakeholders.

14. The Proposed Monitor has retained Norton Rose Fulbright Canada LLP ("**Norton Rose**") to act as its independent counsel in these CCAA proceedings.

II. RECOGNITION PROCEEDINGS IN THE UNITED STATES UNDER CHAPTER 15

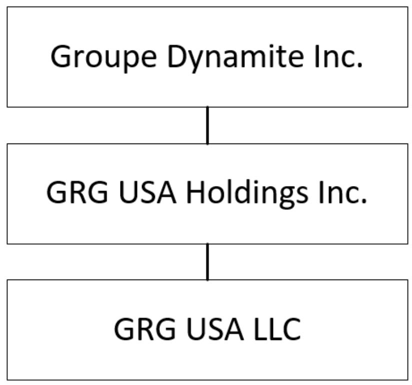
15. Since Groupe Dynamite has activities in the United States, operating 85 stores in 30 States, the Debtors will file, immediately following the issuance of the First Day Order, a petition seeking provisional recognition as foreign proceeding in the State of Delaware, with the objective to obtain the issuance of a provisional recognition order and other relief under Chapter 15 of the US Bankruptcy Code.

16. The Proposed Monitor is of the view that this recognition is essential to properly initiate and implement the proposed restructuring process (the "**Restructuring Process"**) as described further in this First Report.

III. THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF GROUPE DYNAMITE

Corporate Structure

17. Groupe Dynamite, which is operated on a consolidated basis, is composed of Groupe Dynamite Inc. ("**GDI**"), GRG USA Holdings Inc. ("**GRG Holdings**") and GRG USA LLC ("**GRG LLC**"), and has the following corporate structure:



18. GDI is a privately held corporation incorporated under the *Canada Business Corporation Act*, and is indirectly held by Mr. Andrew Lutfy and his family. It is domiciled in Montreal, Quebec.

19. GRG Holdings is 100% owned by GDI and owns 100% of the units of GRG LLC.

Overview

20. Groupe Dynamite operates the brands Garage and Dynamite with 322 stores across Canada and the United States. It functions as an integrated North American business, with all decisions for the corporate group, the human resources, accounting, treasury management, marketing, information technology functions, finance and administrative functions being centralized at and provided out of the head office in Montreal, including in respect to the operations in the United States. The main operational aspects of the business such as pricing decisions, business development initiatives and the supply chain management are made and planned out of Montreal.

21. As of August 31, 2020, Groupe Dynamite employed close to 4,300 persons, including 450 persons at its head office and 80 persons in its warehouse, both located in Montreal, making Groupe Dynamite a major employer in the Montreal retail market.

22. It has entered into lease agreements with 44 different landlords. The majority of its makers and suppliers are located in Asia.

i) Groupe Dynamite Inc. (GDI)

23. GDI has its head office in Montreal and operates 237 stores across Canada under the DYNAMITE (114 stores) and GARAGE brands (123 stores).

24. GDI operates the Canadian stores, Groupe Dynamite's headquarters and its sole warehouse, and owns the intellectual property used by Groupe Dynamite, including the Garage and

Dynamite brands. GDI also has an office in Shanghai employing 12 employees in charge of performing quality tests and maintaining the relationship with Groupe Dynamite’s suppliers.

ii) GRG USA LLC (GRG LLC) and GRG USA Holdings Inc. (GRG Holdings)

25. GRG LLC is wholly-owned by GRG Holdings, which is incorporated in the United States, and it operates the 85 stores of Groupe Dynamite in the United States under the DYNAMITE (3 stores) and GARAGE brands (82 stores).

