

Our File: 172068

April 29, 2019

Via Courier

The Supreme Court of Newfoundland and Labrador
PO Box 937
309 Duckworth Street
St. John's, NL A1C 5M3

Attention: Application Registry

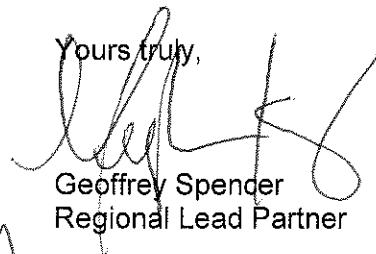
Dear Sir/Madam:

RE: The Proposal of British Bazaar Company Limited and British Confectionary Company Limited under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36
Court Nos. 2019 01G
Our Client: Bank of Montreal

With respect to the above-noted matter, please find enclosed the affidavit of Anna Graham for filing today with respect to British Confectionary Company Limited and British Bazaar Company Limited.

We trust this is in order.

Yours truly,


Geoffrey Spencer
Regional Lead Partner

GS/ss
Encl.

cc. Creditors

2019 01G
IN THE SUPREME COURT OF NEWFOUNDLAND AND LABRADOR
GENERAL DIVISION

IN THE MATTER OF: An Application by BRITISH CONFECTIONARY
COMPANY LIMITED and BRITISH BAZAAR
COMPANY LIMITED (the "Applicants") for relief under
the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c
C-36 as am.

AFFIDAVIT of ANNA GRAHAM

SUMMARY OF CURRENT DOCUMENT	
Court File Number(s):	2019 01G
Date of Filing of Document:	April 24, 2019
Name of Party Filing or Person:	Bank of Montreal
Application to which Document being filed relates:	Originating Application for an Order pursuant to section 11.02 and 11.52 (1) of the <i>Companies' Creditor Arrangement</i> <i>Act</i> .
Statement of Purpose in filing:	Affidavit in response to the Originating Application

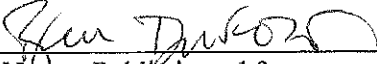
I, Anna Graham, of the City of Halifax in the Province of Nova Scotia, make oath and say that:

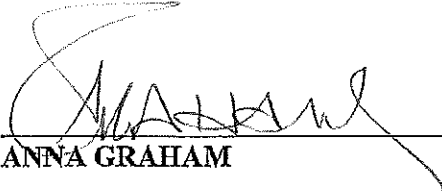
1. I am a senior account manager with the special accounts management unit of Bank of Montreal ("BMO") and as such I have personal knowledge of facts deposed to herein except as otherwise stated.
2. BMO objects to the requests of British Confectionary Company Limited and British Bazaar Company Limited (the "Companies") as set out in its originating application dated the 24th day of April, 2019 (the "Originating Application") for the reasons outlined below:

- (a) This Originating Application is a continuation of proceedings previously commenced by the Companies through an interlocutory application, in Bankruptcy and Insolvency, dated the 28th of November, 2018, Estate No: 51-2440231, Court No. 223, wherein the Companies sought an order extending the time period to file a proposal under the *Bankruptcy and Insolvency Act* RSC, 1985, c. B-3, as amended (the "BIA") (the "Initial Application").
- (b) Since the date of the Initial Application, the Companies have applied to this court on four (4) different occasions for four (4) extensions in order to address its restructuring plan. As a result, the Companies have now utilized the full six (6) month stay provision provided for under the BIA. The Companies have had ample time to identify financiers, equity partners and/or sale opportunities.
- (c) The Companies had previously outlined that they were pursuing a dual strategy, either a sale of assets or a refinancing. Notwithstanding the six months that has transpired since the Companies filed their Notice of Intention to file a Proposal, there is no confirmed financing agreement or sales agreement with any party. BMO is concerned that the present application focuses on a refinancing and does not address a potential asset sale. It appears that the Companies are not seriously pursuing the asset sale option that had previously been presented.
- (d) Under this Originating Application, the Companies are seeking a further extension of thirty (30) days, however the Companies have admitted that they require an extension of at least sixty (60) days as they are awaiting confirmation of financing from the Provincial Government of Newfoundland and Labrador. As a result, it is clear that the Companies intend to seek additional extensions.
- (e) BMO has concerns with the ability of the Companies to support any new debt facilities. When BMO inquired if the Companies had modelled out projections to determine if they could support the new proposed debt facilities, the Companies indicated that the term payments were not yet known.

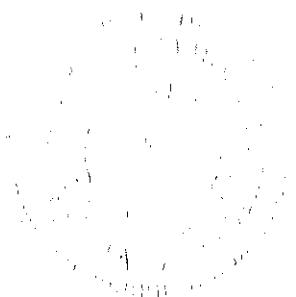
- (f) BMO is concerned that it does not have accurate information regarding the Companies' margin position. The Companies had represented to BMO, in its Monthly Borrowing Base Margin Account Report dated the 31st day of December, 2018, that its inventory was valued at \$1,957,392.85 (a copy of the December 31st Monthly Borrowing Base Margin Account Report is attached hereto as Exhibit "A"). However, the Companies' Financial Statements, dated the 31st day of December, 2018, show that the inventory was actually valued at \$1,373,146.00 (a copy of the December 31st Financial Statements is attached hereto as Exhibit "B"). The Companies therefore overstated their inventory on their margin reporting by \$584,246.85. In addition, the inventory totals submitted by the Companies for January 2019 was \$1,916,254.43 and February 2019 was \$1,796,174.74, which margin reporting is likely incorrect given the December 31st financial statements. Finally, the Companies have not submitted the margin details for March 31, 2019, which information was due by April 20, 2019. BMO is therefore concerned that the true margin position of the Companies is much worse than what has been represented to BMO by the Companies.
3. The institution of a CCAA process, following six months of a proposal process under the BIA, would add an unnecessary layer of court supervision and costs to the Companies' restructuring proceedings. In my knowledge as a Senior Account Manager, Special Accounts, I have been provided in similar circumstances at the end of the BIA Proposal process, with a "Stand Still" or "Holding Proposal" by companies which are based on a "Financing Event" to occur in a short time frame post proposal filing. The Bank has approved these types of proposals in the past. BMO, subject to the terms of this proposal, would be willing to positively affirm its support for such a proposal by the Companies.
4. In the meantime, BMO continues to be prejudiced by the continuation of the stay and the administration charge.
5. I make this affidavit in response to the Originating Application filed by the Companies on April 24, 2019.

