

**District of: Newfoundland and Labrador**

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

**Court No: 22375 & 22376**

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

**Supreme Court of Newfoundland and Labrador**

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

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

**January 9, 2019**

## Table of contents

1.	INTRODUCTION AND BACKGROUND .....	1
2.	TERMS OF REFERENCE .....	2
3.	COMPANY'S ACTIVITIES .....	2
4.	SEARCH FOR ALTERNATIVE FINANCING.....	3
5.	PROPOSAL TRUSTEE'S ACTIVITIES.....	4
6.	ACTUAL CASH FLOW .....	4
7.	CASH FLOW STATEMENTS .....	6
8.	ADMINISTRATION CHARGE.....	7
9.	STAY EXTENSION APPLICATION .....	8
10.	CONCLUSION.....	9

## 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 The Proposal Trustee advises that this report (the "Second Report") should be read in conjunction with the affidavit of Blair Connolly which have been filed in support of the Company's Application.

## **2. TERMS OF REFERENCE**

- 2.1 In preparing this Second Report, the Proposal Trustee has relied upon financial information of the Company, discussions with the Company's management ("Management") and BoyneClarke LLP, the Company's legal counsel.
- 2.2 The financial information of the Company has not been audited, reviewed or otherwise verified by the Proposal Trustee as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that the 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 Proposal Trustee does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Proposal Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of the Second Report.
- 2.3 The Proposal Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of the 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 First Report.
  - (ii) An update regarding the Company's search for alternative financing and an overview of the proposed financing process.
  - (iii) A summary of the activities of the Proposal Trustee since the date of the First Report.
  - (iv) A review of the actual cash flows for the period of November 24, 2018 to January 4, 2019 (the "First Extension Cash Flow").
  - (v) A review of the Company's statement of projected cash flow for the period of January 5, 2019 to April 5, 2019 (the "Second Extension Cash Flow").
  - (vi) The Company's request for an administration charge (the "Administration Charge").
  - (vii) The Company's request for an extension order (the "Extension Order").

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

- 3.1 Since the date of the Second Report, the Company's activities have included, but were not limited to:
  - (i) working with the Proposal Trustee to satisfy information requests from BMO, other creditors and stakeholders;
  - (ii) working with the Proposal Trustee in order to update the pre-filing creditor listing, a copy of which is enclosed as Appendix A;

- (iii) working with its legal counsel to address issues raised by ALC;
- (iv) holding discussions with potential alternative lenders, equity sources and government representatives;
- (v) working with the Proposal Trustee in order to develop an information package (the "Confidential Information Memorandum") to support the search for alternative financing;
- (vi) holding discussions with BMO in order to provide updates on the restructuring process; and,
- (vii) working with the Proposal Trustee to monitor actual cash flows and reporting on variances to the First Extension Cash Flow.

#### 4. SEARCH FOR ALTERNATIVE FINANCING

- 4.1 As indicated in the Trustee's First Report, the ability of the Company to make a viable proposal to its creditors is dependent on its ability to source alternative financing and/or an equity injection.
- 4.2 Since the date of the First Report, the Company's efforts to source alternative financing have included discussions with potential lenders and equity sources and have produced discussion papers from two potential lenders. One discussion paper contemplates a revolving marginable line of credit and the second contemplates a lease buy-back arrangement for the Company's equipment and machinery.
- 4.3 Management, with assistance from the Proposal Trustee, have reviewed the discussion papers received to date and after further discussions with the lenders involved have determined that the discussion papers received to date are insufficient to support a viable restructuring.
- 4.4 In order to ensure that the market for alternative financing is properly tested and provide comfort to the creditors and stakeholders involved, Management intends to initiate a formal search process (the "Financing Process") designed to identify a lender willing to provide the funding required to support a proposal to creditors. The proposed timeline for the Financing Process has been designed to coincide with the extension request before the Court and is further outlined below:

<b>Transaction Process</b>	<b>Start Date</b>	<b>End Date</b>	<b>Weeks</b>
Circulation of transmittal letter and Confidential Information Memorandum	January 16 <sup>th</sup>	January 16 <sup>th</sup>	n/a
Due diligence period & submission deadline for discussion papers	January 16 <sup>th</sup>	February 13 <sup>th</sup>	4
Further due diligence & submission of final term sheets	February 13 <sup>th</sup>	February 26 <sup>th</sup>	2

- 4.5 In support of the process outlined above the Company, with the assistance of the Proposal Trustee, is preparing a Confidential Information Memorandum including a two year financial projection in order to assist potential lenders as they complete their due diligence.
- 4.6 On January 8<sup>th</sup>, 2018, the Company and the Proposal Trustee held discussions with both senior secured creditors. The purpose of these discussions was to outline the proposed process, to solicit potential interest in participating in the process and to answer any questions of the creditors regarding the restructuring.
- 4.7 In addition to the Financing Process highlighted above, the Company also intends to simultaneously conduct a similar process in order to solicit interest from strategic buyers that may be interested in investing in the Company.

