

2019 01G 2868

IN THE SUPREME COURT OF NEWFOUNDLAND AND LABRADOR

GENERAL DIVISION

IN THE MATTER OF:

An Application by BRITISH CONFECTIONERY COMPANY LIMITED and BRITISH BAZAAR COMPANY LIMITED for relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

SUMMARY OF CURRENT DOCUMENT	
Court File No.	2019 01G 2868
Date of filing of document:	May 24, 2019
Name of filing party or person:	Deloitte Restructuring Inc. (Court Appointed Monitor)
Application to which document being filed relates:	Application for an extension of stay pursuant to Section 11.02(2) of the <i>Companies' Creditors Arrangement Act</i>
Statement of purpose in filing:	Second Report of the Monitor

District of: Newfoundland and Labrador

Division No: 01 – Newfoundland and Labrador

Court No: 2019 01G 2868

Estate No: 51-2440230 & 51-2440231

**Second Report of the Monitor
pursuant to section 23 (1) of the
Companies' Creditors Arrangement Act ("CCAA")**

May 24, 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 up to and including April 4, 2019 (the "Third Extension Order").
- 1.15 On April 4, 2019, the Court granted an order extending the stay of proceedings from April 4, 2019 up to and including May 5, 2019 (the "Fourth Extension Order").
- 1.16 On May 1, 2019, the Court granted an order (the "Initial Order") under the CCAA granting certain relief to the Company up to and including May 27, 2019.
- 1.17 As part of the Initial Order, Deloitte was appointed as Monitor (referred to throughout as the "Monitor") under these CCAA proceedings.
- 1.18 In addition, on May 1, 2019, the Court granted an order providing an administration charge covering the professional fees of the Monitor, counsel to the Monitor and counsel of the Company (the "CCAA Administration Charge").

2. TERMS OF REFERENCE

- 2.1 In preparing this Second Report, the Monitor 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 Monitor 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 Second 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 Monitor does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of the Second Report.
- 2.3 The Monitor 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 Second Report. Any use which any party makes of the Second Report, or any reliance or decisions to be made on the Second Report, is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the Second Report are expressed in or converted to Canadian dollars.
- 2.5 The purpose of the Second Report is to provide the Court with the following:
 - (i) A summary of the activities of the Company since the date of the Fifth Report of the Proposal Trustee/First Report of the Proposed Monitor (the "First Report").
 - (ii) An update regarding the Company's efforts to refinance its debts.
 - (iii) An update regarding offers to purchase the assets of the Company.

- (iv) A summary of the activities of the Monitor since the date of the First Report.
- (v) A review of the actual cash flows for the period of April 20 to May 17, 2019 (the "First CCAA Cash Flow Reconciliation").
- (vi) A review of the Company's statement of projected cash flow for the period of May 18, 2019 to August 16, 2019 (the "Second CCAA Cash Flow").
- (vii) A summary of the current financial position of the Company.
- (viii) A review of the Company's request for an extension (the "First CCAA Extension Order").

3. COMPANY'S ACTIVITIES

- 3.1 Since the date of the First Report, the Company's activities have included, but were not limited to:
- (i) Working with the Monitor in order to complete statutory requirements, including giving notice to creditors and preparing required filing information.
 - (ii) Responding to questions raised by representatives of the Department of Tourism, Culture, Industry and Innovation ("TCII").
 - (iii) Providing information in order to assist an interested strategic partner and its financial institution's due diligence.
 - (iv) Holding discussions with the Monitor and legal counsel of the Company regarding the status of the restructuring.
 - (v) Working with the Monitor in order to review actual cash flows and reporting on variances to the First CCAA Cash Flow.

4. UPDATE ON POTENTIAL REFINANCING

- 4.1 As at the date of the First Report, efforts to source alternative financing to fund a plan of arrangement to the Company's creditors had resulted in the following:
- (i) the Company executing a binding investment agreement with an interested party (the "Interested Party");
 - (ii) due diligence being conducted by the Interested Party and its financial institution; and
 - (iii) a letter being received from TCII requesting an additional sixty days in order to consider the transaction and complete full due diligence.
- 4.2 On May 9, 2019, the Monitor held a telephone conversation with the Interested Party regarding the status of its due diligence. During this discussion, the Interested Party indicated that it had not encountered any unacceptable issues to date. The Interested Party further indicated that it expected to complete its due diligence in advance of the next extension hearing.
- 4.3 Furthermore, on May 9, 2019, the Monitor received correspondence from TCII, which outlined a number of questions regarding information contained within the Monitor's First Report and questions related to the proposed transaction between the Company and the Interested Party (the "Proposed Transaction").
- 4.4 On May 16, 2019, the Monitor responded to TCII regarding the questions relating to the First Report.

