

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

BANK OF MONTREAL

Applicant

- and -

**BEST MADE TOYS INTERNATIONAL, ULC, BEST MADE TOYS LLC,
BEST MADE TOYS GLOBAL ENTERPRISES LIMITED and BEST MADE TOYS
HOLDING LLC**

Respondents

**REPORT OF DELOITTE RESTRUCTURING INC. IN ITS CAPACITY AS PROPOSED
RECEIVER OF BEST MADE TOYS INTERNATIONAL ULC AND ITS AFFILIATES**

DATED APRIL 23, 2019

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INTRODUCTION AND PURPOSE OF THIS REPORT

1. Deloitte Restructuring Inc. (“**Deloitte**”) understands that an application (the “**Receivership Application**”) will be made before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) by the Bank of Montreal (“**BMO**”) for an Order (the “**Receivership Order**”), *inter alia*, appointing Deloitte as receiver to exercise the powers and duties set out in the Receivership Order, pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”), and section 101 of the *Courts of Justice Act*, R.S.O. 1990 c. C.43, as amended (the “**Receiver**”), without security, of all the assets, properties and undertakings (collectively, the “**Property**”) of Best Made Toys International, ULC (the “**Company**”) and its affiliates set out and attached hereto in **Appendix “A”** (collectively with the Company, “**BMT**”).
2. Deloitte was retained by BMO on May 4, 2018, to act as its financial advisor to review and monitor the current operations and financial position of BMT. Deloitte’s involvement with BMT is further described herein. More recently, Deloitte also worked with BMO and its legal counsel, Borden Ladner Gervais LLP (“**BLG**”), with regard to the proposed receivership proceeding, as discussed below.
3. Deloitte is a licensed insolvency trustee within the meaning of section 2 of the BIA and has consented to act as Receiver in these proceedings in the event that the Court grants the relief sought by BMO. Deloitte has prepared this report as proposed Court-appointed Receiver of BMT (“**Proposed Receiver**”) to provide background to the Court for the pending receivership application and the relief being sought as part of the application (the “**Report**”).

4. Deloitte has also engaged Dentons LLP (“**Dentons**”) to act as the Proposed Receiver’s independent legal counsel.

5. This Report will cover:
 - a) An overview of BMT’s business;
 - b) A summary of BMT’s major stakeholders and creditors;
 - c) Deloitte’s prior involvement with BMT;
 - d) BMT's current financial position causes of financial difficulty;
 - e) BMT’s immediate cash flow requirements;
 - f) The result of BMO issuing its Notices of Intention to Enforce security;
 - g) Dentons’ preliminary review of the validity and enforceability of BMO’s security;
and
 - h) Deloitte’s consent to act as Receiver should the Court see fit to grant the Receivership Order.

TERMS OF REFERENCE

6. In preparing this Report, Deloitte has been provided with, and has relied upon unaudited, draft and/or internal financial information, BMT's books and records, discussions with management of BMT, discussions with BMO and its legal counsel, and information from third-party sources (collectively, the “**Information**”). Except as described in this Report:

- (a) Deloitte has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, Deloitte has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“CAS”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Proposed Receiver expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and
 - (b) Deloitte has prepared this Report in its capacity as Proposed Receiver to provide background to the Court for its consideration of the relief being sought. Parties using the Report other than for the purposes outlined herein are cautioned that it may not be appropriate for their purposes.
7. Unless otherwise stated, all dollar amounts contained in the Report are expressed in US dollars, as the Company utilizes this convention for internal accounting purposes. Financial information reported herein is presented on a consolidated basis and not at the individual operating company level.
8. The Report has been prepared with reference to the Affidavit of Robert Kiefer sworn April 23, 2019 (the “**Kiefer Affidavit**”) in this matter, a copy of which will be filed separately with the Court by BMO. This Report should be read concurrently with the Kiefer Affidavit which provides further context and background regarding BMT and the activities leading up to the Receivership Application.

OVERVIEW OF BMT

9. The Company is a privately held company with the registered office located at 1800-355 Burrard Street, Vancouver, British Columbia. The head office is located at 120 St. Regis Crescent North, Toronto, Ontario, with additional production facilities located nearby at 53 Bakersfield Street, North York, Ontario. The Company is a global provider of plush toys, pet toys, and pet beds. BMT's assets mainly consist of accounts receivable, inventory and fixed assets used in the operation of its plush toy manufacturing business.
10. BMT supplies goods to customers in over 50 countries worldwide. Production takes place in both China and Canada through two distinct processes:
 - (a) For larger toys, the shell or "skin" of the toy is manufactured in China, shipped to Toronto for stuffing, and then delivered to North American customers via road transport ("**Domestic Production**"); and
 - (b) For smaller toys, the entire toy is manufactured in China, and then shipped directly to the customer (direct import or "**DI Production**").
11. One prominent North American retailer represents in excess of 33% of BMT's reported revenue for 2018.
12. The Company was founded in 2015 when SJ Capital Partners V LLC, a corporation headquartered in New York, NY, formed the Company to acquire Best Made Toys International Inc. of Toronto and Best Made Toys Global Limited of Hong Kong. Prior to this, BMT's business was operated by Gerald and Anne-Marie Seetner for over 30 years.