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

- 5.1 Since the date of the Second Report, the Proposal Trustee's activities have included, but were not limited to:
- (i) monitoring actual cash flow and reporting on variances to the First Extension Cash Flow;
  - (ii) participating in and holding discussion with senior secured creditors, potential equity sources and their representatives;
  - (iii) working with Management to satisfy information requests from BMO, other creditors and stakeholders;
  - (iv) working with Management to develop the proposed Financing Process, Confidential Information Memorandum and financial projection;
  - (v) reviewing discussion papers received to date from potential lending sources;
  - (vi) holding discussions with Management regarding potential restructuring options; and,
  - (vii) performing various financial analysis at the request of Management.

## **6. ACTUAL CASH FLOW**

- 6.1 The Company previously filed with the Court the First Extension Cash Flow pursuant to Section 50.4(2)(a)(b)(c) of the BIA for the 13-week period November 24, 2018 to February 22, 2019.
- 6.2 The Proposal Trustee has prepared a reconciliation of the actual cash flow for the six-week period November 24, 2018 to January 4, 2019 as compared to the First Extension Cash Flow (the "Cash Flow Reconciliation"), which is contained within Appendix B to the Second Report.
- 6.3 The Proposal Trustee offers the following commentary with respect to material variances contained within the Cash Flow Reconciliation:
- (i) Overall cash flow variance for the period reported represents a favorable variance of \$43 thousand.
  - (ii) The \$23 thousand unfavorable variance related to the collection of existing accounts receivable is timing in nature and primarily relates to the Company not collecting a \$24 thousand receivable originally projected during the week ending January 4, 2018.

- (iii) The \$152 thousand unfavorable variance related to new production is timing in nature and according to Management is primarily attributable to production delays caused by a holiday production shutdown. Production was suspended between December 22, 2018 and January 1, 2019 in order to provide the Company's production staff with a needed break. According to Management, many of the production staff had worked extra evening and weekend shifts in order to support the business and the restructuring leading up to the holidays and as such Management determined that a shutdown over the holidays was prudent. Management have incorporated these timing variances in the Second Extension Cash Flow discussed in detail herein. Additionally, a detailed breakdown of this variance by major customer is presented below:

<b>Customer</b>	<b>Projected</b>	<b>Actual</b>	<b>Variance</b>
Atlantic Lottery Corporation	451,730	471,764	20,035
British Columbia Lottery Corporation	26,235	-	(26,235)
Other (eight customers in total)	176,267	30,961	(145,306)
	<u>654,232</u>	<u>502,725</u>	<u>(151,507)</u>

- (iv) The \$28 thousand unfavorable variance related to other cash inflows relates primarily to a reimbursement anticipated to be received from Learnsphere during the projection period. The Company has contacted representatives from Learnsphere and a \$26 thousand reimbursement is still anticipated to be received and has been incorporated into the Second Extension Cash Flow.
- (v) The \$85 thousand favorable variance related to material and other purchases is timing in nature. As at the date of the Second Report, the Company has an outstanding invoice for approximately \$59 thousand to be paid for paper products purchased from White Birch Paper Company. The remaining portion of the variance relates to lower than anticipated material costs incurred primarily as a result of the production shutdown.
- (vi) The favorable variance related to general and administrative expenditures consists of the following:
- (i) An approximate \$20 thousand variance related to estimated accounting services required during the projection period. The majority of these services were anticipated in relation to the Company's December 31 year end and have not yet been incurred by the Company.
  - (ii) An approximate \$16.5 thousand variance related to estimated IT support services. These services relate to the Company's promotional product program with Chevron and have not yet been incurred by the Company.
  - (iii) An approximate \$10 thousand variance related to lower than anticipated hiring and training costs.
  - (iv) An approximate \$10 thousand variance related to United States licensing fees. This variance is timing in nature and primarily relates to the payment of New York State taxes currently estimated at approximately \$6 thousand.
  - (v) An approximate \$9 thousand variance related to estimated credit card charges.
  - (vi) An approximate \$9 thousand variance related to lower than anticipated weekly consumable purchases from Heidelberg Graphic Equipment Ltd.

