

**District of: Newfoundland and Labrador**

**Division No: 01 – Newfoundland and Labrador**

**Court No: 22375 & 22376**

**Estate No: 51-2440230 & 51-2440231**

**Supreme Court of Newfoundland and Labrador**

**IN THE MATTER OF THE NOTICE OF INTENTION  
TO MAKE A PROPOSAL OF:  
BRITISH CONFECTIONERY COMPANY LIMITED  
AND  
BRITISH BAZAAR COMPANY LIMITED**

**Fourth Report of the Licensed Insolvency Trustee pursuant to  
sections 50.4(7)(b)(ii) and 50.4(9) of the *Bankruptcy and  
Insolvency Act* ("BIA")**

**April 1, 2019**

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## 1. INTRODUCTION AND BACKGROUND

- 1.1 British Confectionery Company Limited ("Confectionery") was incorporated in Newfoundland and Labrador on February 27, 1962. The shares of Confectionery are wholly owned by British Confectionery Company 1982 Limited ("1982").
- 1.2 British Bazaar Company Limited ("Bazaar") was incorporated in Newfoundland and Labrador on May 4, 1992. The shares of Bazaar are wholly owned by Confectionery.
- 1.3 1982 was incorporated in Newfoundland and Labrador on December 23, 1982 and was previously owned by David Connolly Sr. In September 2017, 1982 was purchased by BMC Holdings Inc., a company wholly owned by Blair Connolly (son of David Connolly Sr.).
- 1.4 In February 2018, BMC Holdings Inc. sold 50% of its interest in 1982 to Carosielli Enterprises Inc., which operates as Bingo Servi-Jeux ("Servi-Jeux").
- 1.5 Confectionery and Bazaar (referred to collectively herein as "British" or the "Company") represent the primary operating entities of the group. Confectionery operates a manufacturing facility out of leased premises located at 465 East White Hills Road, St. John's, Newfoundland and Labrador. This facility specializes in the production of specialty paper products; specifically, break-open lottery and promotional products.
- 1.6 Bazaar is a wholly owned subsidiary of Confectionery, which owns and administers customer contracts for the purchase of break-open lottery and promotional products. To fulfill these contracts, Bazaar purchases tickets directly from Confectionery. Outside of the purchase and sale of tickets from Confectionery, there appears to be no other significant economic activity within Bazaar.
- 1.7 As noted in British's consolidated externally prepared financial statements, a significant portion of revenue is generated from two customers: Atlantic Lottery Corporation ("ALC") and British Columbia Lottery Corporation ("BCLC"). According to these financial statements, during fiscal 2017, these customers represented approximately 64% of total revenue.
- 1.8 On October 31, 2018, Confectionery, Bazaar and David Connolly Sr. received a demand for repayment of outstanding amounts owing and a notice of intention to enforce security from the Bank of Montreal ("BMO").
- 1.9 On November 5, 2018, Confectionery and Bazaar filed Notices of Intention to Make a Proposal pursuant to section 50.4 of the BIA (the "NOI Filing"). Deloitte Restructuring Inc. ("Deloitte") consented to act as the Licensed Insolvency Trustee (the "Proposal Trustee") under the NOI Filing.
- 1.10 On December 4, 2018, the Supreme Court of Newfoundland and Labrador (the "Court") granted an order extending the stay of proceedings from December 5, 2018 up to and including January 18, 2019 (the "First Extension Order").
- 1.11 In addition, on December 4, 2018, the Court granted an order pursuant to Section 7.02 of the *Rules of the Supreme Court, 1986*, consolidating the administration of Confectionery and Bazaar's proceedings.
- 1.12 On January 15, 2019, the Court granted an order extending the stay of proceedings from January 18, 2019 up to and including March 5, 2019 (the "Second Extension Order").

- 1.13 In addition, on January 15, 2019 the Court granted an order providing an administration charge covering the professional fees of the Proposal Trustee, counsel to the Proposal Trustee and counsel of the Company (the "Administration Charge").
- 1.14 On March 1, 2019, the Court granted an order extending the stay of proceedings from March 5, 2019 to April 4, 2019 (the "Third Extension Order").

## **2. TERMS OF REFERENCE**

- 2.1 In preparing this Fourth Report, the Proposal Trustee has relied upon financial information of the Company, discussions with the Company's management ("Management") and BoyneClarke LLP, the Company's legal counsel.
- 2.2 The financial information of the Company has not been audited, reviewed or otherwise verified by the Proposal Trustee as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that the Fourth Report may not disclose all significant matters about the Company. Additionally, none of our procedures were intended to disclose defalcations or other irregularities. Were we to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to our attention. Accordingly, the Proposal Trustee does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Proposal Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of the Fourth Report.
- 2.3 The Proposal Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of the Fourth Report. Any use which any party makes of the Fourth Report, or any reliance or decisions to be made on the Fourth Report, is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the Fourth Report are expressed in or converted to Canadian dollars.
- 2.5 The purpose of the Fourth Report is to provide the Court with the following:
  - (i) A summary of the activities of the Company since the date of the Third Report.
  - (ii) An update regarding the Company's search for alternative financing.
  - (iii) An update regarding the Company's search for a strategic buyer or partner.
  - (iv) A summary of the activities of the Proposal Trustee since the date of the Third Report.
  - (v) A review of the actual cash flows for the period of February 16, 2019 to March 22, 2019 (the "Third Extension Cash Flow").
  - (vi) An update regarding invoices of the Proposal Trustee and legal counsel of the Company.
  - (vii) A summary of BMO's margin position.
  - (viii) A review of the Company's statement of projected cash flow for the period of March 23, 2019 to May 3, 2019 (the "Fourth Extension Cash Flow").
  - (ix) The Company's request for an extension order (the "Extension Order").