Preliminary Summary Financial Analysis

26. Before COVID 19, Groupe Dynamite was a profitable company generating sufficient liquidity to cover its operating and administrative expenses. Notwithstanding the transition from in-store to online sales and its impact on the company, the company remained very profitable with a strong balance sheet and strong liquidity position.
27. Groupe Dynamite's stores have strategically been located in urban centers, in order to reach largely the targeted clientele for both of its brands. Approximately 80% of Groupe Dynamite’s leases are based on the old, pre-pandemic model of a monthly fixed rate, and 20% are based on a percentage of the sales.
28. On March 17, 2020, Groupe Dynamite was forced to close all its stores in Canada and in the United States, due to COVID-19. On March 20, 2020, 90% of GDI’s 5,000 employees were laid off as a result of stores closures. Although its warehouse activities continued, costs increased and production capacity was reduced to comply with the directives from the public health authorities.
29. Overnight, Groupe Dynamite went from an integrated, omnichannel model marrying digital with an in-store experience to a digital-only retailer.
30. In March, April and May 2020, Groupe Dynamite's overall sales nonetheless dropped by approximately 50% compared to those months in 2019.
31. The reopening of the stores has been slow and gradual. Indeed, on May 4, 2020, only 3% of the stores were reopened. This figure had only risen to 68% by June 22, 2020. Since the start of the pandemic, each store was closed an average of three months due to mandatory shutdowns, with significant variations depending on the jurisdiction.
32. Following the gradual reopening of its stores, Groupe Dynamite has observed a 40% reduction in traffic to its stores caused by several factors all interlinked to the COVID-19 pandemic, including the fact that city centers, where most of the stores are located, are nearly vacant as a result of social distancing restrictions, and that the closure of the United States – Canada border has greatly reduced tourist traffic.
33. As of September 3, 2020, 13 stores are still closed, notably due to a mandatory shutdown of malls in California since June 13, 2020.
34. Those negative effects are compounded by an increase of 23% of operating costs relating to the health and safety measures added to protect the employees and customers, including strict social distancing measures and restrictions around product handling.
35. As a result, Groupe Dynamite finds itself in a precarious financial situation, and is now facing the necessity to reduce its footprint and rent expenses in order to ensure its viability in the long-term. Indeed, due to this significant drop in revenue, Groupe Dynamite did not pay its rent in whole for the past 6 months, which represents approximately $52M as a whole.
36. In summary, the precarious financial situation of Groupe Dynamite which led to its insolvency is the result, *inter alia*, of the following factors:

a) Obligation to temporarily close stores across Canada and USA due to COVID-19;

b) Lower store sales than anticipated when reopening due to sanitary measures and consumers' reluctance to go to shopping malls;

c) Lower than expected sales in the last months from e-commerce and stores due to the global economic downturn resulting from the COVID-19 pandemic;

d) Significant increase in arrears owed to landlords resulting from inability to pay rents in the last months;

e) Groupe Dynamite was proactive to negotiate the terms of its leases with its landlords. However, negotiations were extremely difficult and uncertainty still remains as to what extent these terms will be modified in a satisfactory and sustainable manner. In addition, some landlords have recently started blocking access to stores due to unpaid rents.

f) Low level of inventory in comparison with prior years, which requires significant liquidity in order to restore it to a sufficient level; and

g) Groupe Dynamite has entered into a forbearance agreement with its bank syndicate which is currently in force until October 3, 2020.

IV. GROUPE DYNAMITE'S MAIN CREDITORS

37. According to Groupe Dynamite's books and records, the following table summarizes amounts due to secured and unsecured creditors of Groupe Dynamite as of the date of the Report, which amount to a total of $358.5M on a consolidated basis:

Groupe Dynamite Inc. Main creditors (in $000 CAD)		
	Secured	**Unsecured**
Groupe Dynamite Inc.		
Bank syndicate	138,500	-
Landlords	-	43,213
Trade Payables	-	3,616
Non-trade payables	-	14,445
Other payables	-	15,586
Governement payables	-	6,275
Employees	-	5,021
Promissory Note Payable to Parent	-	60,000
Interco	-	1,614
	138,500	149,770
	Secured	**Unsecured**
GRG USA LLC		
Landlords	-	32,180
Non-trade payables	-	961
Other payables	-	4,422
Governement payables	-	849
Employees	-	716
Interco	-	31,132
	-	70,261

Secured Creditors

38. Groupe Dynamite has advised the Proposed Monitor that the principal secured creditor of Groupe Dynamite Inc. was a banking syndicate composed of the following lenders (the "**Lenders**"):
    (i) National Bank of Canada;
    (ii) Bank of Montreal;
    (iii) The Toronto-Dominion Bank; and
    (iv) Fédération des Caisses Desjardins du Québec.