13. BMT currently employs approximately 62 employees in total between its various locations. The 17 employees based in Canada are non-unionized. Production staff in Toronto are sourced from staffing agencies and are not BMT employees.
14. A corporate organizational chart setting out the corporate relationships within the BMT structure is included as **Appendix “B”** attached hereto.
15. Pursuant to the terms of an amended and restated credit agreement dated October 4, 2018 (as amended, the “**Credit Agreement**”) between the Company, as borrower, and BMO, revolving credit facility borrowings are subject to a borrowing base limit based on the level of accounts receivable and other working capital balances. The borrowing base is calculated on a monthly basis. As of April 10, 2019, advances made by BMO under the Credit Agreement are approximately \$22.4 million, of which \$8.6 million is in respect of a term loan, with the balance, being approximately \$13.8 million, representing a revolving credit facility.
16. A summary of the credit facilities provided by BMO, their balances and the relevant limits of each facility is set out in the table below.

Facility	Balance as at April 10, 2019	Limit
Facility #1 Revolver (“ Existing Revolver ”)	\$7.4 million	\$10.0 million
Facility #2 Term Loan	\$6.1 million	\$6.1 million
Facility #3 Term Loan	\$2.5 million	\$2.5 million
Facility #4 Revolver (“ EDC Revolver ”)	\$5.8 million	\$10.0 million
Facility #5 Diners Club Card and Professional Fees Payments	\$0.6 million	\$0.3 million
Total	\$22.4 million	\$28.9 million

17. As security for the Company's obligations and liabilities to BMO under the Credit Agreement, BMT executed, among other things, a general security agreement in favour of BMO granting a security interest over BMT's assets.

BMT'S STAKEHOLDERS

18. The total indebtedness of BMT to its creditors as of March 31, 2019 is approximately \$42.6 million. The following table sets out the nature of the relationship between BMT and each of its major creditors and stakeholders as detailed on the Company's financial statements:

Stakeholder	Nature of relationship	Amount owing at March 31, 2019 ⁽¹⁾
BMO	<ul style="list-style-type: none"> Senior secured lender including a term and revolving credit facility 	\$22.4 million
EDC	<ul style="list-style-type: none"> Guaranteed 50% of the EDC Revolver advanced by BMO 	TBD, currently \$5.8 million ⁽²⁾
Gerald and Anne-Marie Seetner	<ul style="list-style-type: none"> Owed \$13.1 million unsecured vendor take-back loan related to the sale of BMT's business in 2015 to the Company Landlord of the Company's North York premises (the lease is current) 	\$13.1 million
SJ Capital Partners V LLC	<ul style="list-style-type: none"> Majority shareholder of BMT, unsecured subordinated notes 	\$1.0 million
Trade creditors	<ul style="list-style-type: none"> \$4.5 million owed to factories located in China \$1.7 million owed to various other trade vendors primarily located in Canada, USA, Hong Kong and Shanghai 	\$6.2 million

- (1) All amounts owing as at March 31, 2019, with the exception of BMO and EDC amounts, which are as at April 10, 2019.
- (2) The outstanding value of the EDC Revolver is \$5.8 million. EDC has guaranteed 50% of any shortfall on this facility, which can only be determined after realizations are complete, and eligible amounts applied to the EDC Revolver.

DELOITTE'S PRIOR INVOLVEMENT WITH BMT

19. On May 4, 2018, BMO engaged Deloitte to perform an independent business review with respect to BMT's affairs and financial position, including an assessment of BMO's collateral position. As part of its scope of work, Deloitte undertook the following:
 - (a) a review of BMT's business plan and financial forecast;
 - (b) preparation of an estimate of BMO's security position;
 - (c) a review of the borrowing base certificates provided to BMO; and
 - (d) other matters as directed by BMO.

20. The Company consented and agreed to the engagement by BMO of Deloitte.

21. Deloitte began its work shortly after the execution of its engagement letter by BMO and provided its report to BMO on June 29, 2018 (the "**June 29 Report**"). The June 29 Report highlighted several key issues facing the Company and BMO's loans, including, but not limited to:
 - (a) Production issues in 2017 which led to a \$4.3 million EBITDA loss;
 - (b) Key issues as they relate to BMT's turnaround plan for the remainder of 2018;
 - (c) A working capital shortfall of approximately \$10.2 million for the remainder of the 2018 production season; and
 - (d) A material impairment of BMO's Term Loan facilities.