SWORN TO at Halifax
in the Province of
Nova Scotia on the 24th
day of April 2019, before me:


A Notary Public in and for
the Province of Nova Scotia


ANNA GRAHAM

BENJAMIN R. DURNFORD
Notary Public in and for the
Province of Nova Scotia



2019 01G
IN THE SUPREME COURT OF NEWFOUNDLAND AND LABRADOR
GENERAL DIVISION

IN THE MATTER OF:

An Application by BRITISH CONFECTIONARY
COMPANY LIMITED and BRITISH BAZAAR
COMPANY LIMITED (the "Applicants") for relief under
the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c
C-36 as am.

CERTIFICATE OF EXHIBIT

This is Exhibit "A" of the Affidavit of Anna Graham
Sworn to before me this 29th day of April, 2019.



A Notary Public in and for the Province of Nova Scotia

BENJAMIN R. DURNFORD
Notary Public in and for the
Province of Nova Scotia

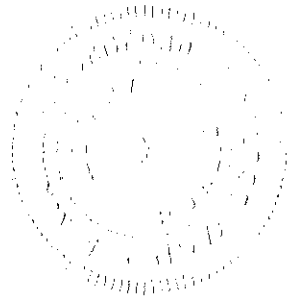


EXHIBIT "A"

British Confectionery Company Limited

BMO - Operating Account (Margined Account)
Monthly Borrowing Base Margin Account Report

Account #:

10021060028

Type of Account

Demand Deposit Account

Date:

December 31, 2018

FINANCIAL DATA SUMMARY BY LINE ITEM

Account Description	Total	Margin Rate	Calculated Margin Amount
Accounts Receivable Trade - CDN	\$ 47,228.30	75%	\$ 35,421.23
Accounts Receivable Trade - USD (<91 days)	\$ 218,594.90	90%	\$ 196,735.41
Accounts Receivable Trade - USD (>90 Days)	\$ -	75%	\$ -
Total Accounts Receivable	\$ 265,823.20		\$ 232,156.64
Inventory	\$ 1,957,392.85	50%	\$ 978,696.43
TOTAL CALCULATED MARGIN AMOUNT			\$ 1,210,853.06
Adjustments:			
Corporate Taxes Payable			\$ 103,616.27
HST Payable (Receivable)			\$ 18,745.26
PST Payable (Receivable)			\$ -
Payroll Related Payables			\$ -
Rent/Rent Related Charges (NCH Holdings Inc)			\$ 47,684.98
Rent/Rent Related Charges (Amware)			\$ 60,656.50
Total Adjustments			\$ 230,703.01
Adjusted Borrowing Base Margin Amount			\$ 980,150.05

Wrong amount
\$18
19603.91



0.00 *

19,603.91 +

858.65 -

18,745.26 *

Prior Claims 0.00 *

103,616.27 +

19,603.91 *

47,684.98 +

60,656.50 +

231,561.66 *

They took the amount from the payable list and took off (858.65) bringing it to (18,745.26) but it's the full amount 19,603.91

2019 01G
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COMPANY LIMITED (the "Applicants") for relief under
the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c
C-36 as am.

CERTIFICATE OF EXHIBIT

This is Exhibit "B" of the Affidavit of Anna Graham
Sworn to before me this 29th day of April, 2019.



A Notary Public in and for the Province of Nova Scotia

BENJAMIN R. DURNFORD
Notary Public in and for the
Province of Nova Scotia

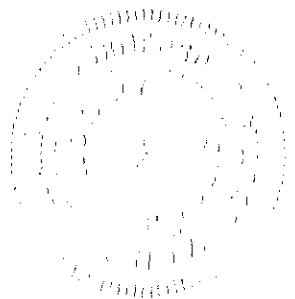


EXHIBIT "B"

BRITISH CONFECTIONERY COMPANY LIMITED

Non-Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited)

HARRIS RYAN

BRITISH CONFECTIONERY COMPANY LIMITED
Index to Non-Consolidated Financial Statements
Year Ended December 31, 2018

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HARRIS RYAN

INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

To the Shareholders of British Confectionery Company Limited (the "Company")

We have reviewed the accompanying non-consolidated financial statements of British Confectionery Company Limited, which comprise the balance sheet as at December 31, 2018 and the non-consolidated statements of retained earnings, loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated non-consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility for the Non-consolidated Financial Statements