### **3. COMPANY'S ACTIVITIES**

- 3.1 Since the date of the Third Report, the Company's activities have included, but were not limited to:
- (i) Working with the Proposal Trustee to satisfy information requests from creditors and stakeholders.
  - (ii) Working with the Proposal Trustee to satisfy information requests made by parties conducting due diligence related to the search for alternative financing and the search for a strategic buyer.
  - (iii) Working with the Company's external accountant to prepare the year-end audited and reviewed financial statements.
  - (iv) Working with ALC in order to address a production issue experienced during the extension period, discussed in further detail below.
  - (v) Attending an industry trade show in Las Vegas, Nevada in order to hold discussion with potential equity investors and further promote the Company's US operations.
  - (vi) Working with the Proposal Trustee to monitor actual cash flows and reporting on variances to the Third Extension Cash Flow.

### **4. SEARCH FOR ALTERNATIVE FINANCING**

- 4.1 As outlined in the Third Report of the Proposal Trustee, the primary objective of the Third Extension Order was to provide additional time in order to finalize negotiations with parties interested in providing alternative financing to the Company. These negotiations can be segmented into two parts: discussions with interested financial institutions and discussions with representatives from the Government of NL (specifically BIC and TCII).
- 4.2 Since the date of the Third Report, negotiations have continued with one interested financial institution. Additionally, the Company has taken steps to complete required due diligence procedures including the completion of externally audited and reviewed financial statements and contacting approved equipment appraisers in order to request quotes for equipment appraisals. As at the date of the Fourth Report, externally audited and reviewed financial statements are anticipated to be finalized by April 5, 2019 and the equipment appraisal will be scheduled as soon as the government decision is received.
- 4.3 During discussion with the interested financial institution, representatives of Servi-Jeux advised Management that Servi-Jeux and its shareholders were not willing to provide corporate or personal guarantees to support alternative financing arrangements.
- 4.4 As a result of Servi-Jeux's unwillingness to provide the guarantees required by the interested financial institution, representatives of related entities 1982 and BMC Holdings Inc. immediately initiated discussions with three parties interested in purchasing Servi-Jeux's interest in 1982.
- 4.5 On March 25 and March 27, 2019, the Proposal Trustee was provided with expressions of interest from the three parties interested in purchasing Servi-Jeux's interest in 1982.
- 4.6 One of the expressions of interest did not align with Management's objectives and as such was removed from consideration. As at the date of the Fourth Report, the Company has agreed in principal to one of the three expressions of interest and is awaiting approval from the Government of NL and the interested financial institution.

- 4.7 In addition to the need to source a new equity partner discussed above, negotiations with the interested financial institution could not be finalized until a decision regarding potential government participation in a proposal was received. Further information regarding discussion with representatives of BIC is outlined below.
- 4.8 In section 4.9 to 4.12 of the Third Report, the Proposal Trustee advised the Court that a funding proposal was being presented to BIC's Board of Directors (the "Board") for consideration on March 19, 2019.
- 4.9 During the weeks following the March 1, 2019 extension hearing, the Company (with the assistance of the Proposal Trustee) fulfilled a number of additional information requests made by BIC in order to support the upcoming presentation to the Board.
- 4.10 On March 20, 2019, the Proposal Trustee received correspondence from BIC indicating that the Board had decided to defer its decision on potential funding until issues regarding the Company's ownership structure were finalized.
- 4.11 On March 27, 2019, the Company provided representatives from BIC and the interested financial institution with correspondence outlining how the proposed funding arrangement could result in a proposal to creditors.
- 4.12 On March 28, 2019, the Proposal Trustee was advised by representatives from BIC that an additional Board meeting had been scheduled for Tuesday April 2, 2019 to consider the proposal.
- 4.13 On March 29, 2019, BIC and the interested financial institution were provided with additional information regarding the new potential equity partner.

## **5. SEARCH FOR STRATEGIC BUYER OR PARTNER**

- 5.1 Since the date of the Third Report, discussions with interested strategic buyers have been limited. Management did not want to make a formal decision regarding the expressions of interest received until the Government of NL rendered a decision regarding its potential participation in the proposal.
- 5.2 On March 25, 2019, the Proposal Trustee was provided with a revised binding expression of interest from one of these interested parties for consideration. A copy of the revised expression of interest has been provided to the Court and the senior secured creditors by way of a confidential addendum to the Fourth Report (the "Confidential Addendum"). In order to protect the confidentiality of the participants and the competitiveness of the investor search process, this document will not be made public.
- 5.3 During the week ending March 29, 2019, the Company held discussions with the interested strategic buyers and as at the date of the Fourth Report, both parties remain interested in pursuing a potential transaction with the Company.