- (vii) An approximately \$6 thousand timing variance related to the final payment on a leased company vehicle and estimated costs associated with repairs of other Company vehicles.

(vii) The \$50 thousand favorable variance related to professional fees is primarily timing in nature. The Proposal Trustee and legal counsel of the Company will be presenting invoices to the Company during the week ending January 11, 2019.

- 6.4 Additionally, the Proposal Trustee would like to advise the Court that as at the date of the Second Report, payments to Servi-Jeux have been consistent with the projections outlined in the First Extension Cash Flow and that all payments have been properly supported by third party invoices.

## **7. CASH FLOW STATEMENTS**

- 7.1 On January 9, 2019, pursuant to Section 50.4(2) (a) (b) (c) of the BIA, the Company filed the Second Extension Cash Flow, along with the statutory declarations with the Official Receiver. A copy of the Second Extension Cash Flow is enclosed as Appendix C.
- 7.2 The Second Extension Cash Flow has been prepared by Management for the purpose described in the notes to the Second Extension Cash Flow, using the probable and hypothetical assumptions set out in the notes.
- 7.3 The Proposal Trustee's review of the Second Extension Cash Flow consisted of inquiries, analytical procedures and discussions on the information provided by Management of the Company. The Proposal Trustee's involvement with respect to the hypothetical assumptions was limited to evaluating whether they were consistent with the purpose of the Second Extension Cash Flow. The Proposal Trustee has also reviewed the supporting documentation provided by Management of the Company for the probable assumptions and the preparation and presentation of the Second Extension Cash Flow.
- 7.4 Based on our review and the foregoing reserves and limitations, nothing has come to the attention of the Proposal Trustee that causes us to believe that, in all material respects:
- (i) the hypothetical assumptions are not consistent with the purpose of the Second Extension 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 Extension Cash Flow, given the hypothetical assumptions; or
  - (iii) the Second Extension Cash Flow does not reflect the probable and hypothetical assumptions.
- 7.5 Since the Second Extension Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposal Trustee does not express an opinion to whether the projections in the Second Extension Cash Flow will be achieved.
- 7.6 The Second Extension Cash Flow has been prepared solely for the purpose described in the notes to the Second Extension Cash Flow, and readers are cautioned that the Second Extension Cash Flow may not be appropriate for other purposes.
- 7.7 The Proposal Trustee has reviewed the Second Extension Cash Flow and offers the following commentary:



- (i) As previously indicated during the Trustee's First Report, a significant portion of the revenues projected to be received during the period covered by the Second Extension Cash Flow are related to the existing contract with ALC. These revenues have been projected based on a production schedule maintained by ALC and Management's expectations regarding timing of the demand for games.
- (ii) The Second Extension Cash Flow also includes revenues generated from BCLC. On December 11, 2018, the Company executed a contract extension (until February 28, 2019) with BCLC and Management are currently projecting five games to be produced during the projection period.
- (iii) Collection of existing accounts receivable represents the receipt of existing receivables pursuant to the books and records of the Company as at January 4, 2019. The collection of these amounts is based on Management expectations taking into consideration prior interactions with customers. Historically, sales to ALC do not result in the generation of an accounts receivable balance as payment for these games is often received during the week the game is shipped.
- (iv) Other inflows anticipated to be received during the period include new sales with customers other than ALC and BCLC. Sales to these customers represent smaller purchases of tickets and are not traditionally governed by long-term service agreements.
- (v) Cost of goods sold consists primarily of expenditures on paper, ink, glues, transportation costs and labor. Due to the niche nature of the paper being provided, the majority of paper suppliers have required payment for product prior to it being shipped to the Company. One paper supplier has refused to sell paper directly to the Company and this supply of paper is purchased by Servi-Jeux, and subsequently sold to the Company.
- (vi) Outside of the professional fees associated with the restructuring, significant general and administrative expenses consist primarily of wages and related expenditures to non-production staff, monthly rent and related charges, utilities, supplies, licensing fees and insurance premiums. These costs have been projected based on historical rates taking into consideration the effects of the stay of proceeding.
- (vii) Based on the outcomes presented in the Second Extension Cash Flow, it is not anticipated at this time that the Company will require debtor-in-possession financing during the period contemplated in the Second Extension Cash Flow.