22. A chronology of certain subsequent post-report events as they related to Deloitte's engagement is set out below:

- (a) In July 2018, Deloitte assisted BMO in canvassing several prominent local and US-based alternative lenders to gauge interest in refinancing BMT's working capital facilities, and to provide BMT with sufficient working capital for the 2018 production season.
- (b) Over the course of July and August 2018, Deloitte and BMO had discussions with 25 potentially interested parties, with none putting forward a commercially attractive purchase or refinancing offer.
- (c) In August 2018, BMO negotiated with Export Development Canada ("EDC") to obtain a guarantee on an incremental additional working capital facility to fund BMT's 2018 production cycle. The new facility, the EDC Revolver (as defined above) provided for a \$10.0 million limit revolver to fund eligible pre-shipment costs of goods (i.e. to fund purchase orders with Chinese factories). The EDC Revolver was 50% guaranteed by EDC and BMO advanced under the facility on September 5, 2018. Based on the Company's 2018 budget, the EDC Facility and the other pre-existing BMO credit facilities were expected to be repaid in full by January 31, 2019.
- (d) After delivery of the June 29 Report, BMO requested that Deloitte monitor the operations of BMT, which work included, but was not limited to, the following:
 - i. Review of weekly borrowing base reports and EDC facility submissions;

- ii. Review of the Company's 2019 budget and business plan (the "**2019 Forecast**");
 - iii. Assist the Company with cash flow forecasting;
 - iv. Negotiation of CEO compensation; and
 - v. Identification of an incoming Director to oversee corporate governance of the BMT business as the existing directors advised of their intention to resign in the fall of 2018.
- (e) Throughout October and November 2018, the Company's CEO, Mr. Carter Pennington (the "**CEO**"), advised of the declining financial performance of the business. In particular, there were significant production difficulties within the Toronto manufacturing facility, which ultimately led to:
- i. BMT and/or customers cancelling \$11.1 million of their budgeted \$85.3 million sales orders for the remainder of 2018;
 - ii. Increased operating costs of \$4.6 million primarily related to supply chain disruption (\$3.4 million), additional logistics costs (\$0.6 million) and increased production costs (\$0.6 million);
 - iii. Accounts receivable write-downs totalling \$2.4 million; and
 - iv. Inventory write-downs and freight provisions of \$1.4 million directly related to the cost of goods which were paid for, however, the customer orders for the same were ultimately cancelled.

- (f) In December 2018, the Company began experiencing cash flow difficulties as a result of the cancelled orders and a compressed production window. A Canada Post labour strike in November and December 2018 and disputes with customers compounded this issue as collection of receivables slowed.
- (g) On January 28, 2019, BMO, EDC, the Company and Deloitte attended a meeting at the Company's North York premises to discuss, among other matters, the 2019 Forecast. The outcome of this meeting was for Deloitte to work with the Company to estimate the working capital requirement for the 2019 Forecast.
- (h) On February 15, 2019, Deloitte met with BMO to discuss the 2019 Forecast, which highlighted a peak working capital requirement of \$28.0 million for the 2019 production season. This represented an additional \$8.0 million liquidity requirement for the remainder of 2019, with such amount needed in the spring of 2019 to fund production of fall 2019 deliveries to customers. This also assumed that the EDC Revolver would be renewed for 2019, which was uncertain.
- (i) On February 28, 2019, BMO held a conference call with the CEO and BMT's Director, Mr. Naveed Manzoor (the "**Director**"), as well as Deloitte, to discuss the financial situation and liquidity requirements of the Company. During that conference call, BMO advised the Company that:
 - i. It was unable to provide the additional \$8.0 million liquidity required for 2019;

- ii. It was uncertain whether EDC would renew or extend the EDC Revolver throughout the entire 2019 fiscal year, and unlikely that EDC would guarantee an additional facility that would address BMT's working capital requirements; and
 - iii. Based on Deloitte/BMO's experience in canvassing the refinancing market in the summer of 2018, it seemed unlikely that a third party would provide the additional liquidity requirement given the deteriorating financial performance of the business throughout 2018 and early 2019.
- (j) On that same conference call, it was mutually agreed between BMO and the Company that the best course of immediate action was to engage Deloitte under their existing engagement letter to manage a condensed Sale and Investment Solicitation Process ("SISP").
- (k) The objectives of the SISP were to source additional debt or equity capital and provide the business with the working capital required to continue to operate as a going concern in 2019. The Company did not have sufficient liquidity or time to carry out a lengthy and broad-based sale process. Therefore, a condensed SISP was to be run over the course of several weeks as opposed to months, with initial bids due April 5, 2019.
- (l) On March 14, 2019, Deloitte began contacting parties to gauge their interest in acquiring the equity of BMT, or alternatively, BMO's senior secured creditor position. Throughout the course of several weeks, Deloitte was in

communication with many interested parties, which primarily fell into two distinct buyer categories:

- i. Strategic buyers: direct competitors, well-known toy companies, and private equity groups; and
- ii. Financial buyers: commercial financiers, alternative lenders, distressed debt funds.