39. The secured indebtedness of Groupe Dynamite may be described and summarized as follows:

    (i) A revolving facility of up to $115M, currently temporarily reduced;
    (ii) A swingline facility of up to $10M; and
    (iii) A term loan of $100M.

    As appears notably from a credit agreement dated February 28, 2020, which was amended on April 30, 2020, and further amended on July 3, 2020, the whole in order to finance general corporate purposes, including the financing of ongoing operations, working capital requirements and store opening, renovations and the refinancing of certain facilities.

40. As at the date of the Report, GDI's indebtedness towards the Lenders totalled $138,5M.

41. As security for the payment and performance of the obligations of Groupe Dynamite to them, the Lenders, through their agent National Bank of Canada, hold a first ranking security on all movable property of each of GDI, GRG Holdings and GRG LLC, subject to certain exceptions, as well as guarantees by GRG Holdings and GRG LLC of the obligations of GDI to the Lenders.

42. This indebtedness and related security is more fully described in the Application, and its validity, opposability and rank have not yet been independently reviewed by the Proposed Monitor.

43. Groupe Dynamite has informed the Lenders of its intention to initiate proceedings under the CCAA and implement the Restructuring Process.

Employees

44. As of August 31, 2020, Groupe Dynamite employed close to 4,300 persons, including 530 persons at its head office and warehouse in Montreal. Groupe Dynamite employs in its stores a total of 2951 people in Canada and 866 people in United States.

45. The employees in Canada are located in all ten provinces as follows:

Province	# Full-time employees	# Part-time employees	Total
Ontario	261	796	1057
Quebec	242	696	938
Alberta	78	248	326
British Columbia	69	188	257
Manitoba	25	96	121
New Brunswick	7	30	37
Newfoundland	11	42	53
Nova Scotia	19	59	78
Prince Edward Island	7	7	14
Saskatchewan	17	53	70

46. In the United States, the employees are located in 30 different states.

47. Management has informed the Proposed Monitor that (i) Groupe Dynamite potentially owes approximately $5M to certain employees as accrued vacations and (ii) that all other amounts owed to Groupe Dynamite's employees are currently being paid in the ordinary course of business, and that there is currently no unpaid obligations to Groupe Dynamite's employees. Payments are made on a bi-weekly basis and the payroll management is done internally. As per Management, all deductions at source are current.

48. The potential claims of the employees are related to accrued and unused vacation time, totaling approximately $5M according to Management; and

49. Groupe Dynamite does not have any pension or retirement plans aside from a defined employer matching program which is administrated externally by Desjardins, is current, and will be maintained for the benefit of the remaining employees.

Landlords

50. As mentioned above, Groupe Dynamite has entered into lease agreements with 44 different landlords.

51. As a result of the COVID-19 pandemic, Groupe Dynamite has generally not paid any rent for the months of April to September 2020, and considers that no rent is payable for the respective periods during which it is prevented to operate its stores by government mandated shutdowns.

52. For reference, a list of the main landlords of Groupe Dynamite in Canada and the United States is attached hereto as **Appendix A** to this report.

Promissory Note Payable to Parent

53. The Proposed Monitor was informed by Management that GDI would owe an amount of $60M, by way of promissory note, to a related party.

Government payables

54. As of the date of the Report, all amounts owed to the tax authorities by the Debtors are paid in the normal course and there is therefore no known past due amount owed to tax authorities, which could give rise to any deemed trust. Amounts due are current and related to sales tax and Government remittances.

