

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

**SECOND 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).

PURPOSE OF THE SECOND REPORT

6. This second report of the Trustee (the "**Second Report**") addresses the following matters:
- (i) Activities of the Trustee since the issuance of the Trustee's First 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.
7. In preparing this Second Report, the Trustee has relied upon unaudited financial information, the Companies' records, the Companies' *Motion for an order (i) extending the stay period and (ii) expanding the scope of super-priority charges* (the "**Motion for an 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.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Second Report are as defined in the Initial Motion or the Motion for an extension.
9. A copy of this Second 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

10. On November 15, 2019, in accordance with the NOIs, the Trustee mailed, to all of the Debtor's known creditors, a notice informing them of the NOIs. A copy of this notice has been posted on the Trustee's website and a dedicated email address (bouclair@deloitte.ca) has been established.
11. The forecast cash flow statement was prepared for the period from November 10 to December 28, 2019, and was submitted to the Official Receiver on November 20, 2019, together with the Debtors' report and the Trustee's report, pursuant to Subsection 50.4(2) of the BIA.

12. The Trustee has implemented procedures to ensure a weekly monitoring of the receipts and disbursements, with a view of performing comparison and variance analysis against the aforementioned cash flow statement.
13. Since the filing of the NOIs, the Trustee has participated 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

15. On November 15, 2019, pursuant to the Liquidation Order, the Companies commenced a liquidation sale of its inventory, furniture, fixture and equipment (the "**Liquidation Sale**") in 29 stores, with the assistance of its consultant, Gordon Brothers Canada ULC. An additional 2 stores were subsequently added, bringing the total number of Liquidation Stores to 31.
16. The results of the first three weeks of the Liquidation Sale are detailed in paragraph 24 below. The Liquidation Sale is anticipated to terminate by December 29, 2019 at all Liquidation Stores other than Jean-Talon location which was recently included in the Liquidation Sale and for which the effective date is January 7, 2020 (as provided below in paragraph 21).
17. The Company has continued its operations at the other stores in the normal course.
18. The Company, with its advisors and the CRO, is assessing its going forward options, with a view of engaging on the most beneficial course. As indicated in the Motion for an extension, the Companies have continued to engage in discussions with their principal secured lender, as well as with third party lenders.
19. The Companies, with the assistance of the Trustee, implemented a detailed communication plan addressing the employees' information needs.
20. The Companies, with the assistance of the Trustee, has been in communication with suppliers affected by the NOIs and has been successful in maintaining a continued supply of goods and services to its business, either on a cash-on-delivery basis or negotiated terms.
21. As of the date of this Second Report, the Companies sent notices of disclaimer or resiliation in respect of all thirty-one (31) Liquidation Stores, with effective dates between December 25, 2019 and January 7, 2020.

FINANCIAL PERFORMANCE AND CASH FLOW PROJECTIONS

Cash flow results for the 3-week period ended November 30, 2019

22. When the application for the First Day Order was filed, the Debtors submitted a projected cash flow statement for the period from November 10 to December 28, 2019 (the "**Cash Flow Statement**").

23. 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 Debtor has advised the Trustee that it has not incurred significant unpaid liabilities since the NOIs were filed.
24. **Appendix A** contains the comparative cash flow statement for the 3-week period ended November 30, 2019. Net cash flow of approximately \$4.6M for the 3-week period was approximately \$6.0M greater than initially forecasted:
- a. Total receipts were approximately \$13.0M, or approximately \$1.8M higher than initially forecasted. This is due to higher liquidation receipts than anticipated in the Liquidation Stores (approx. \$1.1M), as well as higher than forecasted sales in the other stores (approx. \$0.7M).
 - b. Total disbursements were approximately \$8.4M, or approximately \$4.2M less than initially forecasted. This is primarily due to the following:
 - i. Trade vendor payments (third party): disbursements to trade vendors were \$2.3M less than initially forecasted primarily due to timing (some suppliers continued offering payment terms) but also because the Companies did not pay any pre-filing obligations to certain suppliers located outside of the jurisdiction of this Court.
 - ii. Utilities deposits: Deposits to utility providers were \$0.6M less than initially forecasted.
 - iii. Sales taxes: Remittance of sales taxes were \$0.5M less than initially forecasted, primarily due to timing. These remittances were forecasted as bi-weekly, but fiscal authorities being unable to allow bi-weekly payments, Bouclair will continue to remit the sales taxes on a monthly basis.
25. At the time of writing the Second Report, the Debtors advised the Trustee that they were in compliance with the conditions under the Fourth Forbearance Agreement, including in respect of the borrowing base calculation.

Cash flow forecast for the 8-week period ending January 25, 2020

26. In support to its Motion for an extension, the Debtors revised and extended their cash flow projections (the "**Revised Cash Flow Forecast**") for the period from December 1, 2019 to January 25, 2020 (refer to **Appendix B** and the summary below).