Our responsibility is to express a conclusion on the accompanying non-consolidated financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of non-consolidated financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these non-consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these non-consolidated financial statements do not present fairly, in all material respects, the financial position of British Confectionery Company Limited as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 1 in the financial statements, which indicates that on November 5, 2018 the Company and its subsidiary filed Notices of Intention to Make a Proposal pursuant to section 50.4 of the Bankruptcy and Insolvency Act. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Harris Ryan Professional Corporation

St. John's, Newfoundland and Labrador
April 24, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS

Harris Ryan Professional Corporation
Suite 202 120 Stavanger Drive, St. John's, NL, Canada A1A 5E8
Phone: (709) 726-8324 Fax: (709) 726-4525

BRITISH CONFECTIONERY COMPANY LIMITED
Non-Consolidated Balance Sheet
December 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 8,883	\$ 39,717
Accounts receivable (Note 5)	860,886	1,557,350
Inventory	1,373,146	1,418,701
Prepaid expenses	50,635	41,411
	2,293,550	3,057,179
Due from related parties (Note 7)	1,072,802	2,528,822
Development costs (Note 8)	2,453,216	2,960,717
Property, plant and equipment (Note 9)	4,551,782	4,577,517
Cash surrender value of life insurance	109,533	112,944
Patents and trademarks	137,712	121,163
Long term investments	50	50
	\$ 10,618,645	\$ 13,358,392
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ -	\$ 2,437,276
Accounts payable (Note 6)	2,530,181	2,889,834
Due to director (Note 10)	126,922	54,699
Current portion of long term debt (Note 13)	458,476	270,300
Current portion of obligations under capital lease	-	11,788
	3,115,579	5,663,897
OTHER CURRENT		
Bank of Montreal demand loans (Note 12)	3,248,593	1,432,684
Reclassified long term debt (Note 13)	2,152,995	-
	8,517,167	7,096,581
Long term debt (Note 13)	-	2,232,916
Due to Bingo Servi-Jeux	-	125,000
Due to related parties (Note 7)	684,940	691,474
	9,202,107	10,145,971
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	2,300	2,300
Retained earnings	1,414,238	3,210,121
	1,416,538	3,212,421
	\$ 10,618,645	\$ 13,358,392

Contingencies (Note 22)
 Commitments (Note 18)

APPROVED BY SOLE DIRECTOR

 Director

See notes to financial statements

BRITISH CONFECTIONERY COMPANY LIMITED
Non-Consolidated Statement of Retained Earnings
Year Ended December 31, 2018

	2018	2017
RETAINED EARNINGS - BEGINNING OF YEAR	\$ 3,210,121	\$ 3,255,920
NET LOSS FOR THE YEAR	(1,795,883)	(45,799)
RETAINED EARNINGS - END OF YEAR	\$ 1,414,238	\$ 3,210,121

See notes to financial statements

BRITISH CONFECTIONERY COMPANY LIMITED
Non-Consolidated Statement of Loss
Year Ended December 31, 2018

	2018	2017
REVENUES	\$ 6,222,151	\$ 8,030,370
COST OF SALES		
Purchases	2,305,762	4,515,002
Direct wages	1,081,432	1,272,984
	3,387,194	5,787,986
GROSS PROFIT	2,834,957	2,242,384
EXPENSES (Schedule 1)	2,998,390	3,350,637
LOSS FROM OPERATIONS	(163,433)	(1,108,253)
OTHER INCOME (EXPENSES)		
Gain on disposal of Investment (Note 16)	-	68,493
Other	44,705	59,264
Insurance proceeds (Note 15)	525,086	475,329
Dividend income (Note 16)	-	452,546
(Decrease) Increase in cash surrender value	(3,411)	1,105
Foreign exchange gain	47,240	5,717
Denied scientific research and development claims	(321,475)	-
Related party debt provision	(1,279,000)	-
Trustee, legal and other related restructuring fees	(138,093)	-
Deferred development cost provision (Note 8)	(507,502)	-
	(1,632,450)	1,062,454
NET LOSS	\$ (1,795,883)	\$ (45,799)

See notes to financial statements

BRITISH CONFECTIONERY COMPANY LIMITED
Non-Consolidated Statement of Cash Flows
Year Ended December 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Net loss	\$ (1,795,883)	\$ (45,799)
Items not affecting cash:		
Amortization of property, plant and equipment	314,840	331,853
Deferred development cost provision	507,502	-
	(973,541)	286,054
Changes in non-cash working capital:		
Accounts receivable	696,464	(804,502)
Inventory	45,555	433,916
Accounts payable	(359,653)	688,038
Income taxes payable	-	(30,886)
Bank of Montreal demand loans	1,815,909	(282,816)
Prepaid expenses	(9,224)	36,614
Harmonized sales tax payable	-	162,076
	2,189,051	202,440
Cash flow from operating activities	1,215,510	488,494
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(304,104)	(39,694)
Proceeds on disposal of property, plant and equipment	15,000	-
Cash surrender value of life insurance	3,411	(1,106)
AIF Project	-	(109,646)
Patents and trademarks	(16,549)	(23,897)
Cash flow used by investing activities	(302,242)	(174,342)
FINANCING ACTIVITIES		
Advances from (to) related parties	1,449,484	(112,087)
Advances from shareholders	72,223	54,699
Advances (to) from Bingo Servi-Jeux	(125,000)	125,000
Proceeds from long term financing	167,188	-
Repayment of long term debt	(58,933)	(350,778)
Repayment of obligations under capital lease	(11,788)	(26,470)
Cash flow from (used by) financing activities	1,493,174	(309,636)
INCREASE IN CASH FLOW	2,406,442	4,516
Deficiency - beginning of year	(2,397,559)	(2,402,075)
CASH (DEFICIENCY) - END OF YEAR	\$ 8,883	\$ (2,397,559)
CASH (DEFICIENCY) CONSISTS OF:		
Cash	\$ 8,883	\$ 39,717
Bank indebtedness	-	(2,437,276)
	\$ 8,883	\$ (2,397,559)