Other Unsecured Creditors

55. Groupe Dynamite has advised the Proposed Monitor that its other principal unsecured creditors are as follows:

    a) Trade payables: Mainly composed of suppliers located in Asia, a significant portion of which represents small and medium enterprises in Asia from whom Groupe Dynamite's supply chain largely depends on for production inputs;

    b) Non-trade payables: Mainly composed of transport, information technology, digital media and professional fees; and

    c) Other payables, including its credit card payment processors (Chase Merchant Services and Paysafe), gift cards commitments to Groupe Dynamite's customers, and amounts alleged by the U.S. Customs and Border Protection to be owed by GRG LLC with respect to duties on goods imported by GRG LLC.

V. PROPOSED RESTRUCTURING

56. The CCAA proceedings are intended to allow Groupe Dynamite to initiate and implement a process whereby Groupe Dynamite will be in a position to regain its historical profitability and generate positive cash flow in an industry that has been severely impacted by the current global COVID-19 pandemic. The uncertainty relating to the length and timing of the pandemic only adds to the operational and financial stress and challenges that are facing Groupe Dynamite and its peers in their industry. Moreover, Groupe Dynamite has several stores that are located in city centers that have been mostly deserted since March 2020, therefore creating an even larger gap in its traditional operating strategy.

57. Accordingly, Groupe Dynamite believes that the Restructuring Process described below, with the assistance and the supervision of the Proposed Monitor, constitutes the most viable option under the circumstances and allow for a plan of arrangement and compromise ("**Plan**") to be submitted to Groupe Dynamite's creditors, pursuant to the CCAA.

58. Groupe Dynamite's proposed Restructuring Process has two purposes: (i) to redefine a new operating model, notably with its landlords taking into account the new reality resulting from the COVID-19 pandemic, and (ii) to propose a compromise to its creditors regarding the liabilities incurred since the initial phase of the pandemic. More particularly, the Restructuring Process will involve the following:

    a) <u>Review of the real estate portfolio</u>: In view of optimizing its brick and mortar footprint, Groupe Dynamite is currently reviewing and categorizing all of its leases that were entered with approximately 44 landlords. In light of the current dynamic, Groupe Dynamite will be seeking to renegotiate its leases to reflect the new and current store traffic and customer behavior, in view of reflecting rental costs that are aligned with the sales generated by each of the stores. Groupe Dynamite will proceed with disclaiming the leases and closing permanently stores for which they cannot negotiate an acceptable rental cost structure to reach profitability and stores that cannot reach profitability even with a moratorium on rental cost.

b) <u>Modification of the financing structure</u>: Groupe Dynamite intends by these proceedings to review its financing structure and its balance sheet in order to find a structure that will allow it to operate more efficiently in the future and who will ensure the long-term viability of the Debtors ; and

c) <u>Implementation of a simplified and efficient claims procedure</u>: Implementing a simplified and expeditious procedure for assessing priority claims from creditors. This process would determine a collocation order for a distribution in the context of a Plan.

d) <u>Elaboration of a plan of arrangement</u>: Groupe Dynamite intends to elaborate a Plan that will allow its creditors to maximize recovery and a return in a restructured and financially healthy entity that will be ready to face the challenging times that are being faced by the retail industry.

VI. CHARGES SOUGHT IN THE PROPOSED FIRST DAY ORDER AND THE PROPOSED INITIAL ORDER

<u>Administration Charge</u>

59. The proposed Initial Order provides for a priority charge in the amount of up to $750,000 in favor of the Debtors' counsels, the Proposed Monitor and Norton Rose as security for their professional fees and disbursements incurred both before and after the issuance of the Initial Order in respect of these CCAA proceedings (the "**Administration Charge**"). The Administration Charge has been established based on the respective professionals' previous experience with restructurings of similar magnitude and complexity.

60. The Proposed Monitor believes that the Administration Charge is required and is reasonable under the circumstances.

61. For the purposes of the First Day Order, the Proposed Monitor is of the view that a portion of the Administration Charge representing an amount of $250,000 should be granted and ordered upon the issuance of the First Day Order, until the increase to the full amount of the Administration Charge be sought from this Court at the comeback hearing for the issuance of the Initial Order, which first portion is reasonable to secure the payment of such fees and disbursements until then.