- 4.5 On May 17, 2019, the Company responded to TCII regarding the questions relating to the Proposed Transaction.
- 4.6 On May 21, 2019, the Monitor arranged a conference call with representatives of TCII. The Monitor was advised that while the Company had responded on May 17, 2019, TCII required clarification related to specific aspects of the Proposed Transaction. The Monitor was also advised that while they remain in the caretaker period due to the recent election in Newfoundland and Labrador they are confident that a decision can be rendered on or before June 30, 2019 pending receipt of the required information from the Company.
- 4.7 Furthermore, on May 21, 2019, the Interested Party provided the Monitor with correspondence (the "Interested Party Correspondence") advising that its due diligence was substantially complete. Additionally, the Interested Party outlined the remaining conditions precedent to complete the Proposed Transaction. The Monitor has provided a copy of the Interested Party Correspondence to the Court and the senior secured creditors by way of a Confidential Addendum to the Second Report.
- 4.8 In its First Report, the Monitor advised the Court that TCII requested a period of 60 days in order to complete due diligence and render a decision. Due to the fact that the proceedings were changed from the BIA to CCAA, and the CCAA statute only allows an initial 30 day extension, the Company's current request for an extension should be expected by stakeholders of this proceeding.
- 4.9 Based on the progress since the date of the First Report, the Monitor believes that an extension of the stay of proceedings is supportable in order to provide the Company the necessary time to complete the Proposed Transaction and file a plan of arrangement.
- 4.10 Furthermore, the Monitor is of the opinion that the Company has been attempting to find financing to fund a plan of arrangement for an extended period. This included the market sounding process outlined in the Second Report of the Proposal Trustee. In the event that the Proposed Transaction is not completed on or before June 30, 2019, the Monitor will be recommending to this Court that an expedited asset sales process be conducted. The Monitor's intention would be to recommend the terms of such sales process at the next scheduled hearing of this Court.

5. UPDATE ON POTENTIAL ASSET SALE

- 5.1 On May 6, 2019, the Monitor received a letter from a party who has repeatedly expressed interested in purchasing the assets of the Company (the "Asset Purchaser"). During the First Report, the Monitor advised the Court that an offer received from the Asset Purchaser had expired on April 4, 2019.
- 5.2 In its May 6 letter, the Asset Purchaser requested that the letter be presented to the Court and the senior secured creditors prior to the hearing to be held on May 27, 2019. As such, the Monitor has enclosed a copy of this letter and the original expression of interest, received by the Monitor on March 25, 2019 in a Confidential Addendum to the Second Report.
- 5.3 Furthermore, the Monitor advises the Court that a copy of the letter and the original expression of interest were provided to the senior secured creditors on May 21, 2019 by email.

6. MONITOR'S ACTIVITIES

- 6.1 Since the date of the First Report, the Monitor's activities have included, but were not limited to:
- (i) filing with the Office of the Superintendent of Bankruptcy the forms as prescribed under the CCAA;
 - (ii) publishing once a week for two consecutive weeks in The Telegram the notice required under section 23 (1) of the CCAA;
 - (iii) making publically available on the Monitor's website the initial order, and a listing of creditors with claims greater than \$1,000;
 - (iv) mailing the required notice to known creditors;
 - (v) monitoring actual cash flow and reporting on variances to the First CCAA Cash Flow;
 - (vi) responding to questions presented to the Monitor by representatives of TCII regarding the contents of the First Report;
 - (vii) participating and holding discussions with the Interested Party and the Asset Purchaser;
 - (viii) reporting to the Court and the Service List pursuant to the CCAA Administration Charge Order; and
 - (ix) holding discussions with Management and legal counsel of the Company regarding potential restructuring options.