See notes to financial statements

BRITISH CONFECTIONERY COMPANY LIMITED

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited)

1. GOING CONCERN

These financial statements have been prepared on a going-concern assumption that the Company will be able to realize its assets and discharge its liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

On November 5, 2018 the Company, and its subsidiary (British Bazaar Company Limited) filed Notices of Intention ("NOI") to Make a Proposal pursuant to section 50.4 of the Bankruptcy and Insolvency Act. The Company is currently in default of certain debt covenants, the Company has a significant working capital deficiency and is reporting a loss of \$1,795,883 in the current year.

Since filing the NOI the Company's management, through its Licensed Insolvency Trustee, has been seeking new sources of financing and has received interest to date. The Company also enjoys the continued support of certain of its major customers, has signed a non-binding Memorandum of Understanding in relation to the development of its PlayLinx technology and continues to work on increasing sales and rationalizing its cost structure. Despite these activities, there is no assurance that the proposal process will be successful. The Company's ability to continue as a going concern is dependant upon the acceptance of the proposal, securing sufficient financing and attaining profitable operations, in order to meet current and future obligations.

These financial statements do not include any adjustments to the carrying value of assets or liabilities to their recoverable amounts that would be necessary if the going concern assumption was inappropriate, and such adjustments could be material.

2. DESCRIPTION OF OPERATIONS

British Confectionery Company Limited is incorporated provincially under the Corporations Act of Newfoundland and Labrador. The Company is a highly integrated manufacturer and supplier of lottery, charitable and promotional gaming products as well as commercial printing services.

3. BASIS OF PRESENTATION

The non-consolidated financial statements were prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

BRITISH CONFECTIONERY COMPANY LIMITED
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2018
(Unaudited)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments policy

The carrying amounts for cash and cash equivalents, trade receivable and account payable approximate fair market value because of their short maturity. The carrying value of the debt financing is an approximation of the fair market value due to the Company's intention to hold debt until maturity.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and long term debt.

Transaction costs

Transaction costs are recognized in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their organization, issuance and assumption.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the impairment, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates and methods:

Computer equipment	20%	declining balance method
Equipment	20%	declining balance method
Leasehold improvements	10 years	straight-line method
Manufacturing Equipment	5%	declining balance method
Motor vehicles	30%	declining balance method

The Company regularly reviews its property, plant and equipment to eliminate obsolete items. Government grants are treated as a reduction of property, plant and equipment cost.

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Investments in subsidiaries

Investments in enterprises over which the Company has significant influence are reported at cost.

BRITISH CONFECTIONERY COMPANY LIMITED

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development costs

Costs related to the development of new products are deferred until commercial production has begun. Upon commencement of commercial production, the related costs of the product are amortized on a straight-line basis over a ten year period. These assets are also assessed for impairment annually or more frequently when events or changes in circumstances indicate that an asset might be impaired. When the fair value is determined to be less than carrying value, the resulting impairment is reported in the income statement.

Patents and Trademarks

Costs related to patents and trademarks are indefinite-life intangible assets. These assets are tested for impairment annually or more frequently when events or changes in circumstances indicate that an asset might be impaired. When the fair value is determined to be less than carrying value, the resulting impairment is reported in the income statement.

Investment tax credit

Investment tax credits arising from qualifying manufacturing and processing expenditures have been recorded in the accounts as a reduction of the cost of the asset to which the investment tax credits relate.

Income taxes

The company uses the income taxes payable method of accounting for income taxes. Under this method, the company reports as an expense (income) of the period only the cost (benefit) of current income taxes determined in accordance with the rules established by taxation authorities.

Revenue recognition

Certain finished goods inventories are recognized as sales and accounts receivable upon completion of production. These goods are subject to a guaranteed sales contract with pricing established by the contract.

Revenue from other sales of product is recognized when title passes to the customer which generally coincides with the delivery of product.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

BRITISH CONFECTIONERY COMPANY LIMITED
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2018
(Unaudited)

5. ACCOUNTS RECEIVABLE

	2018	2017
Trade	\$ 724,176	\$ 817,462
Employees and other	195,184	496,300
Allowance for doubtful accounts	(58,474)	(77,887)
Scientific Research and Development receivable	-	321,475
	\$ 860,886	\$ 1,557,350

6. ACCOUNTS PAYABLE

	2018	2017
Trade	\$ 2,042,431	\$ 2,185,714
Accrued liabilities	220,344	85,694
Harmonized sales tax	163,858	514,878
Income taxes	103,548	103,548
	\$ 2,530,181	\$ 2,889,834

BRITISH CONFECTIONERY COMPANY LIMITED
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2018
(Unaudited)

7. RELATED PARTIES

	2018	2017
<u>Related party transactions</u>		
British Bazaar Company Limited		
(Subsidiary)		
Sales	\$ 4,558,721	\$ 5,849,398