Directors' and Officers' Charge

62. The Proposed Monitor understands that Groupe Dynamite maintains an insurance ("**D&O Insurance**") which provides for coverage with respect to various directors' and officers' liability as well as for various deductibles depending on the nature of the loss. The D&O Insurance has not been reviewed by the Proposed Monitor as of the date hereof.

63. The Proposed Monitor understands from the Information provided by Management that there might be insufficient coverage in respect of certain potential directors' and officers' liability, notably in respect of wages, including accrued and accruing vacation pay and other employee related obligations.

64. It is expected that the directors of Groupe Dynamite will not be resigning once a First Day Order is granted by the Court, and the committed and continued involvement of those remaining directors and officers is key to complete the Restructuration Process. Those remaining directors and officers are requiring indemnification against obligations and liabilities that they may incur in such capacity.

65. The proposed Initial Order provides for a charge in an amount not exceeding $6,950,000, which represents the potential liability exceeding the D&O insurance coverage to secure the indemnity provided to those remaining directors and officers in respect of liabilities incurred in such capacity after the issuance of the Initial Order, except to the extent that such obligation or liability would incurred as a result of the Directors and Officers' gross negligence or willful misconduct (the "**D&O Charge**"). A copy of the potential exposure calculation is attached as **Appendix B** to this report, (**<u>under seal</u>**).

66. As per the Application, the D&O Charge becomes effective only if the existing D&O Insurance is not responsive or sufficient.

67. The amount of the D&O Charge has been calculated by the Proposed Monitor, taking into consideration the monthly payroll costs of existing employees, the accruing and accrued vacation and average sales tax payments, having considered the analysis prepared by Groupe Dynamite in that regard.

68. In these circumstances, the Proposed Monitor is of the view that the D&O Charge is required in the circumstances, and that the amount is reasonable and justified.

69. For the purposes of the First Day Order, the Proposed Monitor is of the view that the D&O Charge representing an amount of $6,950,000 should be granted and ordered upon the issuance of the First Day Order.

Interim Facility and Interim Lender's Charge

70. Groupe Dynamite has approximately $13,2M, net of outstanding cheques in circulation, in their current bank accounts.

71. As appears from the Application, Groupe Dynamite has negotiated an interim financing facility term sheet (the "**Interim Facility**" and the "**Interim Financing Term Sheet**") with 10644579 Canada inc., a corporation controlled by Andrew Lutfy (the "**Interim Lender**"), which would allow Groupe Dynamite to borrow, repay and reborrow up to a principal amount of $20M outstanding at any time, on the terms and conditions as set forth in the Interim Financing Term Sheet.

72. There was no competitive process initiated by Groupe Dynamite to find an alternative interim lender; however no such process would likely have lead to a better proposal considering that the urgent nature of the financing being sought and the current context of uncertainty would likely have impeded any useful due diligence from a third party.

73. The Company has cash in its current accounts. The Company has agreed with the Lenders to restrict the use of the cash in its current accounts until the Lenders agrees to release the funds. A decision is scheduled to be made at the latest September 18th, 2020. Groupe Dynamite, in the following weeks, needs to purchase inventory for the coming fall/winter season. As appears from the Application, the Applicants request that a first $10M drawdown be authorized by the proposed First Day Order.

74. The Interim Lender being the actual shareholder of Groupe Dynamite, it was considered the most practical option for sourcing interim financing to Groupe Dynamite during the pendency of these CCAA proceedings.

75. As appears from the Interim Facility, all amounts advanced thereunder are to be secured by a Court-ordered super-priority charge in the amount of $12M, to be increased to an amount of $24M as part of the Amended and Restated Initial Order, on all of Groupe Dynamite's assets, in priority to all other existing encumbrances and Court charges, except for the Administration Charge, the D&O Charge and the secured indebtedness of the Bank Syndicate (the "**Interim Lender's Charge**").

76. As appears from the Application, the Applicants request that a first $10M drawdown, should it be required, be authorized by the proposed First Day Order.

77. The Interim Facility is to bear interest ordered at a rate of 11% per annum. Additional details in connection with the Interim Facility are provided for in the Application.