7. ACTUAL CASH FLOW

- 7.1 The Company previously filed with the Court the First CCAA Cash Flow pursuant to Section 10(2) of the CCAA consisting of a weekly projection for the 13-week period April 20 to July 19, 2019.
- 7.2 The Monitor has prepared a reconciliation of the actual cash flow for the four-week period April 20 to May 17, 2019 as compared to the First CCAA Cash Flow (the "First CCAA Cash Flow Reconciliation"), which is contained within Appendix A to the Second Report.
- 7.3 The Monitor offers the following commentary with respect to material variances contained within the First CCAA Cash Flow Reconciliation:
- (i) The \$22 thousand unfavorable variance related to the collection of existing accounts receivable is timing in nature and relates to the delayed collection of three balances from U.S. customers.
 - (ii) The \$94 thousand unfavorable variance related to new production is timing in nature and attributable to slower than anticipated collections from two customers. The collection of these amounts has been incorporated into the Second CCAA Cash Flow.
 - (iii) The \$17 thousand favorable variance related to rent is timing in nature. Due to cash flow constraints resulting from the timing variances discussed above, the Company paid the current month's rent in two equal payments. The second payment is anticipated during the week ending May 24, 2019.
 - (iv) The \$26 thousand favorable variance related to excise tax payable is attributable to lower than anticipated sales during the March reporting period. According to

Management, production delays experienced during this period resulted in lower sales than anticipated resulting in reduced excise tax liabilities.

- (v) The \$46 thousand favorable variance related to professional fees is timing in nature. As at the date of the Second Report, legal counsel of the Company has one invoice valued at approximately \$23 thousand outstanding and the Monitor has three outstanding invoices with a total value of approximately \$37 thousand.

7.4 Additionally, the Monitor would like to advise the Court that as at the date of the Second Report, all payments to Servi-Jeux have been properly supported by third party invoices.

8. CASH FLOW STATEMENTS

8.1 On May 24, 2019, pursuant to Section 10(2) of the CCAA, the Company filed the Second CCAA Cash Flow, along with the statutory declarations with the Court. A copy of the Second CCAA Cash Flow is enclosed as Appendix B.

8.2 The Second CCAA Cash Flow has been prepared by Management for the purpose described in the notes to the Second CCAA Cash Flow, using the probable and hypothetical assumptions set out in the notes.

8.3 The Monitor's review of the Second CCAA Cash Flow consisted of inquiries, analytical procedures and discussions on the information provided by Management of the Company. The Monitor's involvement with respect to the hypothetical assumptions was limited to evaluating whether they were consistent with the purpose of the Second CCAA Cash Flow. The Monitor Trustee has also reviewed the supporting documentation provided by Management of the Company for the probable assumptions and the preparation and presentation of the Second CCAA Cash Flow.

8.4 Based on our review and the foregoing reserves and limitations, nothing has come to the attention of the Monitor that causes us to believe that, in all material respects:

- (i) the hypothetical assumptions are not consistent with the purpose of the Second CCAA Cash Flow;
- (ii) as at the date of this Second 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 Second CCAA Cash Flow, given the hypothetical assumptions; or
- (iii) the Second CCAA Cash Flow does not reflect the probable and hypothetical assumptions.

8.5 Since the Second CCAA 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 Monitor does not express an opinion to whether the projections in the Second CCAA Cash Flow will be achieved.

8.6 The Second CCAA Cash Flow has been prepared solely for the purpose described in the notes to the Second CCAA Cash Flow, and readers are cautioned that the Second CCAA Cash Flow may not be appropriate for other purposes.

8.7 The Monitor has reviewed the Second CCAA Cash Flow and offers the following commentary:

- (i) Based on the outcomes presented in the First CCAA Cash Flow, significant revenue projected to be received are related to the existing contract with

ALC. This projection is based on a production schedule maintained by ALC and Management's expectations regarding timing of the demand for games.