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Related party balances

	2018	2017
Long term portion due from related parties		
British Bazaar Company Limited (Subsidiary)	\$ 1,044,789	\$ 1,146,809
British Confectionery 1982 Limited (Parent)	5,380	205,380
68368 Newfoundland & Labrador Ltd. (Related to director) - net of valuation provision of \$1,279,000	-	1,154,000
BMC Holdings Inc. (Common shareholder)	22,633	22,633
	\$ 1,072,802	\$ 2,528,822

	2018	2017
Long term portion due to related parties		
Dave Connolly Jr. (Related to shareholder)	\$ 124,071	\$ 125,566
Dave Connolly Sr. (Related to shareholder)	560,869	565,908
	\$ 684,940	\$ 691,474

BRITISH CONFECTIONERY COMPANY LIMITED**Notes to Non-Consolidated Financial Statements****Year Ended December 31, 2018***(Unaudited)***8. DEVELOPMENT COSTS**

The Company is developing a pull tab dispensing kiosk system known as "The PlayLinuxx". The development costs will be written off over a ten year period from the date of commercial production. In 2015, the Company sold 25 kiosk systems for a total of \$239,400 to be used in a test market. In accordance with ASPE, the sales were credited against the development costs.

During 2015, the Company began development of an In-line automated packaging, collating and control solution (AIF project) to increase the production capacity of their lottery ticket printing. The development costs will be written off over a ten year period from the date of commercial use.

	2018	2017
The PlayLinuxx	\$ 2,616,251	\$ 2,616,251
AIF Project	344,467	344,467
	2,960,718	2,960,718
Realization provision	(507,502)	-
	\$ 2,453,216	\$ 2,960,718

9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Manufacturing equipment	\$ 7,293,288	\$ 3,096,727	\$ 4,196,561	\$ 4,120,901
Motor vehicles	33,390	31,629	1,761	2,516
Computer equipment	643,320	493,901	149,419	186,773
Equipment	143,510	120,575	22,935	28,669
Leasehold improvements	575,522	394,416	181,106	238,658
	\$ 8,689,030	\$ 4,137,248	\$ 4,551,782	\$ 4,577,517

10. DUE TO DIRECTOR

	2018	2017
Due to Blair Connolly	\$ 126,922	\$ 54,699

The amounts due to director are non-interest bearing and have no set repayment terms.

BRITISH CONFECTIONERY COMPANY LIMITED**Notes to Non-Consolidated Financial Statements****Year Ended December 31, 2018***(Unaudited)***11. BANK INDEBTEDNESS**

The Company has a \$2,500,000 revolving line of credit of which \$1,915,469 was used as at December 31, 2018. Bank advances on the line are payable on demand and bear interest at prime plus 2.00%. Total advances are to be maintained at all times within the established limits based on inventories and accounts receivable.

The security for the Bank of Montreal loans is as follows:

- A \$5,000,000 registered debenture with a fixed and floating charge over all assets of the Company,
- subsidiary company has provided a corporate guarantee,
- general assignment of inventory and book debts,
- \$1,905,177 personal guarantee from a former shareholder,
- assignment of fire insurance, and
- assignment of life insurance on a director.

The Company must maintain the following debt covenants on a combined basis with its subsidiary:

- Debt service coverage to be 1.25 or greater;
- Current ratio to be 1:1 or greater;
- Debt to equity ratio of 3:1 or less.

On a combined bases, covenants have not been met.

12. DEMAND LOANS

	2018	2017
Bank of Montreal loan bearing interest at prime plus 3.5% per annum, repayable in monthly blended payments of \$4,179.31.	\$ 135,997	\$ 56,083
Bank of Montreal loan bearing interest at prime plus 2.5% per annum, repayable in monthly blended payments of \$6,615.30.	550,094	577,427
Bank of Montreal loan bearing interest at prime plus 2.5% per annum, repayable in monthly blended payments of \$14,446.79.	474,990	587,610
Bank of Montreal loan bearing interest at prime plus 2.5% per annum, repayable in monthly blended payments of \$5,245.88.	172,043	211,564
Bank of Montreal line of credit bearing interest at prime plus 2.0% per annum, repayable on a revolving basis.	1,915,469	-
	\$ 3,248,593	\$ 1,432,684

BRITISH CONFECTIONERY COMPANY LIMITED

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited)

13. LONG TERM DEBT

	2018	2017
Atlantic Canada Opportunities Agency loan bearing interest at 0% per annum, provisionally repayable based on 5% of gross annual sales revenue from "The PlayLinxx" kiosk project.	\$ 488,030	\$ 488,030
Atlantic Canada Opportunities Agency loan bearing interest at 0% per annum, provisionally repayable based on 5% of gross annual sales revenue from "The PlayLinxx" kiosk project.	195,186	195,186
Atlantic Canada Opportunities Agency loan bearing interest at 0% per annum, provisionally repayable based on AIF project success. If successful, loan will be repayable over 96 equal monthly installments.	561,507	561,507
Atlantic Canada Opportunities Agency loan bearing interest at 0% per annum, repayable in monthly payments of \$5,208. The loan matures on February 1, 2019.	110,709	125,709
Atlantic Canada Opportunities Agency loan bearing interest at 0% per annum, provisionally repayable based on 5% of gross annual United States sales.	327,507	347,507
Atlantic Canada Opportunities Agency loan bearing interest at 0% per annum, repayable in monthly payments of \$4,455.	109,687	124,687
Business Investment Corporation loan bearing interest at 6.5% per annum, repayable in monthly blended payments of \$5,890.	127,432	127,432
Business Investment Corporation loan bearing interest at 3% per annum, repayable in monthly blended payments of \$9,910.	313,783	313,783
Business Investment Corporation loan bearing interest at 3% per annum, repayable in monthly blended payments of \$4,672.	219,375	219,375
Heidelberg Canada loan bearing interest at 11% per annum, repayable through upcharge on consumables purchased from Heidelberg each month.	158,255	-
	2,611,471	2,503,216
Less amounts payable within one year	(458,476)	(270,300)
	2,152,995	2,232,916
Amounts in default	(2,152,995)	-
	\$ -	\$ 2,232,916

The security for the Business Investment Corporation loans is a personal property registration from a former shareholder.