(m) Throughout the course of the SISP, Deloitte:

- Distributed 97 teaser documents to potentially interested parties;
- Received 4 executed non-disclosure agreements (“NDAs”) from strategic buyers and 24 NDAs from financial parties;
- Distributed 28 Confidential Information Summaries (“CIS”) to interested parties; and
- Circulated 26 bid instruction and term sheet instruction letters to active parties.

(n) While initial bids/offers were due from interested parties on April 5, 2019, no offers were received by that date or afterwards.

23. By April 5, 2019, BMT was no longer able to meet its liabilities in the ordinary course without third party capital injections. Neither BMO nor BMT’s shareholders were willing to make further advances or equity injections. Accordingly, BMO began evaluating its

alternatives to realize value on its loans to BMO, including an enforcement of security by way of a receivership or liquidation proceeding.

BMT'S CURRENT FINANCIAL POSITION

BMT's past performance

24. A summary of BMT's key financials is provided below. Detailed financials have been included in **Appendix "C"** to this Report.

Best Made Toys International ULC and affiliates				
Summary of Key Financials				
(in USD 000's)				
Fiscal year-end is December 31.				
	Audited	Audited	Audited	Preliminary
	FY2015	FY2016	FY2017	Draft
	FY2015	FY2016	FY2017	FY2018
Income Statement				
Select Income Statement Items				
Revenue	81,063	83,330	80,221	74,149
EBITDA	6,510	6,285	(4,253)	(10,054)
Net Income/Loss	4,666	2,368	1,104	(6,261)
Balance Sheet				
Select Balance Sheet Items				
Assets				
Current Assets				
Cash	7,101	-	-	-
Accounts receivable and other receivables	18,075	23,597	18,799	15,365
Prepays and deposits	2,083	1,523	1,938	2,354
Corporate Taxes Recoverable	-	-	1,268	-
Inventory Assets	2,045	3,279	4,932	8,374
Long Term Assets				
Fixed Assets	137	380	367	344
Goodwill and Intangible Assets	13,497	12,357	11,189	10,035
Liabilities				
BMO				
Bank overdraft	-	76	1,289	3,585
Revolver Facilities	5,685	4,000	6,500	14,788
Current Portion of Long Term Loan	644	1,117	8,629	8,606
Long Term Loan	6,760	8,531	-	-
Total BMO Indebtedness	13,089	13,723	16,418	26,979
Other Key Liabilities				
Accounts Payable and Other Payables	7,651	8,021	8,890	12,513
Amounts due to Gerry and Ann-Marie Seetner	16,406	12,407	12,774	13,111
Corporate Taxes Payable	999	1,068	-	61
Shareholder Loan - SJ Capital Partners V, LLC	-	600	1,000	1,000

25. BMT's 2017 financial performance was significantly affected by one-off start-up costs, production issues and incremental financial penalties assessed by BMT's customers as result of delivery delays related to BMT's outsourcing of its Domestic Production facility from Toronto to St. Louis, Missouri, USA. This resulted in cost increases of \$4.3 million. The Company also experienced the following incremental cost increases:

- (a) Productivity issues and incremental customer penalties related to BMT's Domestic Production facility of \$3.3 million;
 - (b) Extraordinary trucking costs related to US hurricanes in late 2017 of \$0.4 million; and
 - (c) Increase of \$2.1 million to selling, general and administration expenses (CEO and management turnover, travel expenses, storage).
26. In 2018, in order to address the delivery delays, BMT brought Domestic Production back to Toronto. However, BMT's performance in 2018 was severely impacted by supply chain disruptions. A liquidity crunch in the summer of 2018 compressed the peak production window from five months to three months. This forced BMT to cancel orders and prioritize the completion of major customer programs, which resulted in:
- (a) Non-compliance charges of \$0.9 million due to late deliveries;
 - (b) \$2.6 million increase to inbound freight costs and inventory provisions related to excess inventory;
 - (c) Outbound logistic cost increase of \$0.6 million to facilitate on-time delivery of orders to customers;
 - (d) Storage costs of \$0.6 million relate to excess inventory; and
 - (e) \$2.4 million in bad debt expenses.

Current status

27. BMT's factory relationships have deteriorated materially since the liquidity crunch in the summer of 2018. At the date of this Report, BMT has payables totaling approximately \$4.5

million to various Chinese manufacturers, all of which are past due. BMT was informed by these Chinese manufacturers that non-payment of past due amounts will result in a complete shutdown of production on BMT orders.

28. On February 22, 2019, BMT entered into a margin deficit on the Existing Revolver and continues to remain in a margin deficit position, despite briefly being in a margin surplus for two weeks. BMO approved a \$1 million temporary margin deficit on the Existing Revolver on March 7, 2019, which remains in place. The past seven weeks of margin surplus/(deficit) are listed below.