- (ii) In addition to ALC revenue discussed above, Management is currently projecting five games during the period covered by the Second CCAA Cash Flow relating to its existing contract with BCLC. The collection of receivables generated by these games is based on Management's expectations taking into consideration prior payment patterns.
- (iii) The collection of existing accounts receivable is based on Management's expectations taking into consideration prior interactions with customers. Historically, sales to ALC do not result in the generation of an account receivable balance, as payment for these games is often received during the week the game is shipped.
- (iv) Other new production revenue during the period includes new sales with customers other than ALC and BCLC. Sales to these customers represent smaller purchases of tickets and are not governed by long-term service agreements. Inflows from these customers are based on the Company's production schedule and Management estimates of future orders.
- (v) Cost of goods sold consists primarily of expenditures on paper, ink, glues, transportation costs and labor. The Company has negotiated an agreement with a materials and logistics supplier (the "Logistics Supplier"). The Logistics Supplier has agreed to provide products and services to the Company on terms of net 45 days. If payment is not received on a timely basis a 2% penalty is incurred.
- (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 proceedings.
- (vii) Professional fees are projected based on estimates received from professionals involved in the proceedings.

9. FINANCIAL POSITION OF THE COMPANY

- 9.1 As at the date of the Second Report, the Company is facing short-term liquidity challenges related to a production issue, which required the Company to reprint a significant game at their own expense. This issue was previously discussed in section 7 of the Fourth Report of the Proposal Trustee and resulted in an approximately \$170 unfavorable timing variance in the Company's cash flow. This amount is anticipated to be received during the period covered by the Second CCAA Cash Flow.
- 9.2 As part of its regular monitoring duties, the Monitor has obtained, reviewed and discussed post-filing obligations (the "Obligations") with the Company. As of the date of the Second Report, the Company has approximately \$679 thousand in Obligations.

9.3 Significant balances outstanding to key suppliers include:

- (i) Logistics Supplier - \$284 thousand
- (ii) Servi-Jeux - \$159 thousand
- (iii) Landlord - \$56 thousand
- (iv) Paper supplier - \$46 thousand
- (v) Monitor - \$37 thousand
- (vi) Legal counsel of the Company - \$23 thousand

9.4 As previously discussed in the Cash Flow section herein, the Logistics Supplier has agreed to payment terms in relation to the outstanding balance.

9.5 According to the books and records of the Company, there is an offsetting accounts receivable balance owing from Servi-Jeux of approximately \$155 thousand, significantly reducing the net amount owed to Servi-Jeux.

9.6 Included in the post-filing amounts outlined above are several invoices from the insolvency professionals involved in the CCAA proceedings that total approximately \$60 thousand. Additionally, on May 24, 2019 the Monitor rendered an additional invoice to the Company valued at approximately \$19 thousand. Pursuant to the CCAA Administration Charge, the Monitor will advise this Court and the Service list if this account has not been paid within five days.

10. COMPANY'S REQUEST FOR AN EXTENSION

10.1 The Monitor has been advised that on May 27, 2019, the Company will be making an application to the Court seeking the First CCAA Extension Order extending the stay of proceedings until the first available court date after June 30, 2019.

10.2 As outlined above, the Monitor is of the opinion that a short extension (just over 30 days) of the stay of proceedings is supportable in order to provide the Company the necessary time to complete the Proposed Transaction.

10.3 However, the Monitor also recognizes that the Company has been significant time to date in order to find suitable refinancing and if the Proposed Transaction is not completed by the expiry of the proposed extension, the Monitor is of the opinion that an alternative approach would be in the best interest of the Company's creditors.

10.4 The Monitor 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 plan of arrangement to its creditors.

10.5 The Monitor notes that the Company's customers and suppliers have continued to support the Company during the restructuring. 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 Monitor is of the opinion that no creditor will be materially prejudiced by the extension as requested by the Company.

- 10.6 In the absence of the extension being granted, the Company will not be in a position to file a plan of arrangement before May 27, 2019.
- 10.7 Based on the foregoing, the Monitor supports the Company's application for an extension of stay pursuant to Section 11.02(2) of the CCAA.

11. CONCLUSION

- 11.1 The Second Report has been prepared to provide this Court with information regarding the activities of the Company since the date of the First Report, an update regarding a potential refinancing, an update regarding offers received to purchase the assets of the Company, the activities of the Monitor since the date of the First Report, a review of the First CCAA Cash Flow, a summary of the Second CCAA Cash Flow and its outcomes, a summary of the current financial position of the Company, and a review of the Company's application for an extension to the stay of proceedings.

DELOITTE RESTRUCTURING INC.