## **6. PROPOSAL TRUSTEE'S ACTIVITIES**

- 6.1 Since the date of the Third Report, the Proposal Trustee's activities have included, but were not limited to:
  - (i) monitoring actual cash flow and reporting on variances to the Third Extension Cash Flow;
  - (ii) working with the Company in order to respond to information requests from creditors and stakeholders;

- (iii) working with the Company in order to respond to information requests from BIC;
- (iv) reviewing expressions of interest received to date from parties interested in participating in the restructuring;
- (v) reporting to the Court and the Service List pursuant to the Administration Charge Order; and
- (vi) holding discussions with Management regarding potential restructuring options.

## **7. ACTUAL CASH FLOW**

- 7.1 The Company previously filed with the Court the Second Extension Cash Flow pursuant to Section 50.4(2)(a)(b)(c) of the BIA for the 11-week period February 16, 2019 to May 3, 2019.
- 7.2 The Proposal Trustee has prepared a reconciliation of the actual cash flow for the five-week period February 16, 2019 to March 22, 2019 as compared to the Third Extension Cash Flow (the "Cash Flow Reconciliation"), which is contained within Appendix A to the Fourth Report.
- 7.3 The Proposal Trustee offers the following commentary with respect to material variances contained within the Cash Flow Reconciliation:
- (i) The \$77 thousand unfavorable variance related to the collection of existing accounts receivable is timing in nature and attributable to slower than anticipated collection of accounts receivable.
  - (ii) The \$443 thousand unfavorable variance related to new production is both permanent and timing in nature and relates primarily to a production issue with a significant ALC order.
    - (a) As set out in the Third Extension Cash Flow, the Company had anticipated the receipt of approximately \$170 thousand related to the final payment for a significant ALC game during the week ending March 8, 2019.
    - (b) On March 8, 2019, the Proposal Trustee was advised by Management that during final testing of the product, a delamination issue was discovered whereby the two sides of the break-open ticket were separating.
    - (c) After additional product testing was completed, it was determined that the entire production run was not suitable for distribution and the game was rejected by Management as defective.
    - (d) Subsequent to the discovery of the production issue, ALC attended the facility and worked with Management in order to identify and address the production issue. Since this visit, additional orders have been placed by ALC and production is continuing pursuant to the production schedule.
    - (e) As a result of this production error, the Company will be required to reprint this game sometime in the future at its own expense. We are advised by Management that this reprint is not anticipated to take place until after May 3, 2019.
    - (f) In addition to \$170 thousand permanent variance, the delamination issue and subsequent inspection performed by ALC resulted in delays in the production of other ALC games in progress. The final payment related to the game "Money Drop" was anticipated to be received during the week ending March 22, 2019. This game is now delayed until the week ending April 12, 2019. Additionally, the final payment related to the game "Gold Bonus" was anticipated to be received the week ending March 15, 2019; but is now anticipated to be received during the week ending April 5, 2019.

- (iii) The \$125 thousand positive variance associated with other inflows relates to the higher than anticipated insurance proceeds received by the Company. As indicated in the notes to the Third Extension Cash Flow, Management had conservatively estimated the proceeds from the claim to be approximately \$25 thousand, however, the actual amount received was approximately \$150 thousand.
  - (iv) The \$222 thousand positive variance associated with materials and other cost of goods sold is timing in nature and attributable to the Company entering into a new service agreement with a logistics and raw material supplier, and delayed payments due to slower than anticipated collection of accounts receivable and new production.
    - (a) As at March 25, 2019, the Company owes approximately \$129 thousand in post filing charges to Servi-Jeux related to cost of goods sold. According to the books and records of the Company, there is an offsetting accounts receivable balance owing of approximately \$64 thousand, this balance reduces the amount owed to Servi-Jeux by approximately half.
  - (v) The \$22 thousand positive variance related to compensation related expenditures is both timing and permanent in nature. Approximately \$8 thousand of the variances relates to lower than anticipated health insurance charges. The remaining portion of the variance relates to amounts owed to Workplace NL following the annual audit.
  - (vi) The \$75 thousand positive variance associated with general and administrative expenses is both timing and permanent in nature. Approximately \$50 thousand of the reported variance relates to amounts currently outstanding and included in the current accounts payable balance discussed further herein. The remaining balance relates to lower than anticipated general and administrative costs incurred during the period.
  - (vii) The \$35 thousand positive variance associated with due diligence and other fees is timing in nature.
  - (viii) The \$34 thousand positive variance related to professional fees is timing in nature. As at the date of the Fourth Report, the Proposal Trustee has two outstanding invoices with the Company for a total balance owing of approximately \$22 thousand. As at the date of the Fourth Report, the Company's legal counsel does not have any outstanding invoices owed by the Company, however, will be rendering an account for approximately \$10 thousand during the week ending April 5, 2019.
- 7.4 Additionally, the Proposal Trustee would like to advise the Court that as at the date of the Fourth Report, all payments to Servi-Jeux have been properly supported by third party invoices.