(a) February 22, 2019: (\$0.86 million)

(b) March 1, 2019: (\$0.99 million)

(c) March 8, 2019: (\$1.38 million)

(d) March 15, 2019: \$0.04 million

(e) March 22, 2019: (\$1.04 million)

(f) March 29, 2019: (\$1.01 million)

(g) April 5, 2019: (\$1.60 million)

29. As a result of the margin deficit and deteriorating factory relationships describe above, it is the opinion of the Proposed Receiver that, in the absence of a meaningful and immediate capital contribution, BMT is insolvent.

CASH FLOW FORECAST

30. Management has prepared a weekly cash flow forecast for the 13-week period April 15, 2019 to July 14, 2019 (the “**Cash Flow Forecast**”) that quantifies BMT’s near-term cash needs. Receipts are projected primarily based on recent customer-specific average collection days, with some adjustment to reflect disputes with customers, or otherwise uncollectable amounts. Deloitte notes that, to date, the Cash Flow Forecast is prepared based on current orders on hand for 2019, which Management has estimated to be at least \$20.0 million. The Cash Flow Forecast is attached hereto as **Appendix “D”**.
31. Notwithstanding the preceding paragraph, Deloitte expects that a receivership cash flow will be materially different than the one prepared by Management as the receivership is implemented and the Receiver is able to determine, with customer and additional Management input, which orders can be completed and which costs must be incurred to do so.
32. The Cash Flow Forecast is premised on ongoing operations and forecasts total receipts of \$8.5 million, total disbursements of \$11.9 million (including \$669,000 of interest and fees payable to BMO in the week ending May 5, 2019) for net cash outflows of approximately \$3.4 million during the 13-week cash flow period. The week ending April 28, 2019 is the largest cash need, as net cash outflows in that week alone are forecast to be approximately \$7.1 million, with \$4.9 million of that amount related to past due Chinese factory payables.
33. BMT does not have sufficient liquidity to fund its operations as it has borrowed to the limit of its revolving credit facilities, and as noted above, the Existing Revolver is currently in a margin deficit position. As noted in the Kiefer Affidavit, BMO is unwilling

to provide such funding to the Company given its current and projected collateral shortfall. Accordingly, BMT is facing a liquidity crisis and cannot continue in its current form. As such, there is an urgent need for a receiver to minimize future operating losses, to collect accounts receivable, and to realize value on inventory as quickly as possible to maximize creditor recoveries for BMT's creditors on a commercially reasonable basis.

34. BMT has borrowed up to its permitted limit and requires a further \$6.8 million in financing in the week ending May 5, 2019. Based on available margin, this financing will not be made available by BMO for reasons discussed above. Accordingly, the Company does not have sufficient available cash nor sufficient borrowing capacity under its revolving credit facility to continue to operate as a going concern.

THE BMO DEMAND

35. On April 12, 2019, BMO issued its notices of intention to enforce security over BMT's assets. On behalf of BMT, the Director provided a waiver of the required 10-day notice period.

DENTONS PRELIMINARY SECURITY REVIEW

36. In preparing this Report, Deloitte engaged independent legal counsel to undertake, among other things, a high-level review of BMO's loan documents, including the security granted by BMT in favour of BMO in connection therewith. At this stage, and based on its discussions with Dentons, the Proposed Receiver is of the initial view that BMO holds valid and enforceable security as against BMT. To the extent that the Court grants the Orders sought by BMO in this application, the Proposed Receiver will, in due course, obtain a


formal independent security opinion from Dentons, a copy of which will be made available to the Court upon request and, in any event, prior to any distribution to BMO or any other party.

DELOITTE'S CONSENT TO ACT AS RECEIVER

37. As mentioned in the Kiefer Affidavit, Deloitte confirms that it is willing to act as Receiver should the Court see fit to grant BMO's request to appoint a receiver over BMT's assets.
38. In light of Deloitte's engagement by BMO to review BMT's operations and financial position, Deloitte possess the knowledge and understanding of the business, including the employees and stakeholders, to administer these proceedings in an efficient manner.
39. Other than the business review and monitoring described in this Report, Deloitte has had no other involvement with BMT and is independent in this regard.
40. Deloitte supports BMO's request for the appointment of a receiver given the urgent need to minimize cash outflows and to realize on the assets for the benefit of the Company's creditors.

All of which is respectfully submitted at Toronto, Ontario this 23rd day of April, 2019.