Bouclair Inc. and Bouclair International Inc.	
Summary Cash Flow Forecast	
For the 8-week period ending January 25, 2020	
(Unaudited, in \$000s CAD)	
RECEIPTS	
Sales receipts	19,334
Liquidation receipts	4,795
TOTAL RECEIPTS	<u>24,129</u>
DISBURSEMENTS	
Trade vendor payments (third party)	5,863
Rent	4,666
Payroll & related payments	4,495
Other expenses	1,530
Professional fees - restructuring	1,562
Freight & Duty	1,731
Marketing & Advertising	1,269
Liquidation disbursements	137
Warehouse contractants	956
Professional fees	430
Financial expenses	603
IT	500
Contingency	200
Sales taxes	2,548
TOTAL DISBURSEMENTS	<u>26,490</u>
NET CASH FLOW FROM OPERATIONS	<u>(2,361)</u>

27. The projections reflect the following general assumptions:

- a. Granting of the 45-day period extension to file a Proposal;
- b. Continuation of the Liquidation Sale for the 31 stores up to December 29, 2019 and January 7, 2020;
- c. Continued operations of the remaining stores; and
- d. Compliance with the conditions under the Fourth Forbearance Agreement. The Trustee notes that the current Fourth Forbearance Agreement between the Company and NBC is set to expire on December 29, 2019. The Company has advised the Trustee that it is currently discussing an extension with NBC, which would run at least until the end of the extension sought in the Motion for an extension.

EXTENSION OF THE TIME LIMIT TO FILE A PROPOSAL

28. The Debtors advised the Trustee of their intention to file a first motion for a 45-day extension of the time limit to file a proposal to its creditors pursuant to Subsection 50.4(9) of the BIA.

29. The Companies requires additional time to (i) complete the Liquidation Sale at the Liquidation Stores, (ii) seek to implement the Transaction, and (iii) potentially formulate a proposal.

TRUSTEE'S RECOMMENDATION

30. The Trustee is of the opinion that the reasons invoked in the Motion for an extension are reasonable and supports the relief sought there in, including the request that the scope of the priority charges ordered by the Court be expanded as provided for therein.
31. The Trustee is of the opinion, based on the requested relief in the Motion for an 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 29;
 - 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 Second Report.

DATED AT MONTREAL, this 9th day of December, 2019.



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		For the cumulative period of three-week ended on 11-30-2019		
Consolidated - (in \$000 CAD)	Actual	Budget	Variance	Note
Receipts				
Sales receipts	9,238.5	8,565.0	673.5	
Liquidation receipts	3,647.8	2,585.0	1,062.8	
Other	69.3	-	69.3	
Total receipts	12,955.6	11,150.0	1,805.6	1
Disbursements				
Trade vendor payments (third party)	1,291.4	3,597.9	2,306.5	2
Payroll & related payments	2,333.1	2,449.4	116.3	
Freight	577.4	330.0	(247.4)	3
Duty	341.4	352.0	10.6	
Sales taxes	-	516.0	516.0	4
Rent	1,754.1	1,717.0	(37.1)	
Professional fees	28.8	180.0	151.2	
Warehouse Contractors	375.4	285.0	(90.4)	5
Marketing & Advertising	153.6	471.0	317.4	
Insurance	27.1	27.0	(0.1)	
IT	47.6	165.0	117.4	
Other expenses (non trade)	198.5	422.0	223.5	
Liquidation disbursements	401.7	465.0	63.3	6
Professional fees - restructuring	639.5	760.0	120.5	7
Credit card fees	-	-	-	
Financial expenses	0.7	-	(0.7)	
Utilities / deposits	198.4	750.0	551.6	8
Contingency	-	75.0	75.0	
Total disbursements	8,368.7	12,562.3	4,193.6	
Net cash flow from operations	4,586.9	(1,412.3)	5,999.2	
Opening cash balance	(12,619.5)	(12,906.0)	286.5	
Closing cash balance	(8,032.6)	(14,318.3)	6,285.7	

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

Note 2: 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 during the upcoming weeks.

Note 3: Freight - The negative variance is mainly due to timing. The inbound freight was forecasted to be paid bi-monthly instead of on a weekly basis.

Note 4: Sales taxes - The positive variance is mainly due to timing as their payment was planned to be bi-weekly instead of monthly.

Note 5: Warehouse contractors - For the week ended on November 30, the negative variance is mainly permanent as the labour hours were higher than expected due to Black Friday.

Note 6: Liquidation disbursements - The negative variance is mainly due to timing. The liquidation fees were planned to be paid at the end of the liquidation but Bouclair is paying them on a weekly basis.

Note 7: 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 during the upcoming weeks.

Note 8: Utilities / deposits - The positive variance is mainly due to timing as some utility companies have not requested a deposit. Management expects to receive additional deposit requests during the upcoming weeks.

APPENDIX B – Revised Cash Flow Forecast

Bouclair Inc. and Bouclair International Inc.