BRITISH CONFECTIONERY COMPANY LIMITED

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited)

14. SHARE CAPITAL

Authorized:

Unlimited Preferred shares, 6% cumulative, redeemable, non-voting

Unlimited Common voting shares of no par value

	2018	2017
Issued:		
25,001 Preferred shares	\$ 2,000	\$ 2,000
300 Common shares	300	300
	\$ 2,300	\$ 2,300

15. INSURANCE PROCEEDS OF FIRE

In late December 2017, a fire at the plant resulted in the destruction of finished goods and certain equipment. Insurance proceeds of \$1,000,415 were subsequently received.

16. SALE OF INVESTMENT

On January 27, 2017 the Company sold its wholly owned subsidiary Atlantic Star Satellite Bingo Network Inc. ("ASSBN") for total proceeds of \$68,494. Prior to the sale of the company, ASSBN declared dividends in the amount of \$452,546.

17. INCOME TAX LOSSES CARRIED FORWARD

The Company has incurred non-capital losses totalling approximately \$3,000,000 for tax purposes which are available to reduce future taxable income. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses if unused will expire as follows:

2036	\$ 2,600,000
2037	400,000

18. COMMITMENTS

The Company leases premises under a lease that expires February 2023. The lease contains a renewal option that extends up to March 2028. The Company also has a number of equipment and vehicle leases. Future minimum lease payments as at year end, are as follows:

2019	\$ 369,798
2020	376,729
2021	380,280
2022	389,573
2023	391,125

BRITISH CONFECTIONERY COMPANY LIMITED
Notes to Non-Consolidated Financial Statements
Year Ended December 31, 2018
(Unaudited)

19. ECONOMIC DEPENDENCE

The Company has reliance on two core lottery customers. Those customers collectively comprised 71.8% (2017 - 63.8%) of the total revenue.

20. FINANCIAL INSTRUMENTS

The company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration as of December 31, 2018.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long-term debt, obligations under capital leases, contributions to the pension plan, and accounts payable. The Company's current liquidity issues have been disclosed in Note 1.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The Company is mainly exposed to currency risk and interest rate risk.

(d) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(e) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

BRITISH CONFECTIONERY COMPANY LIMITED

Notes to Non-Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited)

20. FINANCIAL INSTRUMENTS *(continued)*

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant other price risks arising from these financial instruments.

21. COMPARATIVE FIGURES

i) Some of the comparative figures have been reclassified to conform to the current year's presentation.

ii) The comparative figures were reported on by another firm of chartered professional accountants in their report dated July 23, 2018.

22. CONTINGENCIES

i) Under the terms of the Company's financing the corporate group are required to maintain certain financial covenants (ratios) on a combined basis. At year end certain of these covenants were not met.

ii) The Company has been named in certain legal actions totalling approximately \$350,000, which it is defending and against which the company has launched counter claims. These legal actions are currently stayed as a result of the filings made under the Bankruptcy and Insolvency Act (Note 1). The Company has also been named as a co-defendant in a legal action launched by a customer of its subsidiary in the amount of approximately \$3.8 million, which has not been stayed and is being defended by counsel for its commercial insurers.

23. SUBSEQUENT EVENTS

Subsequent to year end the Company signed a non-bonding Memorandum of Understanding to further develop and commercialize its "Playlinxx" kiosk technology.

BRITISH CONFECTIONERY COMPANY LIMITED**Non-Consolidated Expenses****(Schedule 1)****Year Ended December 31, 2018**

	2018	2017
Advertising and promotion	\$ 9,050	\$ 8,915
Amortization	314,840	331,853
Bad debts (recovery)	(18,210)	29,395
Business taxes, licenses and memberships	41,008	33,408
Equipment rentals	16,329	19,622
Insurance	79,062	74,822
Interest and bank charges	87,336	80,384
Interest on long term debt	203,213	234,190
Interest on obligations under capital lease	-	1,677
Management fees	-	1,301
Meals and entertainment	2,043	10,876
Office	141,938	146,391
Professional fees	171,591	178,198
Property taxes	91,139	107,663
Rental	331,090	498,360
Repairs and maintenance	384,540	205,513
Salaries and wages	640,162	945,876
Telephone	16,618	35,526
Travel	25,034	34,905
US operations	202,964	121,680
Utilities	62,925	69,485
Vehicle	16,939	41,150
Warehouse	178,779	139,447
	\$ 2,998,390	\$ 3,350,637

See notes to financial statements

BRITISH BAZAAR COMPANY LIMITED
Financial Statements
Year Ended December 31, 2018

HARRIS RYAN



BRITISH BAZAAR COMPANY LIMITED
Index to Financial Statements
Year Ended December 31, 2018

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HARRIS RYAN

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of British Bazaar Company Limited (the "Company")