DELOITTE RESTRUCTURING INC.,
as the Proposed
Receiver of
Best Made Toys International, ULC and its
affiliates and not in its personal or corporate
capacity

Per: 
Jordan Sleeth, CPA, CA, CIRP, LIT
Senior Vice-President

Appendix "A"

List of Affiliates

Best Made Toys LLC

Best Made Toys Global Enterprises Limited

Best Made Toys International, ULC

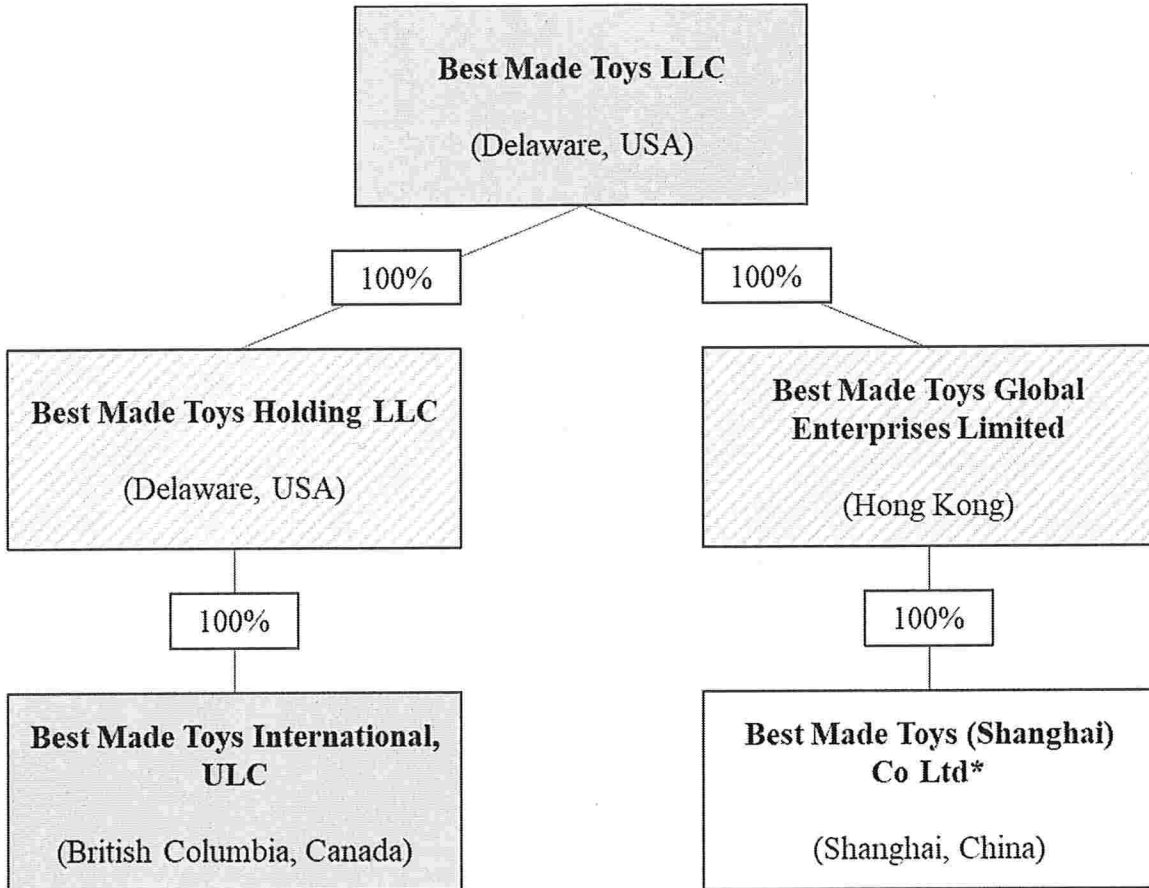
Best Made Toys Holding LLC

Best Made Toys (Shanghai) Co Ltd*

*Not subject to these proceedings

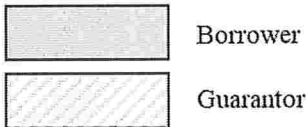
Appendix "B"

BMT Organizational Structure



*Not subject to these proceedings

Legend:



Appendix "C"

Financial Statements for Fiscal Years 2015 – 2018

Best Made Toys International ULC and affiliates				
Income Statement				
(in USD 000's)				
Fiscal year-end is December 31				
	Audited	Audited	Audited	Preliminary
				Draft
	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
Income Statement				
Revenue	81,063	83,330	80,221	74,149
COGS	69,628	70,880	76,209	73,753
Gross Margin	11,436	12,449	4,012	396
Bank charges	39	53	51	55
Commissions	1,452	1,081	843	689
Delivery and postage	788	891	991	752
Insurance	249	302	240	225
Meals and entertainment	14	10	8	12
Miscellaneous	99	49	335	2,485
Office and general	81	175	258	256
Professional fees	169	313	686	1,013
Rent and utilities	543	607	732	749
Realized exchange losses	(277)	(238)	(90)	(393)
Repairs and maintenance	71	167	153	311
Storage	332	554	862	1,448
Travel	223	347	554	363
Wages and benefits	1,141	1,853	2,643	2,486
SG&A expenses	4,925	6,164	8,265	10,450
EBITDA	6,510	6,285	(4,253)	(10,054)
Amortization	727	1,233	1,361	1,377
Restructuring	-	-	-	868
Consulting	322	396	61	-
Financing Charges	170	235	214	138
Interest	611	680	995	2,259
Accretion interest expense	214	367	367	337
Management fees	107	315	161	-
Management fees - interco.	-	15	55	69
Merger and acquisition	868	3	34	1
Unrealized exchange gains	(206)	558	(360)	819
Gain on interest rate cap	(8)	4	4	46
Stock based compensation	21	192	63	64
Severance	10	157	200	192
Other expenses	2,837	4,156	3,156	6,169
Income before income taxes	3,673	2,129	(7,409)	(16,223)
Income Taxes	1,305	1,025	(1,148)	53
Net Income	2,368	1,104	(6,261)	(16,275)