## **8. CASH FLOW STATEMENTS**

- 8.1 On April 1, 2019, pursuant to Section 50.4(2) (a) (b) (c) of the BIA, the Company filed the Fourth Extension Cash Flow, along with the statutory declarations with the Official Receiver. A copy of the Fourth Extension Cash Flow is enclosed as Appendix B.
- 8.2 The Fourth Extension Cash Flow has been prepared by Management for the purpose described in the notes to the Fourth Extension Cash Flow, using the probable and hypothetical assumptions set out in the notes.
- 8.3 The Proposal Trustee's review of the Fourth Extension Cash Flow consisted of inquiries, analytical procedures and discussions on the information provided by Management of the Company. The Proposal Trustee's involvement with respect to the hypothetical assumptions

was limited to evaluating whether they were consistent with the purpose of the Fourth Extension Cash Flow. The Proposal Trustee has also reviewed the supporting documentation provided by Management of the Company for the probable assumptions and the preparation and presentation of the Fourth Extension Cash Flow.

- 8.4 Based on our review and the foregoing reserves and limitations, nothing has come to the attention of the Proposal Trustee that causes us to believe that, in all material respects:
- (i) the hypothetical assumptions are not consistent with the purpose of the Fourth Extension Cash Flow;
  - (ii) as at the date of this Fourth Report, the probable assumptions developed by the Company are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Fourth Extension Cash Flow, given the hypothetical assumptions; or
  - (iii) the Fourth Extension Cash Flow does not reflect the probable and hypothetical assumptions.
- 8.5 Since the Fourth Extension Cash Flow 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 Proposal Trustee does not express an opinion to whether the projections in the Fourth Extension Cash Flow will be achieved.
- 8.6 The Fourth Extension Cash Flow has been prepared solely for the purpose described in the notes to the Fourth Extension Cash Flow, and readers are cautioned that the Fourth Extension Cash Flow may not be appropriate for other purposes.
- 8.7 The Proposal Trustee has reviewed the Fourth Extension Cash Flow and offers the following commentary:
- (i) As previously indicated during previous reports of the Proposal Trustee, a significant portion of the revenues projected to be received during the period covered by the Fourth Extension Cash Flow are related to the existing contract with ALC. These revenues have been projected based on a production schedule maintained by ALC and Management's expectations regarding timing of the demand for games.
  - (ii) The Fourth Extension Cash Flow also includes revenues generated from BCLC. Management is currently projecting three games to be produced during the projection period and to collect \$81 thousand related to games already delivered to the customer.
  - (iii) Collection of existing accounts receivable represents the receipt of outstanding accounts as at March 25, 2019. The collection of these amounts is based on Management expectations taking into consideration prior interactions with customers. Historically, sales to ALC do not result in the generation of an accounts receivable balance, as payment for these games is often received during the week the game is shipped.
  - (iv) Other inflows anticipated to be received during the period include new sales with customers other than ALC and BCLC. Sales to these customers represent smaller purchases of tickets and are not traditionally governed by long-term service agreements.

- (v) Cost of goods sold consists primarily of expenditures on paper, ink, glues, transportation costs and labor. Due to the niche nature of the paper being provided, the majority of paper suppliers have required payment for product prior to it being shipped to the Company. Since the date of the Third Report, the Company has negotiated an agreement with a new materials and logistics supplier. This supplier has agreed to provide product and services to the Company with payment being made within 45 days.
- (vi) Outside of the professional fees associated with the restructuring, significant general and administrative expenses consist primarily of wages and related expenditures to non-production staff, monthly rent and related charges, utilities, supplies, licensing fees and insurance premiums. These costs have been projected based on historical rates taking into consideration the effects of the stay of proceeding.
- (vii) As at March 25, 2019, the Company had outstanding post filing accounts payable balances with suppliers totaling approximately \$240 thousand. The majority of this balance relates to purchases made on the Company's behalf by Servi-Jeux as described in more detail above and 66% of the balance is either current or less than 60 days aged (89% if you exclude amounts owed to Servi-Jeux). Payment of these accounts payable balances have been included in the Fourth Extension Cash Flow.
- (viii) Based on the outcomes presented in the Fourth Extension Cash Flow, it is not anticipated at this time that the Company will require debtor-in-possession financing during the period contemplated in the Third Extension Cash Flow.

## **9. INVOICES OF INSOLVENCY PROFESSIONALS**

- 9.1 Pursuant to the Administration Charge order granted by the Court, the Proposal Trustee and legal counsel of the Company have been rendering invoices to the Company on a bi-weekly basis and informing the Court and the Service list when these invoices remain outstanding for longer than five days. A copy of the letter submitted to the Court in this regard is enclosed herein as Appendix C.
- 9.2 As at the date of the Fourth Report, the amount of professional invoices outstanding secured by the Administration Charge is approximately \$16 thousand. Based on the outcomes presented in the Fourth Extension Cash Flow, the outstanding invoice of the Proposal Trustee will be paid during the week ending April 5, 2019.