Acting in its capacity as
Monitor 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 – FIRST CCAA CASH FLOW RECONCILIATION

British Confectionery Company Limited and British Bazaar Companies Limited															
Variance Analysis - Consolidated Statement of Projected Cash Flows															
For the period April 20 to May 17, 2019															
Week ending (Friday)	4/26/2019			5/3/2019			5/10/2019			5/17/2019			Cumulative		
	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance
Cash inflows															
Collection of existing accounts receivable	85,286	85,286	-	14,679	2,295	(12,384)	-	17,687	17,687	27,447	-	(27,447)	127,412	105,268	(22,144)
New production	60,782	60,782	-	11,500	-	(11,500)	95,250	108,978	13,728	106,404	10,665	(95,739)	273,936	180,425	(93,510)
Other	3,183	3,316	133	-	5,634	5,634	97	774	677	-	-	-	3,280	9,724	6,444
Total inflows A	149,251	149,384	133	26,179	7,928	(18,251)	95,347	127,439	32,092	133,850	10,665	(123,185)	404,628	295,417	(109,211)
Cash outflows															
Cost of goods sold	-	-	-	45,000	42,594	2,406	-	-	-	45,000	42,737	2,263	90,000	85,331	4,669
Compensation	-	-	-	17,000	12,800	4,200	18,000	5,171	12,829	14,500	39,899	(25,399)	88,666	97,036	(8,370)
Materials and other	39,166	39,166	-	-	-	-	-	-	-	-	-	-	-	-	-
Overhead expenses															
Compensation	133	-	133	26,404	24,992	1,412	7,500	697	6,803	26,404	25,076	1,328	60,441	50,765	9,676
Compensation related expenditures	-	-	-	729	729	(0)	13,000	12,223	777	-	-	-	13,729	12,952	777
Rent	-	-	-	-	-	-	-	-	-	34,805	17,403	17,403	34,805	17,403	17,403
General and administrative	49,733	49,733	-	35,620	25,805	9,815	5,300	37,851	(32,551)	19,875	7,712	12,163	110,528	121,102	(10,574)
Sales taxes payable (refund)	-	-	-	3,000	3,858	(858)	15,000	(4,971)	19,971	-	(7,342)	7,342	18,000	(8,455)	26,455
Total outflows from operations	89,033	88,900	133	127,753	110,778	16,975	58,800	50,971	7,829	140,584	125,486	15,099	416,170	376,134	40,036
Professional Fees															
BoyneClarke - Company Counsel	7,500	7,500	-	7,308	2,116	5,192	7,308	-	7,308	10,000	-	10,000	32,115	9,616	22,499
Deloitte Restructuring Inc. - Monitor	5,879	5,879	-	7,015	-	7,015	16,306	-	16,306	-	-	-	29,200	5,879	23,321
	13,379	13,379	-	14,323	2,116	12,207	23,613	-	23,613	10,000	-	10,000	61,315	15,494	45,821
Total outflows B	102,411	102,278	133	142,076	112,893	29,182	82,413	50,971	31,442	150,584	125,486	25,099	477,485	391,628	85,856
Weekly cash flow (A-B)	46,840	47,106	266	(115,897)	(104,965)	10,932	12,934	76,468	63,535	(16,734)	(114,821)	(98,087)	(72,857)	(96,211)	(23,354)
Opening cash balance	97,857	97,857	-	144,697	144,963	266	28,801	39,998	11,198	41,734	116,466	74,732	97,857	97,857	-
Projected ending cash balance	144,697	144,963	266	28,801	39,998	11,198	41,734	116,466	74,732	25,000	1,646	(23,354)	25,000	1,646	(23,354)

APPENDIX B – SECOND CCAA CASH FLOW

**IN THE MATTER OF
THE COMPANIES' CREDITOR ARRANGEMENT ACT,
and
IN THE MATTER OF
THE COMPROMISE OR ARRANGEMENT OF BRITISH CONFECTIONERY COMPANY LIMITED
AND BRITISH BAZAAR COMPANY LIMITED**

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 24th day of May 2019, consisting of weekly cash flows for the period May 18, 2019 to August 16, 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 24th day of May, 2019.

British Confectionery Company Limited and British Bazaar Company Limited

Per:



Blair Connolly
President

**BRITISH CONFECTIONERY COMPANY LIMITED AND BRITISH BAZAAR COMPANY LIMITED
(COLLECTIVELY THE "INSOLVENT COMPANIES")
ASSUMPTIONS TO THE CASH FLOW PROJECTION
FOR THE PERIOD MAY 18 TO AUGUST 16, 2019**

Note A:

The statement of projected cash flow is being filed pursuant to *the Companies' Creditor Arrangement Act* 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 May 21, 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.