Best Made Toys International ULC and affiliates
Balance Sheet
(in USD 000's)
Fiscal year-end is December 31

	Audited	Audited	Audited	Preliminary Draft
	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
Balance Sheet				
Assets				
Current Assets				
Cash	7,101	-	-	-
Accounts receivable and other receivables	18,075	23,597	18,799	15,365
Prepays and deposits	2,083	1,523	1,938	2,354
Corporate Taxes Recoverable	-	-	1,268	-
Inventory Assets	2,045	3,279	4,932	8,374
Other assets - current	200	200	-	-
Total Current Assets	29,504	28,598	26,937	26,094
Fixed Assets	137	380	367	344
Other Assets:	-	-	-	-
Goodwill and Intangible Assets	13,497	12,357	11,189	10,035
Other Non-Current Assets	280	50	46	0
Total Other Assets	13,777	12,407	11,235	10,035
Total Assets	43,418	41,385	38,538	36,473
LIABILITIES & EQUITY				
Current Liabilities				
Bank overdraft	-	76	1,289	3,585
Accounts Payable and Other Payables	7,651	8,021	8,890	12,513
Amounts due to former owners	4,366	-	-	-
HST Payable	-	-	-	-
CN VAT	-	-	-	-
Corporate Taxes Payable	999	1,068	-	61
Short Term Loan Payable - BMO	5,685	4,000	6,500	14,788
Current Portion of long-term debt	644	1,117	8,629	8,606
Shareholder Loan - SJ Capital Partners V, LLC	-	600	1,000	1,000
Other current liabilities - Earn Out	-	-	12,774	13,111
Total Current Liabilities	19,346	14,881	39,081	53,664
Long Term Loan - BMO	6,760	8,531	-	-
Other Long Term Debt - Earn Out	12,039	12,407	-	-
Total Long Term Liabilities	18,799	20,937	-	-
Equity				
Members Equity	3,150	3,668	3,626	3,626
Equity Tax Payment	(196)	(1,524)	(1,926)	(2,302)
Contributed Surplus	21	21	130	194
Currency Translation Adjustment	(480)	(480)	7	(54)
Retained Earnings	-	2,777	3,881	(2,380)
Net Income	2,777	1,104	(6,261)	(16,275)
Total Equity	5,272	5,567	543	17,191
Total Liabilities & Equity	43,418	41,385	38,538	36,473

Appendix "D"