78. The Proposed Monitor supports Groupe Dynamite's request for interim financing for the following reasons:

    (i) In the Proposed Monitor's view, no creditor will be materially prejudiced as a result of the Interim Lender's Charge, to the contrary; the funding is expected to allow Groupe Dynamite to continue its restructuring efforts and proposed restructuring, which will enhance the recoveries of Groupe Dynamite's secured creditors, suppliers and employees, as opposed to a piecemeal liquidation, which would occur in the absence of funding; and

    (ii) The Proposed Monitor considered the terms of the Interim Facility and its costs to Groupe Dynamite competitive given that the Interim Facility contemplates an interest rate of 11% per annum, with no other fees or charges required, including stand by fees (other than the reimbursement of legal fees).

VII. PAYMENTS TO CRITICAL SUPPLIERS

79. The Proposed Monitor has been informed by Management that some suppliers who provide essential goods and services to operate the business have not all been paid for goods or services actually supplied to Groupe Dynamite in the weeks before the initiation of the CCAA proceedings (the "**Critical Suppliers**").

80. Management has represented to the Proposed Monitor that it could be necessary to pay such amounts owing to the Critical Suppliers, for the following reasons:

a) Some of the Critical Suppliers operate small businesses, such that they could not afford not to be paid without being put in financial difficulty, which would in turn jeopardize the supply of essential goods to Groupe Dynamite;

b) Many of these Critical Suppliers do not have long-term contract with Groupe Dynamite, and could stop providing the necessary goods and services to the Debtors; and

c) The Proposed Monitor has been informed that a number of these Critical Suppliers will not provide goods or services for the upcoming week if they have not been paid for the previous week, such that they would cease doing business with Groupe Dynamite, which would significantly affect Groupe Dynamite's operations;

d) The enforcement of the provisions of the Initial Order abroad with certain critical suppliers that are located in Asia may be subject to costs delays and uncertainties that could jeopardize the Restructuring Process, including, *inter alia*, when considering the need to proceed with the necessary inventory purchases in time for the upcoming season in retail.

81. The Proposed Monitor believes that it is necessary under the circumstances that it be entitled to let Management (i) identify which of these suppliers are essential to the business and ongoing operations of Groupe Dynamite, and (ii) pay certain pre-filing claims of the Critical Suppliers, with the Proposed Monitor's prior written approval and provided that the payments of such amounts is made in accordance with the Cash-Flow Statement (defined below), and the budget attached to the Interim Financing Term Sheet, or with the prior consent of the Interim Lender, up to a maximum of $5M.

82. GDI and GRG LLC also offer gift cards to their customers. Such commitments represent, according to Groupe Dynamite's calculation, a potential liability of $5,177,585 for GDI and USD $1,444,257 for GRG LLC, as of August 1, 2020. The Proposed Monitor believes that it is critical to maintain confidence of the customer and that gift cards continue to be honored, such that the Debtors should be allowed to honor these pre-filing commitments to Groupe Dynamite's customers.

VIII. OVERVIEW OF THE 4-WEEK CASH FLOW PROJECTIONS

83. Groupe Dynamite, with the assistance of the Proposed Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 4-week period from September 6, 2020 to October 3, 2020 (the "**Cash Flow Period**") for the purpose of projecting Groupe Dynamite's estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is attached as **Appendix C** to this report (**<u>under seal</u>**).

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

85. The Proposed Monitor'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 Proposed Monitor's procedures with respect to these assumptions were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the documents provided by Management in support of the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

86. Based on the Proposed Monitor'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 Groupe Dynamite 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.

87. 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 Proposed Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report. Neither does the Proposed Monitor express any opinion as to the performance of Groupe Dynamite's 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 Debtors.

88. 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.