## **10. FINANCIAL POSITION OF BMO**

- 10.1 During the extension hearing held on March 1, 2019, legal counsel of BMO advised the Court that the security position of the bank was deteriorating, resulting in material prejudice to the bank.
- 10.2 In order analyze this potential material prejudice, the Proposal Trustee has prepared the following summary which provides an overview of the calculated margin position submitted monthly by the Company to BMO since the date of the initial NOI filing. As this calculation does not take into consideration cash on hand in the Company's bank accounts, this amount as at the calculation date has been added. For this calculation, amounts in United States dollars have been converted to Canadian at a rate of 1.30:1.

CAD \$	October 31, 2018	November 30, 2018	December 31, 2019	January 31, 2019	February 28, 2019
Calculated margin limit	1,056,093	1,022,085	980,150	1,015,940	980,928
Cash on hand	-	81,425	77,148	102,360	72,867
Calculated margin limited plus cash on hand	<u>1,056,093</u>	<u>1,103,510</u>	<u>1,057,298</u>	<u>1,118,300</u>	<u>1,053,795</u>

10.3 According to the books and records of the Company, as reported in the monthly margin reporting presented above, the calculated margin limit plus cash on hand has not materially changed since the date of the initial NOI filing.

## 11. STAY EXTENSION APPLICATION

- 11.1 As discussed in previous reports of the Proposal Trustee, the ability of the Company to file a viable proposal is dependent on being provided the necessary time to source alternative financing and/or an equity investment. Since the date of the Third Report, progress towards finalizing these discussions has been slowed due to the requirement to source a new equity investor and delays related to negotiations with potential lenders.
- 11.2 The Proposal Trustee is of the opinion that the Company has acted and is acting in good faith and with due diligence in connection with the efforts to date related to the preparation of a restructuring plan and a proposal to creditors.
- 11.3 The Proposal Trustee believes that a 31 day extension (the maximum available pursuant to Section 50.4(9) of the BIA) will enhance the prospect of the Company filing a viable proposal to its creditors. As described herein, discussions with parties interested in providing alternative financing, and parties interested in purchasing the assets of the business continue, however, additional time is required in order to finalize negotiations and bring forth a proposal to the Company's creditors.
- 11.4 The Proposal Trustee has discussed restructuring options presently available with Management, and Management has agreed that if the refinancing approach is unlikely to be achieved, that steps will be taken to pursue an asset sale prior to the expiry of the extension period.
- 11.5 The Trustee notes that the Company's customers and suppliers have continued to support the Company since the NOI Filing. Business has continued as anticipated by the Company and as presented in the cash flow projection filed to date, subject to the variances as discussed herein. The Proposal Trustee is of the opinion that no creditor would be materially prejudiced by the extension as requested by the Company.
- 11.6 In the absence of an extension, the Company will not be in a position to file a proposal before April 4, 2019 and as such, will be deemed bankrupt. The Proposal Trustee is of the view that more time is required to negotiate with interested parties and to allow the Company to assess its options in drafting a proposal which the Proposal Trustee believes will result in a higher return to the Company's creditors as compared to a liquidation scenario in the event the Company is deemed bankrupt.
- 11.7 Based on the foregoing, the Proposal Trustee supports the Company's application for an Order extending the amount of time for the Company to file a proposal to its creditors.

## **12. CONCLUSION**

- 12.1 The Fourth Report has been prepared to provide this Court with information regarding the activities of the Company since the date of the Third Report, an update regarding the search for alternative financing, an update regarding the search for a strategic buyer or partner, the activities of the Proposal Trustee since the date of the Third Report, a review of the Third Extension Cash Flow, an update regarding invoices of restructuring professionals, a summary of BMO's margin position, a summary of the Fourth Extension Cash Flow and its outcomes, and a review of the Company's Application for an Extension Order pursuant to s. 50.4 (7) of the BIA.

### **DELOITTE RESTRUCTURING INC.**

Acting in its capacity as  
Licensed Insolvency Trustee under the Notice of Intention to Make a Proposal of  
British Confectionery Company Limited and British Bazaar Company Limited  
and not in its personal capacity.

Per:



**Mathew Harris, FCPA, FCA, CIRP, LIT**  
Senior Vice President

**APPENDIX A – CASH FLOW RECONCILIATION**

**British Confectionery Company Limited and British Bazaar Companies Limited**  
**Variance Analysis - Consolidated Statement of Projected Cash Flows**  
**For the period February 16 to March 22, 2019**