## **8. ADMINISTRATION CHARGE**

- 8.1 The Company requires the services of its legal counsel, the Proposal Trustee and the Proposal Trustee's legal counsel (the "Insolvency Professionals") to assist in the NOI Filing.
- 8.2 Pursuant to Subsection 64.2(1) of the BIA, this Court may order security or a charge to cover certain costs related to the NOI Filing.
- 8.3 During the first extension hearing held on December 4, 2018, the Company's application for an order providing a charge in favor of Insolvency Professionals that ranks in priority over the claim of any secured creditor or persons in these proceedings (the "Administration Charge") was not pursued. The Proposal Trustee has been advised by legal counsel of the Company that the same request will be brought forth before the Court during the second extension hearing scheduled for January 15, 2019.

- 8.4 The Company is requesting that the Insolvency Professionals, as security for the professional fees and disbursements incurred both before and after the granting of the Administration Charge, shall be entitled to the benefits of a charge on all of the property of the Company, which charge shall not exceed an aggregate amount of \$100 thousand as security for their professional fees and disbursements incurred at the normal rate and charges of the Insolvency Professionals, both before and after the making of this Administration Charge in respect of the NOI Filing.
- 8.5 The Company believes it is critical to the success of its restructuring to have such a charge in place to ensure that the Insolvency Professionals are protected with respect to their fees and costs.
- 8.6 Based on the projections set out in the Second Extension Cash Flow discussed herein, an Administration Charge may never be called upon. However, it is a prudent measure to protect the Insolvency Professionals involved in the administration of the estate.
- 8.7 Based on the foregoing, the Proposal Trustee supports the Company's request for an Administration Charge pursuant to s. 64.2(1) of the BIA be granted by this Court, as it believes that it is appropriate under all of the circumstances.

## **9. STAY EXTENSION APPLICATION**

- 9.1 As discussed above, the ability of the Company to file a viable proposal is dependent on being provided the necessary time to source alternative financing and/or an equity investment.
- 9.2 The Proposal Trustee is of the opinion that the Company has acted and is acting in good faith and with due diligence in connection with the efforts to date related to the preparation of a restructuring plan and a proposal to creditors.
- 9.3 The Proposal Trustee believes that a 45 day extension will enhance the prospect of the Company filing a viable proposal to its creditors. As described herein, the Company has held discussions to date with potential financing and equity partners, but requires additional time to execute a Financing Process and explore potential restructuring alternatives.
- 9.4 The Trustee notes that the Company's customers and suppliers have continued to support of the Company since the NOI Filing. Business has continued as anticipated by the Company and as presented in the cash flow projection filed to date. As such, the Proposal Trustee is of the opinion that no creditor would be materially prejudiced by the extension as requested by the Company.
- 9.5 In the absence of an extension, the Company will not be in a position to file a proposal before January 18, 2019 and as such, will be deemed bankrupt. The Proposal Trustee is of the view that more time is required to source alternative financing and to allow the Company to assess its options in drafting a proposal which the Proposal Trustee believes will result in a higher return to the unsecured creditors of the Company as compared to a liquidation scenario in the event the Company is deemed bankrupt.
- 9.6 Based on the foregoing, the Proposal Trustee supports the Company's application for an Order extending the amount of time for the Company to file a proposal to its creditors.

**10. CONCLUSION**

- 10.1 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 the search for alternative financing, the activities of the Proposal Trustee since the date of the First Report, a review of the First Extension Cash Flow, a summary of the Second Extension Cash Flow and its outcomes, the Trustee's opinion regarding the proposed Administration Charge, and a review of the Company's Application for an Extension Order pursuant to s. 50.4 (7) of the BIA.

**DELOITTE RESTRUCTURING INC.**

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

Per:



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

**APPENDIX A – PRE-FILING CREDITOR LISTING**

**British Confectionery Company Limited**

<b>Secured Creditors</b>	<b>Amount</b>
Bank of Montreal	3,159,517
Business Investment Corporation	660,590
De Lage Landen Financial Services	11,789
Honda Canada Finance Inc.	130
Toyota Credit Canada Inc.	137
Heidelberg Canada Graphic Equipmen	1
	<u>3,832,164</u>