Opinion

We have audited the financial statements of British Bazaar Company Limited, which comprise the balance sheet as at December 31, 2018, and the statements of retained earnings, loss and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1 in the financial statements, which indicates that on November 5, 2018 the Company and its parent filed Notices of Intention to Make a Proposal pursuant to section 50.4 of the Bankruptcy and Insolvency Act. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting

(continues)

Independent Auditor's Report to the Shareholders of British Bazaar Company Limited (continued)
process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Marie Ryan Professional Corporation

St. John's, Newfoundland and Labrador
April 24, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS

BRITISH BAZAAR COMPANY LIMITED

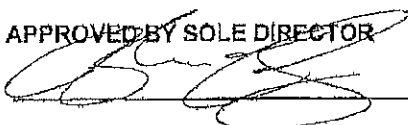
Balance Sheet

December 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 45,060	\$ -
Accounts receivable	-	60,663
Harmonized sales tax recoverable	2,180	62,598
Prepaid expenses	80,421	8,266
	127,661	131,527
Property, plant and equipment (Note 4)	2,105,375	2,218,892
Development costs (Note 6)	43,417	86,837
	\$ 2,276,453	\$ 2,437,256
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ -	\$ 192
Accounts payable	211,958	340,342
Income taxes payable	68	68
Current portion of longterm debt (Note 7)	-	5,496
Deferred revenue	126,897	-
	338,923	346,098
Due to related parties (Note 5)	1,144,789	1,246,809
	1,483,712	1,592,907
SHAREHOLDERS' EQUITY		
Share capital		
Authorized:		
Unlimited Class A common voting shares		
Issued:		
100 common shares	100	100
Contributed surplus	120,833	120,833
Retained earnings	671,808	723,418
	792,741	844,349
	\$ 2,276,453	\$ 2,437,256

CONTINGENT LIABILITIES (Note 9)

APPROVED BY SOLE DIRECTOR

 Director

See notes to financial statements

BRITISH BAZAAR COMPANY LIMITED
Statement of Retained Earnings
Year Ended December 31, 2018

	2018	2017
RETAINED EARNINGS - BEGINNING OF YEAR	\$ 723,416	\$ 646,926
NET INCOME (LOSS) FOR THE YEAR	(51,608)	76,490
RETAINED EARNINGS - END OF YEAR	\$ 671,808	\$ 723,416

See notes to financial statements

BRITISH BAZAAR COMPANY LIMITED**Statement of Loss****Year Ended December 31, 2018**

	2018	2017
REVENUES	\$ 4,732,653	\$ 6,126,561
COST OF SALES	4,539,861	5,849,398
	192,792	277,163
EXPENSES		
Amortization of development costs	43,420	43,420
Amortization of property, plant and equipment	113,518	120,635
Insurance	43,090	19,854
Interest and bank charges	1,828	1,527
Interest on other long term debt	496	634
Office	29,110	6,000
Professional fees	12,938	8,603
	244,400	200,673
NET INCOME (LOSS)	\$ (51,608)	\$ 76,490

See notes to financial statements

BRITISH BAZAAR COMPANY LIMITED

Statement of Cash Flows

Year Ended December 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Net income (loss)	\$ (51,608)	\$ 76,490
Items not affecting cash:		
Amortization of property, plant and equipment	113,518	120,635
Amortization of development costs	43,420	43,420
	105,330	240,545
Changes in non-cash working capital:		
Accounts receivable	60,663	(60,663)
Accounts payable	(128,386)	283,566
Deferred income/revenue	126,897	-
Prepaid expenses	(72,155)	9,328
Harmonized sales tax payable	60,419	(69,202)
	47,438	163,029
Cash flow from operating activities	152,768	403,574
FINANCING ACTIVITIES		
Advances to related parties	(102,020)	(392,990)
Repayment of long term debt	(5,496)	(9,380)
Cash flow used by financing activities	(107,516)	(402,370)
INCREASE IN CASH FLOW	45,252	1,204
Deficiency - beginning of year	(192)	(1,396)
CASH (DEFICIENCY) - END OF YEAR	\$ 45,060	\$ (192)

See notes to financial statements

BRITISH BAZAAR COMPANY LIMITED

Notes to Financial Statements

Year Ended December 31, 2018

1. GOING CONCERN

These financial statements have been prepared on a going-concern assumption that the Company will be able to realize its assets and discharge its liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets or to meet its liabilities as they become due.

On November 5, 2018 the Company, and its parent (British Confectionary Company Limited) filed Notices of Intention ("NOI") to Make a Proposal pursuant to section 50.4 of the Bankruptcy and Insolvency Act. The corporate group is currently in default of certain debt covenants and has a significant working capital deficiency on a combined basis.

Since filing the NOI the Company's management, through its Licensed Insolvency Trustee, has been seeking new sources of financing and has received interest to date. The Company also enjoys the continued support of certain of its major customers, and continues to work on increasing sales and rationalizing its cost structure. Despite these activities, there is no assurance that the proposal process will be successful. The Company's ability to continue as a going concern is dependant upon the acceptance of the proposal, securing sufficient financing and attaining profitable operations, in order to meet current and future obligations.

These financial statements do not include any adjustments to the carrying value of assets or liabilities to their recoverable amounts that would be necessary if the going concern assumption was inappropriate, and such adjustments could be material.