89. As mentioned above, the key assumptions used in the Cash Flow Statement are based on the Company's most recent sales and costs trends. Groupe Dynamite' consolidated cash balance as at September 6, 2020 is estimated to be $13,2M and will be restricted until September 18, 2020. Although the Cash Flow Statement demonstrates that the liquidity level will be sufficient to fund the operations on a weekly basis, it not sufficient on a daily basis as there are significant peaks and valleys within a 1 week period, as illustrated in the copy of the daily cash flow statement prepared by management ("Daily Flow Statement") - attached as **Appendix D** to this report (**under seal**). Therefore the Company requires an amount of $10M of interim financing in the following 2 weeks from the Interim Facility to cover these daily fluctuations.

90. The Management anticipates more restrictive payment terms for purchases from suppliers following the announcement of the CCAA proceedings. As such, Management has anticipated certain "cash on delivery" purchases and payment of deposits to certain supply providers.

91. As appears from the Cash Flow Statement and the Application, Groupe Dynamite intends to continue to pay its trade creditors for services rendered and goods supplied in the normal course of business during these CCAA proceedings, but also, with the permission from this Court, for services rendered and goods supplied in the normal course of business before the present CCAA proceedings with respect to the Critical Suppliers.

92. Management has advised the Proposed Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

IX. THE PROPOSED MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

93. The Proposed Monitor believes that Groupe Dynamite should be granted the benefit from the protection available pursuant to the CCAA in the form of the proposed First Day Order, Initial Order, including the granting of the charges provided for therein for the initial

amounts set out above until the comeback hearing for the issuance of the Initial Order, since same would provide Groupe Dynamite with the opportunity to attempt a successful restructuring of its operations.

94. It is the Proposed Monitor's view that such a successful restructuring of Groupe Dynamite's operation, as contemplated by the Restructuring Process, is beneficial to Groupe Dynamite's creditors and shareholders as a whole.

95. Finally, provided the First Day Order is issued, it is anticipated that the issuance of the following orders will be subsequently sought at the comeback hearing for the issuance of the Initial Order, the whole for the reasons mentioned above in order to allow the Debtors to achieve the Restructuring Process:

    (i) The increase, to the full amount requested by the Debtors, of the Administration Charge (from $250K to $750K) and the Interim Financing Charge (from $12M to $24M).

96. The Proposed Monitor will complement the present report accordingly prior to said comeback hearing to the extent required to properly address the additional orders sought and to report on any development that may occur by then.

DATED AT MONTREAL, this 7th day of September 2020.

DELOITTE RESTRUCTURING INC.
In its capacity as Proposed Court-Appointed Monitor of Groupe Dynamite

Pierre Laporte, FCPA, FCA, CIRP, LIT

Jean-François Nadon, CPA, CA, CIRP, LIT

Appendix A

APPENDIX A

GDI Consolidated

Number of leases by landlord and country

Landlord	Total number of leases
Canada	
IVANHOE CAMBRIDGE	34
CADILLAC FAIRVIEW	32
CUSHMAN & WAKEFIELD	22
MORGUARD	18
OXFORD	18
RIO CAN	16
PRIMARIS	15
WESTCLIFF	15
COMINAR	13
CENTRECORP	7
BEAUWARD	4
SIMON	4
ALLPRIME	3
BENTALL KENNEDY	3
QUADREAL	3
SHAPE PROPERTY MANAGEMENT CORP.	3
CANADA ONE	2
COGIR	2
CREIT	2
CROMBIE PROPERTIES	2
DRUMMOND BUILDING REG	2
EUROPRO	2
HARDEN MANAGEMENT	2
GROUPE I. QUINT INC.	2
LEIKIN GROUP	2
GROUPE MACH INC.	2
ORLANDO CORPORATION	2
SMART CENTRES	2
TRIPLE FIVE	2
WARINGTON PCI MANAGEMENT	1
	237
USA	
BROOKFIELD	26
SIMON	26
MACERICH	8
WESTFIELD	7
PYRAMID	4
PREIT	3
TAUBMAN	2
CBL	1
CENTENNIAL REAL ESTATE MANAGEMENT	1
THE IRVINE COMPANY	1
MARX	1
PACIFIC	1
STARWOOD	1
TRADEMARK	1
TRIPLE FIVE	1
WILLMORITE MANAGEMENT	1
	85
Total	**322**