**Unsecured Creditors**

<b>Unsecured Creditors</b>	<b>Amount</b>
Atlantic Canada Opportunities Agency	1,813,780
Servi-Jeux	1,029,547
Dave Connolly Sr.	564,908
Balcorp Inc	178,409
Blair Connolly	131,922
Dave Connolly Jr.	122,046
Ariva	111,881
Receiver General - Corporate Taxes	103,548
Heidelberg Canada Graphic Equipmen	114,270
Amware Distribution Warehouse	58,653
Newark Pacific Paperboard Corp	57,637
MotionFab Limited	57,384
ADP Payroll	56,855
Deacon Investments Ltd.	40,129
NCH Holdings Ltd.	38,314
Receiver General For Canada	37,865
Amware Express	37,206
Master Packaging Inc.	24,710
AREPA	19,500
Traffic Tech	18,000
Peter McCluskey	13,965
Newfoundland Power	12,840
PF Collins	12,482
Iggesund Holmen Group	11,673
Advanced Office Equipment Limited	9,609
Technical Adhesives Limited	9,600
Triware Technologies Inc	8,847
DMC Consulting	7,839
Wadden Peddigrew Hogan Law	7,083
Staples	7,029
SAI Global	6,281
Kerr and Nadeau	6,066
Crosstown Express	6,009
Graph Tech USA	5,816
CT Corporation	5,677
Dawson Machinery	4,819
Robot	4,695
Prophet Business Group	3,892
Results.com	3,820
J Brent Dunn Co Inc	3,632
GFL Environmental Inc.	3,588
Federal Express	3,300
Barbertech Graphic Machinery Inc.	3,209
Roberto Carosielli	2,999
Dave Connolly Jr	2,894
APEX Industries Inc.	2,889
Bell Aliant	2,736
UPS	2,044
Eastlink	1,606
Quinlan Taylor	1,438
First Insurance	1,422
MowGo Property Services	1,411
Maritime Paper Products Limited Part	1,267
Die-X-Ltd.	1,257
Moneries Solutions	1,241
Modern Business Equipment Ltd.	1,158
RAE Industrial	1,108
Pik-Fast Express Inc	1,099
Colin Walsh	1,093
Sun Life	1,075
Ray Donado	978
Automatan	919
Waste Management	792
Superior Propane	789
Provincial Investigative Services	593
Sun Chemical	569
Neopost	554
De Lage Landen Financial Services Inc	469
Newfoundland Lumber Producers	408
Harveys Oil Limited	369
Atlantic Star Satellite Bingo	360
Credit Information Services	267
Keep Cool Refrigeration & A/C Ltd.	266
Uline Canada Corporation	58
Dynamic Hosting	45
	<u>4,814,505</u>

**Total** **8,646,670**

**Contingent Liabilities related to pending legal actions**

<b>Party</b>	<b>Amount</b>
Atlantic Lottery Corporation	3,787,376
Deacon Investment Ltd.	1

**British Bazaar Company Limited**

<b>Secured Creditors</b>	<b>Amount</b>
Bank of Montreal	3,159,517
Business Investment Corporation	660,590
	<u>3,820,107</u>

**Unsecured Creditors**

<b>Unsecured Creditors</b>	<b>Amount</b>
British Confectionery Company Limited	1,028,869
Atlantic Lottery Corporation	115,140
David Connolly Sr.	100,000
Receiver General - PST British Columbia	7,192
Receiver General - Corporate Taxes	68
	<u>1,251,269</u>

**Contingent Liabilities related to pending legal actions**

<b>Party</b>	<b>Amount</b>
Atlantic Lottery Corporation	3,787,376
Deacon Investment Ltd.	1

**Note:** Heidelberg Canada Graphic Equipment has an operating lease with the Company which is paid based on a mark up on consumables purchases. The company is currently performing a reconciliation in order to determine the magnitude of their secured claim.

