2019 01G

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 (the "Applicants") 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
Date of filing of document:	April 29, 2019
Name of filing party or person:	Deloitte Restructuring Inc. (Proposal Trustee and Proposed Monitor for the Applicants)
Application to which document being filed relates:	Application for Orders pursuant to Sections 11.02 and 11.52(1) of the *Companies' Creditors Arrangement Act.*
Statement of purpose in filing:	Proposal Trustee and Proposed Monitor's Report

District of: Newfoundland and Labrador

Division No: 01 – Newfoundland and Labrador

Court No: 22375 & 22376

Estate No: 51-2440230 & 51-2440231

Fifth 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") and the First Report of the Proposed Monitor

April 29, 2019

Table of contents

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, Confectionary, Bazaar and David Connolly Sr. received a demand for repayment of outstanding amounts owing and a notice of intention to enforce security from the Bank of Montreal ("BMO").

1.9 On November 5, 2018, Confectionery and Bazaar filed Notices of Intention to Make a Proposal pursuant to section 50.4 of the BIA (the "NOI Filing"). Deloitte Restructuring Inc. ("Deloitte") consented to act as the Licensed Insolvency Trustee (the "Proposal Trustee") under the NOI Filing.

1.10 On December 4, 2018, the Supreme Court of Newfoundland and Labrador (the "Court") granted an order extending the stay of proceedings from December 5, 2018 up to and including January 18, 2019 (the "First Extension Order").

1.11 In addition, on December 4, 2018, the Court granted an order pursuant to Section 7.02 of the *Rules of the Supreme Court, 1986*, consolidating the administration of Confectionery and Bazaar's proceedings.

1.12 On January 15, 2019, the Court granted an order extending the stay of proceedings from January 18, 2019 up to and including March 5, 2019 (the "Second Extension Order").

1.13 In addition, on January 15, 2019 the Court granted an order providing an administration charge covering the professional fees of the Proposal Trustee, counsel to the Proposal Trustee and counsel of the Company (the "Administration Charge").

1.14 On March 1, 2019, the Court granted an order extending the stay of proceedings from March 5, 2019 to April 4, 2019 (the "Third Extension Order").

1.15 On April 4, 2019, the Court granted an order extending the stay of proceedings from April 4, 2019 to May 5, 2019 (the "Fourth Extension Order").

2. TERMS OF REFERENCE

2.1 In preparing this Fifth Report of the Proposal Trustee and the First Report of the Proposed Monitor (referred to throughout as the "Fifth 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 Fifth 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 Fifth 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 Fifth Report. Any use which any party makes of the Fifth Report, or any reliance or decisions to be made on the Fifth Report, is the sole responsibility of such party.

2.4 All dollar amounts identified in the Fifth Report are expressed in or converted to Canadian dollars.

2.5 The purpose of the Fifth Report is to provide the Court with the following:

(i) A summary of the activities of the Company since the date of the Fourth Report.

(ii) An update regarding the Company's restructuring efforts to date.

(iii) An update regarding the Company's search for a strategic buyer or partner.

(iv) A summary of the activities of the Proposal Trustee since the date of the Fourth Report.

(v) A review of the actual cash flows for the period of March 23 to April 19, 2019 (the "Fourth Extension Cash Flow").

(vi) An update regarding invoices of the Proposal Trustee and legal counsel of the Company.

(vii) A review of the Company's statement of projected cash flow for the period of April 20, 2019 to July 19, 2019 (the "First CCAA Cash Flow").

(viii) A review of the Company's request to have the proceedings transferred to the Companies' Creditors Arrangement Act R.S.C 1985, c. C-36, as amended (the "CCAA").

3. COMPANY'S ACTIVITIES

3.1 Since the date of the Fourth Report, the Company's activities have included, but were not limited to:

(i) Holding discussions with representatives from government and parties interested in providing alternative financing, discussed in more detail below.

(ii) Holding discussions with potential strategic buyers.

(iii) Working with the Company's external accountant to prepare the year-end audited and reviewed financial statements.

(iv) Working with the Proposal Trustee to monitor actual cash flows and reporting on variances to the Fourth Extension Cash Flow.