Cash Flow Forecast

Best Made Toys International ULC and affiliates														
Cash Flow Forecast														
(in USD \$000's)														
Management's Forecast as at April 18, 2019														
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Week ending	Total
	21-Apr-19	28-Apr-19	5-May-19	12-May-19	19-May-19	26-May-19	2-Jun-19	9-Jun-19	16-Jun-19	23-Jun-19	30-Jun-19	7-Jul-19	14-Jul-19	
Receipts														
Notes														
1	516	472	727	892	695	869	699	507	552	799	594	911	249	8,484
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HST and Tax Refunds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts	516	472	727	892	695	869	699	507	552	799	594	911	249	8,484
Disbursements														
Operating Disbursements														
2	(402)	(30)	(58)	(58)	(221)	(221)	(58)	(58)	(221)	(221)	(58)	(58)	(58)	(1,050)
Salaries and Wages:	(4,876)	(7)	(51)	(51)	(205)	(205)	(137)	(137)	(54)	(54)	(54)	(53)	(158)	(5,276)
3	(10)	(6)	(10)	(8)	(13)	(13)	(1)	(1)	(8)	(4)	(4)	(7)	(10)	(265)
Factory Payments	(1,364)	(26)	(14)	(14)	(25)	(25)	(2)	(2)	(14)	(14)	(26)	(2)	(23)	(81)
Fiber	(11)	(43)	(16)	(16)	(0)	(0)	(26)	(0)	(3)	(81)	(68)	(12)	(118)	(1,524)
Finishing & Inspection	(15)	(8)	(115)	(8)	(4)	(4)	(113)	(1)	(0)	(113)	(113)	(2)	(0)	(379)
Storage, Supplies & Testing	(3)	(77)	(77)	(77)	(77)	(77)	(77)	(77)	(77)	(77)	(77)	(113)	(113)	(131)
Carrier & Freight	(20)	(0)	(0)	(0)	(20)	(20)	(0)	(10)	(0)	(20)	(0)	(10)	(10)	(806)
Commissions	(0)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(233)
Octagon - Factory Labour	(37)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(59)
4	(20)	(0)	(0)	(0)	(20)	(20)	(0)	(10)	(0)	(20)	(0)	(10)	(10)	(31)
Telecommunications	(0)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(0)
Insurance	(0)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(21)
Utilities	(0)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(79)
Travel & Entertainment - Diner's Club	(6,733)	(206)	(277)	(30)	(489)	(489)	(227)	(324)	(143)	(511)	(296)	(260)	(427)	(9,934)
Postage / Couriers	(11)	(6,733)	(206)	(277)	(489)	(489)	(227)	(324)	(143)	(511)	(296)	(260)	(427)	(9,934)
Misc - Petty Cash, Expense Reports, etc.	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Maintenance	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Computers & Electronics (Excl. Internet)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(0)
Total Operating Disbursements	(11)	(6,733)	(206)	(277)	(30)	(489)	(227)	(324)	(143)	(511)	(296)	(260)	(427)	(9,934)
Non-Operating Disbursements														
6	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Recruitment, Legal, Consulting	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Services Agreement Bills	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
7	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(0)
Taxes	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(272)	(0)
Deposits (Tax Returns Paid Into Bank)	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Journal Entries (Excl. Salaries & Wages)	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Cheques (Incl. Loan Repayment)	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Transfers	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Currency	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Interest forecast	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Misc	(14)	(50)	(43)	(11)	(533)	(533)	(43)	(1)	(11)	(43)	(43)	(1)	(11)	(761)
Total Non-Operating Disbursements	(14)	(322)	(712)	(1)	(533)	(533)	(43)	(111)	(11)	(43)	(43)	271	(420)	(1,949)
Total Disbursements	(25)	(7,054)	(918)	(278)	(41)	(1,022)	(269)	(435)	(154)	(511)	(339)	11	(848)	(11,884)
Change in Cash	491	(6,582)	(191)	614	654	(153)	430	72	398	289	256	922	(598)	(3,400)
Beginning Cash Balance	528	18	(6,564)	(6,755)	(6,141)	(5,487)	(5,641)	(5,211)	(5,139)	(4,741)	(4,453)	(4,197)	(3,275)	528
Revolver Draw/(Payments)	(1,002)	-	-	-	-	-	-	-	-	-	-	-	-	(1,002)
Ending Cash Balance	18	(6,564)	(6,755)	(6,141)	(5,487)	(5,641)	(5,211)	(5,139)	(4,741)	(4,453)	(4,197)	(3,275)	(3,873)	(3,873)

Notes

- 1 For the period April 18, 2019 to July 14, 2019, (the "Forecast Period"), Management estimated collections related to accounts receivable balances to be \$8.5 million.
- 2 In the Forecast Period, salaries and wages are estimated to total \$1.1 million between employees located in Canada, Hong Kong and Shanghai.
- 3 Factory payables totaling \$4.9 million are currently due and payable.
- 4 Storage, supplies and testing payables totaling \$1.4 million are currently due and payable.
- 5 Rent is estimated to be \$77,000 per month for premises in Toronto, Hong Kong and Shanghai.
- 6 Recruitment, Legal, Consulting primarily relates to the CEO's compensation, legal fees and a one-off \$0.5 million potential legal settlement related to outsourced production issues in 2017.
- 7 Management is estimating a \$272,000 payable, and a corresponding \$272,000 refund from Canadian Border Services in respect of HST.
- 8 Interest Forecast includes \$0.6 million fee payable to BMO on April 30, 2019. Payment of this amount was previously deferred from its original due date of January 31, 2019.
- 9 Revolver Payments for the week ended April 21, 2019, of \$1.0 million represent the current \$1.0 million margin deficit BMO has provided the Company.
- 10 Ending cash balance represents current cash liquidity available to the Company based on current working capital borrowings.

IN THE MATTER OF AN APPLICATION PURSUANT TO SECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS AMENDED; AND SECTION 101 OF THE *COURTS OF JUSTICE ACT*, R.S.O. 1990, c. C.43, AS AMENDED

BANK OF MONTREAL

- and -

BEST MADE TOYS INTERNATIONAL, ULC, BEST MADE TOYS LLC, BEST MADE TOYS GLOBAL ENTERPRISES LIMITED and BEST MADE TOYS HOLDING LLC

Applicant

Respondents

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDINGS COMMENCED AT TORONTO

**DELOITTE REPORT
April 23, 2019**

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