Week ending (Friday)	2/22/2019			3/1/2019			3/8/2019			3/15/2019			3/22/2019			Cumulative		
	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance
<b>Cash inflows</b>																		
Collection of existing accounts receivable	14,984	14,984	-	116,225	49,444	(66,781)	51,598	55,737	4,139	31,605	34,688	3,084	17,236	-	(17,236)	231,646	154,852	(76,794)
New production	86,883	86,883	-	-	5,001	5,001	261,875	8,000	(253,875)	110,000	110,729	729	222,140	27,166	(194,974)	680,898	237,779	(443,119)
Other	97	97	-	-	13,902	13,902	-	(13,805)	(13,805)	25,000	150,393	125,393	-	14	14	25,097	150,601	125,504
<b>Total inflows A</b>	<b>101,963</b>	<b>101,963</b>	<b>-</b>	<b>116,225</b>	<b>68,346</b>	<b>(47,878)</b>	<b>313,473</b>	<b>49,932</b>	<b>(263,541)</b>	<b>166,605</b>	<b>295,811</b>	<b>129,206</b>	<b>239,376</b>	<b>27,181</b>	<b>(212,195)</b>	<b>937,641</b>	<b>543,232</b>	<b>(394,408)</b>
<b>Cash outflows</b>																		
Cost of goods sold																		
Compensation	41,701	41,701	-	-	-	-	45,000	19,696	25,304	-	10,745	(10,745)	45,000	54,290	(9,290)	131,701	126,431	5,269
Materials and other	9,541	9,541	-	34,250	2,255	31,995	99,998	14,288	85,710	33,250	4,035	29,215	91,498	16,450	75,048	268,537	46,567	221,969
Overhead expenses																		
Compensation	26,661	26,661	-	-	-	-	27,150	12,592	14,558	-	6,870	(6,870)	30,854	34,710	(3,856)	84,665	80,833	3,832
Compensation related expenditures	-	-	-	817	729	88	21,990	-	21,990	-	5,134	(5,134)	5,817	-	5,817	28,624	5,863	22,760
Rent	33,913	33,913	-	-	-	-	-	-	-	64,913	72,351	(7,438)	-	-	-	98,826	106,264	(7,438)
General and administrative	33,911	32,509	1,402	34,985	9,499	25,486	76,784	26,923	49,861	29,643	25,105	4,538	33,338	39,849	(6,512)	208,660	133,885	74,775
Due diligence and other fees	-	-	-	-	-	-	35,000	-	35,000	-	-	-	-	-	-	35,000	-	35,000
Sales taxes payable (refund)	-	-	-	1,950	1,791	159	14,163	18,231	(4,068)	-	-	-	-	-	-	16,113	20,022	(3,910)
<b>Total outflows from operations</b>	<b>145,727</b>	<b>144,325</b>	<b>1,402</b>	<b>72,002</b>	<b>14,274</b>	<b>57,728</b>	<b>320,084</b>	<b>91,730</b>	<b>228,355</b>	<b>127,806</b>	<b>124,239</b>	<b>3,567</b>	<b>206,506</b>	<b>145,299</b>	<b>61,208</b>	<b>872,125</b>	<b>519,867</b>	<b>352,259</b>
<b>Professional Fees</b>																		
BoyneClarke - Company Counsel	9,116	9,116	-	-	-	-	18,000	-	18,000	-	-	-	-	8,357	(8,357)	27,116	17,472	9,643
Deloitte Restructuring Inc. - Proposal Trustee	12,559	12,559	-	21,965	21,965	-	10,678	-	10,678	25,000	-	25,000	-	10,678	(10,678)	70,201	45,201	25,000
	21,675	21,675	-	21,965	21,965	-	28,678	-	28,678	25,000	-	25,000	-	19,034	(19,034)	97,317	62,674	34,643
<b>Total outflows B</b>	<b>167,401</b>	<b>166,000</b>	<b>1,402</b>	<b>93,967</b>	<b>36,239</b>	<b>57,728</b>	<b>348,762</b>	<b>91,730</b>	<b>257,032</b>	<b>152,806</b>	<b>124,239</b>	<b>28,567</b>	<b>206,506</b>	<b>164,333</b>	<b>42,174</b>	<b>969,442</b>	<b>582,540</b>	<b>386,902</b>
<b>Weekly cash flow (A-B)</b>	<b>(65,438)</b>	<b>(64,037)</b>	<b>1,402</b>	<b>22,258</b>	<b>32,107</b>	<b>9,850</b>	<b>(35,289)</b>	<b>(41,798)</b>	<b>(6,508)</b>	<b>13,799</b>	<b>171,571</b>	<b>157,773</b>	<b>32,869</b>	<b>(137,152)</b>	<b>(170,022)</b>	<b>(31,802)</b>	<b>(39,308)</b>	<b>(7,506)</b>
<b>Opening cash balance</b>	<b>93,587</b>	<b>93,595</b>	<b>8</b>	<b>28,149</b>	<b>29,559</b>	<b>-</b>	<b>50,406</b>	<b>61,666</b>	<b>11,260</b>	<b>15,117</b>	<b>19,868</b>	<b>4,751</b>	<b>28,916</b>	<b>191,440</b>	<b>162,524</b>	<b>93,587</b>	<b>93,595</b>	<b>8</b>
<b>Projected ending cash balance</b>	<b>28,149</b>	<b>29,559</b>	<b>1,410</b>	<b>50,406</b>	<b>61,666</b>	<b>11,260</b>	<b>15,117</b>	<b>19,868</b>	<b>4,751</b>	<b>28,916</b>	<b>191,440</b>	<b>162,524</b>	<b>61,785</b>	<b>54,287</b>	<b>(7,498)</b>	<b>61,785</b>	<b>54,287</b>	<b>(7,498)</b>