**APPENDIX B – CASH FLOW RECONCILIATION**

British Confectionery Company Limited and British Bazaar Companies Limited																					
Variance Analysis - Consolidated Statement of Projected Cash Flows																					
For the period November 30 to January 4, 2019																					
Week ending (Friday)	11/30/2018			12/7/2018			12/14/2018			12/21/2018			12/28/2018			1/4/2019			Cumulative		
	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Variance	
<b>Cash inflows</b>																					
Collection of existing accounts receivable	39,017	35,287	(3,730)	99,722	46,282	(53,441)	-	43,505	43,505	26,000	40,917	14,917	-	-	-	24,615	-	(24,615)	189,354	165,990	(23,364)
New production	169,385	155,994	(13,391)	-	-	-	281,310	22,315	(258,995)	65,420	324,416	258,996	111,882	-	(111,882)	26,235	-	(26,235)	654,232	502,725	(151,507)
Other	-	-	-	-	-	-	-	1,634	1,634	-	(449)	(449)	-	-	-	30,000	884	(29,116)	30,000	2,069	(27,931)
<b>Total inflows A</b>	<b>208,402</b>	<b>191,280</b>	<b>(17,122)</b>	<b>99,722</b>	<b>46,282</b>	<b>(53,441)</b>	<b>281,310</b>	<b>67,454</b>	<b>(213,856)</b>	<b>91,420</b>	<b>364,884</b>	<b>273,464</b>	<b>111,882</b>	<b>-</b>	<b>(111,882)</b>	<b>80,850</b>	<b>884</b>	<b>(79,966)</b>	<b>873,586</b>	<b>670,784</b>	<b>(202,802)</b>
<b>Cash outflows</b>																					
Cost of goods sold																					
Compensation	45,000	47,586	(2,586)	-	-	-	45,000	45,974	(974)	-	-	-	45,000	44,786	214	-	-	-	135,000	138,346	(3,346)
Materials and other	151,404	145,984	5,420	33,813	20,965	12,848	65,348	11,220	54,128	55,000	125,520	(70,520)	46,874	-	46,874	36,374	-	36,374	388,813	303,689	85,124
Overhead expenses																					
Compensation	25,950	27,441	(1,491)	-	-	-	25,950	26,511	(561)	-	-	-	25,950	25,827	123	-	-	-	77,850	79,779	(1,929)
Compensation related expenditures	-	2,170	(2,170)	3,583	-	3,583	13,000	11,937	1,063	817	-	817	-	2,899	(2,899)	3,583	-	3,583	20,983	17,006	3,977
Rent	-	-	-	15,949	15,949	-	-	33,913	(33,913)	33,913	-	33,913	-	-	-	-	-	-	49,862	49,862	-
General and administrative	8,250	3,024	5,226	45,164	13,374	31,790	35,231	12,900	22,331	36,364	28,857	7,507	20,471	1,823	18,648	25,783	21,112	4,671	171,264	81,090	90,173
Sales taxes payable (refund)	-	-	-	-	-	-	-	(10,274)	10,274	-	6,330	(6,330)	7,796	-	7,796	-	(2,355)	2,355	7,796	(6,299)	14,094
<b>Total outflows from operations</b>	<b>230,604</b>	<b>226,205</b>	<b>4,400</b>	<b>98,509</b>	<b>50,288</b>	<b>48,221</b>	<b>184,529</b>	<b>132,181</b>	<b>52,348</b>	<b>126,094</b>	<b>160,707</b>	<b>(34,613)</b>	<b>146,091</b>	<b>75,335</b>	<b>70,756</b>	<b>65,740</b>	<b>18,757</b>	<b>46,982</b>	<b>851,567</b>	<b>663,473</b>	<b>188,094</b>
<b>Professional Fees</b>																					
BoyerClarke - Company Counsel	11,500	-	11,500	-	-	-	11,500	-	11,500	-	19,329	(19,329)	11,500	-	11,500	-	-	-	34,500	19,329	15,171
Deloitte Restructuring Inc. - Proposal Trustee	36,072	-	36,072	-	-	-	30,000	-	30,000	-	56,085	(56,085)	-	-	-	25,000	-	25,000	91,072	56,085	34,987
	47,572	-	47,572	-	-	-	41,500	-	41,500	-	75,414	(75,414)	11,500	-	11,500	25,000	-	25,000	125,572	75,414	50,159
<b>Total outflows B</b>	<b>278,176</b>	<b>(226,205)</b>	<b>504,381</b>	<b>98,509</b>	<b>(50,288)</b>	<b>148,798</b>	<b>226,029</b>	<b>(132,181)</b>	<b>358,210</b>	<b>126,094</b>	<b>236,120</b>	<b>(110,027)</b>	<b>157,591</b>	<b>75,335</b>	<b>82,256</b>	<b>90,740</b>	<b>18,757</b>	<b>71,982</b>	<b>977,139</b>	<b>(78,461)</b>	<b>1,055,601</b>
<b>Weekly cash flow (A-B)</b>	<b>(69,774)</b>	<b>(34,924)</b>	<b>34,850</b>	<b>1,213</b>	<b>(4,007)</b>	<b>(5,220)</b>	<b>55,281</b>	<b>(64,727)</b>	<b>(120,008)</b>	<b>(34,674)</b>	<b>128,764</b>	<b>163,438</b>	<b>(45,709)</b>	<b>(75,335)</b>	<b>(29,626)</b>	<b>(9,890)</b>	<b>(17,874)</b>	<b>(7,984)</b>	<b>(103,553)</b>	<b>(68,103)</b>	<b>35,451</b>
<b>Opening cash balance</b>	<b>108,832</b>	<b>116,502</b>	<b>7,671</b>	<b>39,057</b>	<b>81,578</b>	<b>-</b>	<b>40,270</b>	<b>77,571</b>	<b>37,301</b>	<b>95,551</b>	<b>12,844</b>	<b>(82,707)</b>	<b>60,877</b>	<b>141,608</b>	<b>80,731</b>	<b>15,168</b>	<b>66,273</b>	<b>51,105</b>	<b>108,832</b>	<b>116,502</b>	<b>7,671</b>
<b>Projected ending cash balance</b>	<b>39,057</b>	<b>81,578</b>	<b>42,521</b>	<b>40,270</b>	<b>77,571</b>	<b>37,301</b>	<b>95,551</b>	<b>12,844</b>	<b>(82,707)</b>	<b>60,877</b>	<b>141,608</b>	<b>80,731</b>	<b>15,168</b>	<b>66,273</b>	<b>51,105</b>	<b>5,278</b>	<b>48,400</b>	<b>43,121</b>	<b>5,278</b>	<b>48,400</b>	<b>43,121</b>