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.

HST/PST Payments

- Government sales taxes payable and receivable are estimated based on Management estimates taking into consideration operating activity and historical results.

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 24th day of May, 2019.

British Confectionery Company Limited and British Bazaar Company Limited

Per:



Blair Connolly
President



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 May 18, 2019 to the week ending August 16, 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, Nova Scotia this 24th day of May, 2019.

DELOITTE RESTRUCTURING INC.

Acting in its capacity as Monitor
of British Confectionery Company Limited and British Bazaar Company Limited
and not in its personal capacity

Per:

A handwritten signature in black ink, appearing to read "Mathew Harris".

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 May 18 to August 16, 2019

Week ending (Friday)	1 5/24/2019	2 5/31/2019	3 6/7/2019	4 6/14/2019	5 6/21/2019	6 6/28/2019	7 7/5/2019	8 7/12/2019	9 7/19/2019	10 7/26/2019	11 8/2/2019	12 8/9/2019	13 8/16/2019	Total
Cash inflows														
Collection of existing accounts receivable	39,412	147,072	-	3,400	21,000	6,181	-	21,000	-	-	10,000	-	-	248,065
New production	14,481	81,937	49,500	188,442	124,322	125,864	266,309	148,500	161,949	118,058	39,800	96,555	84,000	1,499,717
Other	97	-	97	-	97	-	97	-	97	-	97	-	97	679
Total inflows A	53,989	229,009	49,597	191,842	145,419	132,045	266,406	169,500	162,046	118,058	49,897	96,555	84,097	1,748,461
Cash outflows														
Cost of goods sold														
Compensation	-	40,000	-	40,000	-	40,000	-	40,000	-	40,000	-	40,000	-	240,000
Materials and other	10,500	51,500	61,500	52,453	60,500	17,000	60,500	72,000	60,500	34,500	43,000	34,500	48,000	606,453
Overhead expenses														
Compensation	-	26,404	1,500	27,904	6,500	27,904	1,500	32,904	1,500	27,904	1,500	32,904	-	188,424
Compensation related expenditures	-	3,701	-	13,000	2,773	3,701	-	13,000	-	2,729	2,972	-	13,000	54,876
Rent	17,403	-	17,724	-	34,805	-	8,650	-	43,455	-	-	-	34,805	156,843
General and administrative	-	16,700	45,908	17,905	19,750	9,300	19,302	21,300	13,720	8,300	10,550	30,552	15,969	229,255
Sales taxes payable (refund)	-	-	-	10,000	-	-	7,630	20,000	-	-	-	5,250	20,000	62,880
Total outflows from operations	27,903	138,305	126,632	161,262	124,328	97,905	97,582	199,204	119,175	113,433	58,022	143,206	131,774	1,538,731
Professional Fees														
BoyneClarke - Company Counsel	-	23,150	-	10,000	-	10,000	-	10,000	-	10,000	-	10,000	-	73,150
Deloitte Restructuring Inc. - Monitor	-	14,030	-	22,728	19,497	-	20,000	-	20,000	-	20,000	-	20,000	136,255
	-	37,180	-	32,728	19,497	10,000	20,000	10,000	20,000	10,000	20,000	10,000	20,000	209,404
Total outflows B	27,903	175,485	126,632	193,990	143,825	107,905	117,582	209,204	139,175	123,433	78,022	153,206	151,774	1,748,136
Weekly cash flow (A-B)	26,087	53,524	(77,035)	(2,148)	1,594	24,140	148,824	(39,704)	22,871	(5,375)	(28,125)	(56,651)	(67,677)	325
Opening cash balance	1,648	27,735	81,259	4,224	2,076	3,670	27,810	176,634	136,930	159,802	154,426	126,301	69,651	1,648
Projected ending cash balance	27,735	81,259	4,224	2,076	3,670	27,810	176,634	136,930	159,802	154,426	126,301	69,651	1,973	1,973

British Confectionery Company Limited and British Bazaar Companies Limited

Per: 
Blair Connoily
 President

DELOITTE RESTRUCTURING INC.

Acting in its capacity as Monitor
 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