**APPENDIX B – FOURTH EXTENSION CASH FLOW**

**District of Newfoundland and Labrador**  
**Division No. 01 – Newfoundland and Labrador**  
**Court No. 22375 & 22376**  
**Estate No. 51-2440230 & 51-2440231**

The management of British Confectionery Company Limited and British Bazaar Company Limited (the "Insolvent Companies") has developed the assumptions and prepared the attached statement of projected cash flow of the Insolvent Companies, as of the 1<sup>st</sup> day of April 2019, consisting of weekly cash flows for the period March 23<sup>th</sup> to May 3<sup>rd</sup>, 2019.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note A, and the probable assumptions are suitably supported and consistent with the plans of the Insolvent Companies and provide a reasonable basis for the projection. All such assumptions are disclosed in Note B.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in Note A, using a set of hypothetical and probable assumptions set out in Note B. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at St. John's, Newfoundland and Labrador this 1<sup>st</sup> day of April, 2019.

**British Confectionery Company Limited and British Bazaar Company Limited**

Per:



**Blair Connolly**  
President

**District of** Newfoundland and Labrador  
**Division** 01 – Newfoundland and Labrador  
**Court No.** 22375 & 22376  
**Estate No.** 51-2440230 & 51-2440231

**Note A:**

The statement of projected cash flow is being filed pursuant to *Bankruptcy and Insolvency Act s. 50.4(2)* in association with the Notice of Intention to Make a Proposal by British Confectionery Company Limited and British Bazaar Company Limited (collectively the "Insolvent Companies") using the probable and hypothetical assumptions set out in Note B.

**Note B:**

The following assumptions were used by Management in the preparation of the statement of projected cash flow of the Insolvent Companies:

Operating Inflows

- Collection of existing accounts receivable is projected based on the books and records of the Insolvent Companies as at March 25, 2019. The collection of these amounts is based on Management expectations taking into consideration existing payment terms with customers.
- New production represents the collection of amounts relating to games currently approved by customers which have not yet been produced and new orders anticipated by the Insolvent Companies. Amounts related to new production are projected to be collected based on existing contract terms with customers, the current production schedule of the Insolvent Companies and Management expectations. Further information regarding the collection of these amounts, which reflects the past experience of Management, is outlined below:
  - Production deposits – certain customers provide the Insolvent Companies with deposits prior to the production of games. These deposits are assumed to be received during the week the game is approved by the customer.
  - Residual balance – for customers who provide deposits, the residual balance is projected to be received during the week following the fulfillment of the order.

Non-operating Inflows

- Other inflows include the following:
  - Insurance proceeds in relation to a fire which occurred during late fiscal 2017. The amount included in the projections represents the residual balance owed by the insurance company following the initial payment received on March 15, 2019.

Operating Outflows

- Cost of goods sold during the projection period is comprised of the following:
  - Compensation and related expenditures including all statutory remittances. The amounts incorporated into the projection are based on current employment levels and management's expectations during the period covered by the projection.
  - Materials and other expenditures represent the anticipated cost of paper products, ink, plates, and other consumables used in production. These estimates are based on Management's experience and estimates received from key suppliers taking into consideration the current production schedule.

- Overhead expenses during the projection period is comprised of the following:
  - Compensation and related expenditures consist of wages payable to administrative and sales staff, including all statutory remittances.
  - Rent represents monthly rent expense associated with the Insolvent Companies' production facility. Additional costs included in this amount includes costs related to snow clearing, property maintenance and various municipal taxes. The majority of additional costs are charged on a quarterly basis.
  - General and administrative expenses are based on historical amounts taking into account the effect of the stay of proceedings.

Due diligence and other fees

- Due diligence and other fees are estimated based on financing offers received to date and the associated due diligence fees anticipated to be incurred by Management. These costs include up-front fees paid to potential financial institutions and fees associated with necessary asset appraisals.

HST/PST Payments (Refunds)

- Government sales taxes payable and receivable are estimated based on projected sales, expenses anticipated during the period covered by the projections and actual cash inflows and outflows observed during the prior projection period.

Professional fees

- Professional fees are based on estimates provided by the various professional service firms involved in the administration of this estate.

Dated at St. John's, Newfoundland and Labrador this 1<sup>st</sup> day of April, 2019.

**British Confectionery Company Limited and British Bazaar Company Limited**

Per:

  
**Blair Connolly**  
President

# Deloitte.

**District of** Newfoundland and Labrador  
**Division No.** 01 – Newfoundland and Labrador  
**Court No.** 22375 & 22376  
**Estate No.** 51-2440230 & 51-2440231

The attached consolidated statement of projected cash flow of British Confectionery Company Limited and British Bazaar Company Limited (collectively the “Insolvent Companies”), consisting of weekly projections through the week beginning March 23, 2019 to the week ending May 3<sup>rd</sup>, 2019 has been prepared by the management of the Insolvent Companies for the purpose described in Note A, using the probable and hypothetical assumptions set out in Note B.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of the Insolvent Companies. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the Insolvent Companies or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the probable and hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in Note A, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Halifax, NS this 1<sup>st</sup> day of April, 2019.