**APPENDIX C – SECOND EXTENSION CASH FLOW**



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

The management of British Confectionery Company Limited and British Bazaar Company Limited (the "Insolvent Companies") has developed the assumptions and prepared the attached statement of projected cash flow of the Insolvent Companies, as of the 9<sup>th</sup> day of January 2019, consisting of weekly cash flows for the period January 5<sup>th</sup> to April 5<sup>th</sup>, 2019.

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

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

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

Dated at St. John's, Newfoundland and Labrador this 9<sup>th</sup> day of January, 2019.

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

Per:

  
**Blair Connolly**  
President

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

**Note A:**

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

**Note B:**

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

Operating Inflows

- Collection of existing accounts receivable is projected based on the books and records of the Insolvent Companies as at January 4, 2019. The collection of these amounts is based on Management expectations taking into consideration existing payment terms with customers.
- New production represents the collection of amounts relating to games currently approved by customers which have not yet been produced and new orders anticipated by the Insolvent Companies. Amounts related to new production are projected to be collected based on existing contract terms with customers, the current production schedule of the Insolvent Companies and Management expectations. Further information regarding the collection of these amounts, which reflects the past experience of Management, is outlined below:
  - Production deposits – certain customers provide the Insolvent Companies with deposits prior to the production of games. These deposits are assumed to be received during the week the game is approved by the customer.
  - Residual balance – for customers who provide deposits, the residual balance is projected to be received during the week following the fulfillment of the order.

Non-operating Inflows

- Other inflows include the following:
  - Insurance proceeds in relation to a fire which occurred during late fiscal 2017. This claim has been presented to the insurance provider, however, the amount of the claim which will be accepted and subsequently paid is unknown at this time. The amount included in the projections represents a conservative estimate taking into consideration potential reductions in the claimed amount by the insurer; and
  - Proceeds related to a Learnsphere rebate program. The Insolvent Companies has made a claim under this program and anticipates the receipt of a \$26 thousand reimbursement during the forecast period.

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 (Refunds)

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

Professional fees

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

Dated at St. John's, Newfoundland and Labrador this 9<sup>th</sup> day of January, 2019.

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

Per:



---

**Blair Connolly**  
President

# Deloitte.

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

The attached consolidated statement of projected cash flow of British Confectionery Company Limited and British Bazaar Company Limited (collectively the “Insolvent Companies”), consisting of weekly projections through the week beginning January 5, 2019 to the week ending April 5, 2019 has been prepared by the management of the Insolvent Companies for the purpose described in Note A, using the probable and hypothetical assumptions set out in Note B.

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

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

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

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

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

Dated at Halifax, NS this 9<sup>th</sup> day of January, 2019.