2. DESCRIPTION OF BUSINESS

British Bazaar Company Limited (the "Company") is incorporated provincially under the Corporations Act of Newfoundland and Labrador. The company's principal business activities are the sale of tickets for the lottery, charitable gaming, and promotional marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

(continues)

BRITISH BAZAAR COMPANY LIMITED

Notes to Financial Statements

Year Ended December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development costs

Costs related to the development of new products are deferred until commercial production has begun. Upon commencement of commercial production, the related costs of the product are amortized on a straight-line basis over ten years. These assets are also assessed for impairment annually or more frequently when events or changes in circumstances indicate that an asset might be impaired. When the fair value is determined to be less than carrying value, the resulting impairment is reported in the income statement.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian ASPE requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Sales revenue recognition

- a) Revenue from sales of products is recognized when title passes to the customer, which generally coincides with the shipment of goods.
- b) Certain finished goods inventories are recognized as sales and accounts receivable upon completion of production. These goods are subject to a guaranteed sales contract with pricing established by the contract.

Related party transactions

Loans to and from related parties are non-interest bearing with no set terms of repayment. Transactions with related parties are in the normal course of business and measured at exchange amounts.

Income taxes

The Company has elected to apply the ASPE reporting measurement option allowed for income taxes and accordingly, to account for income taxes using the taxes payable method.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated amortization. Property, plant and equipment is amortized over its estimated useful life on a declining balance basis at the following rates:

Machinery and equipment	5% and 20%	declining balance method
Vehicles	30%	declining balance method

The Company regularly reviews its property, plant and equipment to eliminate obsolete items. Government grants are treated as a reduction of property, plant and equipment cost.

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

(continues)

BRITISH BAZAAR COMPANY LIMITED**Notes to Financial Statements****Year Ended December 31, 2018****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial Instruments policy

Financial Instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and long term debt.

The balances due from shareholders and related parties are measured at their carrying values.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Machinery and equipment	\$ 3,513,842	\$ 1,415,396	\$ 2,098,446	\$ 2,208,994
Vehicles	33,951	27,022	6,929	9,898
	\$ 3,547,793	\$ 1,442,418	\$ 2,105,375	\$ 2,218,892

5. RELATED PARTIES

	2018	2017
<u>Related party transactions</u>		
British Confectionery Company Limited (Parent Company)		
Purchases	\$ 4,558,721	\$ 5,849,398

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(continues)

BRITISH BAZAAR COMPANY LIMITED

Notes to Financial Statements

Year Ended December 31, 2018

5. RELATED PARTIES *(continued)*

Due to related parties

	2018	2017
Long term portion due to related party		
Due to British Confectionery Company Limited	\$ 1,044,789	\$ 1,146,809
Due to Dave Connolly Sr. (Related to shareholder)	100,000	100,000
	<u>\$ 1,144,789</u>	<u>\$ 1,246,809</u>

Advances from parent company are non-interest bearing and have no set repayment terms.

6. DEVELOPMENT COSTS

	2018	2017
Development costs	\$ 260,517	\$ 260,517
Accumulated amortization	(217,100)	(173,680)
	<u>\$ 43,417</u>	<u>\$ 86,837</u>

The Company has developed a double sided barcoded breakopen ticket for use in its various contracts. In 2009 a portion of the development costs were reclassified to fixed assets as they have been utilized in the production process. The development costs will be written off over a ten year period.

7. LONG TERM DEBT

	2018	2017
General Bank of Canada loan. The loan matured on July 1, 2018	\$ -	\$ 5,496
Amounts payable within one year	-	(5,496)
	<u>\$ -</u>	<u>\$ -</u>

8. ECONOMIC DEPENDENCE

The Company is currently economically dependent upon a contract with a single customer. During the year sales to this customer comprised 85.3% (2017 - 82.2%) of total sales.

BRITISH BAZAAR COMPANY LIMITED

Notes to Financial Statements

Year Ended December 31, 2018

9. CONTINGENT LIABILITIES

i) The Company has provided a guarantee of its parent's financing from the Bank of Montreal. As at December 31, 2018 the amount outstanding was \$3,248,593. Under the terms of the parent's financing the corporate group are required to maintain certain financial covenants (ratios) on a combined basis. At year end certain of these covenants were not met.

ii) The Company has been named in certain legal actions totalling approximately \$350,000, which it is defending and against which the company has launched counter claims. These legal actions are currently stayed as a result of the filings made under the Bankruptcy and Insolvency Act (Note 1). The Company has also been named as a co-defendant, along with its parent, in a legal action launched by a customer in the amount of approximately \$3.8 million, which has not been stayed and is being defended by counsel for its commercial insurers.

10. FINANCIAL INSTRUMENTS

The Company is exposed to various risks through its financial instruments. The following analysis provides information about the company's risk exposure and concentration as of December 31, 2018.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long-term debt, and accounts payable. The Company's current liquidity issues have been disclosed in Note 1.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

Unless otherwise noted, it is management's opinion that the company is not exposed to significant other price risks arising from these financial instruments.

11. SUBSEQUENT EVENTS

On April 1, 2019 the Company signed an agreement with its second largest customer for the provision of ticket printing services until March 31, 2024, with a renewal option for a period of up to 5 years.

BRITISH BAZAAR COMPANY LIMITED

Notes to Financial Statements

Year Ended December 31, 2018

12. COMPARATIVE FIGURES

- i) Some of the comparative figures have been reclassified to conform to the current year's presentation.
 - ii) The prior year comparative figures were audited by another firm of chartered professional accountants in their report dated July 23, 2018.
-