Weekly Cash Flow Forecast

For the 8-week period ending January 25, 2020

(Unaudited, in \$000s CAD)

TOTAL

Week Ending >>>>	Note	7-Dec-19	14-Dec-19	21-Dec-19	28-Dec-19	4-Jan-20	11-Jan-20	18-Jan-20	25-Jan-20	
RECEIPTS										
Sales receipts	1	3,666	2,498	2,909	2,198	1,789	1,994	2,495	1,785	19,334
Liquidation receipts	2	1,407	1,214	1,154	1,020	-	-	-	-	4,795
TOTAL RECEIPTS		5,073	3,712	4,063	3,218	1,789	1,994	2,495	1,785	24,129
DISBURSEMENTS										
Trade vendor payments (third party)	3	944	1,206	1,425	360	571	493	530	334	5,863
Rent	4	1,356	-	1,356	-	977	-	977	-	4,666
Payroll & related payments	5	-	1,145	-	1,145	-	1,284	-	922	4,495
Other expenses	6	204	236	286	249	203	79	150	123	1,530
Professional fees - restructuring	7	119	475	103	125	350	63	52	275	1,562
Freight & Duty	8	241	220	220	210	210	210	210	210	1,731
Marketing & Advertising	9	376	105	105	145	211	80	80	167	1,269
Liquidation disbursements	10	91	46	-	-	-	-	-	-	137
Warehouse contractants	11	140	144	144	126	86	86	115	115	956
Professional fees	12	60	85	35	35	110	35	35	35	430
Financial expenses	13	230	43	-	-	330	-	-	-	603
IT	14	80	40	40	40	80	140	40	40	500
Contingency		25	25	25	25	25	25	25	25	200
Sales taxes		-	980	-	-	1,568	-	-	-	2,548
TOTAL DISBURSEMENTS		3,866	4,750	3,739	2,460	4,721	2,495	2,214	2,246	26,490
NET CASH FLOW FROM OPERATIONS		1,207	(1,038)	324	758	(2,932)	(501)	281	(461)	(2,361)
Opening cash balance		(7,892)	(6,685)	(7,723)	(7,399)	(6,640)	(9,572)	(10,073)	(9,792)	(7,892)
CLOSING CASH BALANCE		(6,685)	(7,723)	(7,399)	(6,640)	(9,572)	(10,073)	(9,792)	(10,253)	(10,253)
Letters of credit (L/C)		(141)	(141)	(141)	(141)	(141)	(141)	(141)	(141)	(141)
Closing cash balance (including L/C)		(6,826)	(7,864)	(7,540)	(6,781)	(9,713)	(10,214)	(9,933)	(10,394)	(10,394)
Borrowing capacity		12,143	12,709	12,021	11,074	12,544	12,639	12,485	12,160	12,160
Surplus of coverage		5,317	4,845	4,481	4,293	2,831	2,425	2,552	1,766	1,766

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

Notes and Summary of Assumptions

1. *Sales receipts* include product sales from stores and e-commerce. Forecasted product sales from Stores (including sales tax) are gross of credit card fees. The Company's forecasted sales are based on historical sales patterns on a weekly basis.
2. *Liquidation receipts* include product sales from the Liquidation Stores. Forecasted product sales from Liquidation Stores (including sales tax) are gross of credit card fees, and Consultant Fees. The Consultant in collaboration with the Company determined the forecasted sales.
3. *Trade vendor payments (third party)* include payments to domestic and international suppliers, as well as pre-NOI amounts to international suppliers (up to a maximum of \$750k). These payments are based on the actual purchase orders and future orders that will be needed for the Company to maintain the going concern. Amounts include sales tax when applicable.
4. *Rent* includes rent payments to landlords (paid bi-weekly starting December 1, 2019) in accordance with the leases and the Liquidation Order. Amounts include sales tax.
5. *Payroll and related payments* includes Stores, Liquidation Stores, Corporate related payroll, and fringe benefits.
6. *Other expenses* include utilities, insurance, and other general payments based on historical expense patterns. Amounts include sales tax.
7. *Professional fees - restructuring* include estimated professional fees for the Trustee, the Trustee's counsel, the CRO, the Company's legal counsel, NBC's financial advisor, and NBC's legal counsel. The Company will incur all the fees mentioned above. Amounts include sales tax.
8. *Freight and duty* include inbound freight for purchased merchandise, outbound freight for shipments to stores, and duty for international purchases based on historical expense patterns. Amounts include sales tax.
9. *Marketing and advertising* include traditional medias and social media payments based on historical expense patterns. Amounts include sales tax.
10. *Liquidation disbursements* include the Consultant fees, supervision fees, advertising, and other costs related specifically to the Liquidation Sale. The Consultant and supervision fees are forecasted and payable in accordance with the Consulting Agreement. Amounts include sales tax.
11. *Warehouse contractors* include fees paid to agencies for warehouse resources based on historical expense patterns. Amounts include sales tax.
12. *Professional fees* include all other professional fees not related to the restructuring. These fees are to be incurred by the Company based on historical expense patterns. Amounts include sales tax.
13. *Financial expenses* include credit card fees which are forecasted at 1.7% for all stores and Liquidation Stores sales, monthly bank fees, interests, and forbearance fees.
14. *IT fees* include all IT related payments based on historical expense patterns. Amounts include sales tax.