**DELOITTE RESTRUCTURING INC.**

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

Per:



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

British Confectionery Company Limited and British Bazaar Companies Limited  
 Consolidated Statement of Projected Cash Flows  
 For the period January 5 to April 5, 2019

Week ending (Friday)	1 1/11/2019	2 1/18/2019	3 1/25/2019	4 2/1/2019	5 2/8/2019	6 2/15/2019	7 2/22/2019	8 3/1/2019	9 3/8/2019	10 3/15/2019	11 3/22/2019	12 3/29/2019	13 4/5/2019	Total
<b>Cash inflows</b>														
Collection of existing accounts receivable	30,659	33,646	84,795	106,359	-	14,778	29,016	-	-	-	-	-	-	299,254
New production	8,400	326,046	104,235	86,000	29,160	328,042	234,027	36,000	19,000	186,335	107,691	101,000	377,186	1,944,123
Other	-	-	26,000	25,000	-	-	-	-	-	-	-	-	-	81,000
<b>Total inflows A</b>	<b>39,059</b>	<b>359,692</b>	<b>215,030</b>	<b>217,359</b>	<b>29,160</b>	<b>343,820</b>	<b>263,043</b>	<b>36,000</b>	<b>19,000</b>	<b>186,335</b>	<b>107,691</b>	<b>101,000</b>	<b>377,186</b>	<b>2,284,377</b>
<b>Cash outflows</b>														
Cost of goods sold														
Compensation	40,000	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	310,000
Materials and other	-	118,500	106,248	10,000	109,248	116,248	104,248	2,000	114,248	3,000	106,248	10,000	106,248	906,236
Overhead expenses														
Compensation	25,950	-	25,950	-	25,950	-	25,950	-	25,950	-	25,950	-	25,950	181,650
Compensation related expenditures	-	13,000	817	-	13,000	-	817	-	13,000	-	5,817	-	13,000	59,481
Rent	-	33,913	5,000	-	-	33,913	-	25,000	-	33,913	-	-	-	131,739
General and administrative	8,481	58,015	25,520	18,750	18,014	23,043	25,200	16,250	18,014	12,543	18,700	9,750	38,886	289,265
Sales taxes payable (refund)	-	-	-	(5,876)	-	-	-	(8,996)	-	-	-	3,911	-	(10,961)
<b>Total outflows from operations</b>	<b>74,431</b>	<b>223,428</b>	<b>208,535</b>	<b>20,874</b>	<b>211,212</b>	<b>173,204</b>	<b>201,215</b>	<b>34,254</b>	<b>216,212</b>	<b>49,456</b>	<b>201,715</b>	<b>23,661</b>	<b>229,184</b>	<b>1,867,380</b>
Professional Fees														
BoyneClarke - Company Counsel	-	10,000	11,500	-	11,500	-	-	11,500	-	-	11,500	-	11,500	67,500
Deloitte Restructuring Inc. - Proposal Trustee	-	24,214	25,000	-	25,000	-	-	25,000	-	-	25,000	-	25,000	149,214
	-	34,214	36,500	-	36,500	-	-	36,500	-	-	36,500	-	36,500	216,714
<b>Total outflows B</b>	<b>74,431</b>	<b>257,642</b>	<b>245,035</b>	<b>20,874</b>	<b>247,712</b>	<b>173,204</b>	<b>201,215</b>	<b>70,754</b>	<b>216,212</b>	<b>49,456</b>	<b>238,215</b>	<b>23,661</b>	<b>265,684</b>	<b>2,084,094</b>
<b>Weekly cash flow (A-B)</b>	<b>(35,371)</b>	<b>102,050</b>	<b>(30,005)</b>	<b>196,485</b>	<b>(218,552)</b>	<b>170,616</b>	<b>61,828</b>	<b>(34,754)</b>	<b>(197,212)</b>	<b>136,879</b>	<b>(130,524)</b>	<b>77,339</b>	<b>111,502</b>	<b>210,283</b>
<b>Opening cash balance</b>	<b>48,271</b>	<b>10,900</b>	<b>112,950</b>	<b>82,945</b>	<b>279,430</b>	<b>60,878</b>	<b>231,495</b>	<b>283,323</b>	<b>258,569</b>	<b>61,357</b>	<b>198,236</b>	<b>67,713</b>	<b>145,052</b>	<b>48,271</b>
<b>Projected ending cash balance</b>	<b>10,900</b>	<b>112,950</b>	<b>82,945</b>	<b>279,430</b>	<b>60,878</b>	<b>231,495</b>	<b>283,323</b>	<b>258,569</b>	<b>61,357</b>	<b>198,236</b>	<b>67,713</b>	<b>145,052</b>	<b>258,554</b>	<b>258,554</b>

British Confectionery Company Limited and British Bazaar Companies Limited

Per:   
**Blair Connelly**  
 President

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

Per:   
**Matthew Harris, FCPA, FCA, CIRP, LIT**  
 Senior Vice President