**DELOITTE RESTRUCTURING INC.**

Acting in its capacity as  
Trustee under the Notice of Intention to Make a Proposal of  
British Confectionery Company Limited and British Bazaar Company Limited  
and not in its personal capacity

Per:



**Mathew Harris, FCPA, FCA, CIRP, LIT**  
Senior Vice President

**British Confectionery Company Limited and British Bazaar Companies Limited**  
**Consolidated Statement of Projected Cash Flows**  
**For the period March 23 to May 3, 2019**

Week ending (Friday)	1 3/29/2019	2 4/5/2019	3 4/12/2019	4 4/19/2019	5 4/26/2019	6 5/3/2019	Total
<b>Cash inflows</b>							
Collection of existing accounts receivable	11,074	163,596	52,252	54,693	37,333	14,614	333,563
New production	-	102,800	195,291	54,420	181,000	292,542	826,053
Other	8,997	-	97	-	97	-	9,191
<b>Total inflows A</b>	<b>20,071</b>	<b>266,396</b>	<b>247,640</b>	<b>109,113</b>	<b>218,430</b>	<b>307,156</b>	<b>1,168,807</b>
<b>Cash outflows</b>							
Cost of goods sold							
Compensation	-	45,000	-	45,000	-	45,000	135,000
Materials and other	20,649	28,266	57,300	75,300	64,800	141,669	387,985
Overhead expenses							
Compensation	-	30,854	-	30,854	-	30,854	92,562
Compensation related expenditures	2,724	13,000	-	-	2,288	13,000	31,012
Rent	-	-	-	33,913	-	10,000	43,913
General and administrative	20,581	69,277	28,932	28,663	11,250	44,952	203,655
Due diligence and other fees	-	40,000	5,000	-	35,000	-	80,000
Sales taxes payable (refund)	1,981	-	(6,458)	-	-	5,276	798
<b>Total outflows from operations</b>	<b>45,935</b>	<b>226,397</b>	<b>84,774</b>	<b>213,730</b>	<b>113,338</b>	<b>290,751</b>	<b>974,924</b>
<b>Professional Fees</b>							
BoyneClarke - Company Counsel	-	-	10,000	-	10,000	-	20,000
Deloitte Restructuring Inc. - Proposal Trustee	-	16,236	5,878	17,000	-	17,000	56,114
	-	16,236	15,878	17,000	10,000	17,000	76,114
<b>Total outflows B</b>	<b>45,935</b>	<b>242,633</b>	<b>100,652</b>	<b>230,730</b>	<b>123,338</b>	<b>307,751</b>	<b>1,051,039</b>
<b>Weekly cash flow (A-B)</b>	<b>(25,863)</b>	<b>23,762</b>	<b>146,988</b>	<b>(121,616)</b>	<b>95,092</b>	<b>(595)</b>	<b>117,768</b>
<b>Opening cash balance</b>	<b>51,810</b>	<b>25,947</b>	<b>49,709</b>	<b>196,697</b>	<b>75,081</b>	<b>170,173</b>	<b>51,810</b>
<b>Projected ending cash balance</b>	<b>25,947</b>	<b>49,709</b>	<b>196,697</b>	<b>75,081</b>	<b>170,173</b>	<b>169,578</b>	<b>169,578</b>

**British Confectionery Company Limited and British Bazaar Companies Limited**

Per:



**Blair Connolly**  
President

**DELOITTE RESTRUCTURING INC.**

Acting in its capacity as Licensed Insolvency Trustee under the Notice of Intention to Make a Proposal of British Confectionery Company Limited and British Bazaar Companies Limited and not in its personal capacity.

Per:



**Mathew Harris, FCPA, FCA, CIRP, LIT**  
Senior Vice President

**APPENDIX C – LETTER TO THE COURT AND SERVICE LIST**

March 20, 2019

Via email: heatherstanley@supreme.court.nl.ca

Hon. Justice Sitting in Chambers  
Supreme Court of Newfoundland and Labrador  
General Division Courthouse  
309 Duckworth Street  
P.O. Box 937  
St. John's NL A1C 5M3

Dear Lord/Lady:

**Subject: Administration Charge Order**

Pursuant to Subsection 11 and 12 of the Administration Charge Order (the "Order") approved by Justice Burrage on January 15, 2019, the Proposal Trustee rendered accounts to British Confectionery Company Limited and British Bazaar Company Limited (collectively, the "Company") on Tuesday, March 12, 2019. The Proposal Trustee would like to advise the Court and the Service List that as of close of business on Tuesday, March 19, 2019, this account remains unpaid.

As at the date of this letter, only the invoice rendered on March 12, 2019 is outstanding all previous invoices of the Proposal Trustee have been paid.

**DELOITTE RESTRUCTURING INC.**

Acting in its capacity as Licensed Insolvency Trustee under the Notice of Intention to Make a Proposal of British Confectionery Company Limited and British Bazaar Company Limited and not in its personal capacity.

**Per:**



**Mathew Harris, FCPA, FCA, CIRP, LIT**  
Senior Vice President

cc. Service List