4. RESTRUCTURING EFFORTS OF THE COMPANY

4.1 As outlined in previous reports of the Proposal Trustee, efforts of the Company undertaken to date in order to source funding for a potential proposal to creditors had resulted in a funding proposal being presented to the Board of Directors (the "Board") of the Department of Tourism, Culture, Industry and Innovation's Business Investment Corporation ("BIC") and ongoing discussions with an interested financial institution which had previously provided a discussion paper to the Company.

4.2 As at the date of the Trustee's Fourth Report, the Company was anticipating the receipt of a decision from the Board pending a meeting which was to be held on April 2, 2019.

4.3 On April 5, 2019, the Company, Proposal Trustee and representatives from the interested financial institution were advised by BIC that the funding proposal had been conditionally approved by the Board.

4.4 During its discussions with representatives from BIC, the Proposal Trustee was advised that the funding proposal was conditional upon the participation of the interested financial institution.

4.5 During the week ending April 12, 2019, the Company and the Proposal Trustee held discussions with representatives from the interested financial institution. During these discussions, the financial institution advised that despite the support received from BIC, they were not satisfied with the level of security available to support the transaction and that it was unlikely that the proposed financing (as outlined in the discussion paper contained in the Confidential Addendum to the Third Report) would be approved by the institution's credit department.

4.6 In order to replace the financing previously expected to be received from the financial institution, the Company initiated discussions with a strategic partner who had previously expressed interest in purchasing a portion of the business.

4.7 As a result of these discussions, the Company executed a binding investment agreement (the "Investment Agreement") on April 9, 2019 with the strategic partner. The Investment Agreement includes a provision whereby the strategic partner will provide the required financing to complete the transaction.

4.8 On April 15, 2019, the Company and the strategic partner met with representatives from BIC in order to discuss BIC's involvement in the transaction.

4.9 During the week ending April 19, 2019, the Company worked with the strategic partner in order to respond to additional information requests from BIC.

4.10 On April 17, 2019, Newfoundland and Labrador Premier Dwight Ball called an early election to be held on May 16, 2019. Following this announcement, representatives from BIC advised the Company and the Proposal Trustee that potential funding requests currently being considered by BIC could not be approved until the election was over (as all government agencies are stayed by a caretaker period).

4.11 On April 22, 2019, the Proposal Trustee held a telephone conference with the strategic partner and Management in order to discuss the status of their due diligence. During this discussion, the Proposal Trustee was advised that the strategic partner (and his financial institution's) due diligence was ongoing and will be completed prior to end of the caretaker period.

4.12 On April 23, 2019, the Proposal Trustee received correspondence from BIC formally requesting a 60 day extension so that it may delay its consideration of the Company's funding proposal until the election is completed.

4.13 The delay caused by the caretaker period described above, extends the necessary time to achieve financing from BIC beyond the six-month period available under Part III, Division I of the BIA. As such, the Company has determined that the most appropriate option available to present a proposal to its creditors and avoid a liquidation of assets is to request a conversion of the proceedings from the BIA to the CCAA.

4.14 Based on the offers received to date from parties interested in purchasing the assets of the Company, and the magnitude of secured indebtedness, the Proposal Trustee is of the opinion that a refinancing and subsequent proposal to creditors represents the only option presently available that would result in a return to the unsecured creditor class.

4.15 Additional information, including copies of the Investment Agreement, and correspondence received from BIC have been provided to the Court and the senior secured creditors by way of a Confidential Addendum to the Fifth Report.

5. SEARCH FOR STRATEGIC BUYER OR PARTNER

5.1 With its Fourth Report and the Confidential Addendum to the Fourth Report, the Proposal Trustee advised the Court and the senior secured creditors of a revised binding expression of interest received from one of the interested strategic buyers.

5.2 As at the date of the Fifth Report, the Proposal Trustee would like to advise the Court that this offer was not accepted by the Company prior to its expiration and the interested party has not extended any further offers to the Company.

5.4 In addition to the Company efforts to close the financing agreements with BIC and the strategic partner described above, the Company continues to hold discussions with a strategic buyer who is interested in pursuing a potential transaction.

5.5 On April 24, 2019, the Proposal Trustee held a discussion with this additional interested strategic buyer who remains interested in pursuing a transaction to purchase the assets of the Company. During these discussions, the interested strategic buyer indicated that its interest in pursuing a transaction was time sensitive and that it was not willing at this time to delay discussions pending the Company's exploration of a potential refinancing arrangement.

6. PROPOSAL TRUSTEE'S ACTIVITIES

6.1 Since the date of the Fourth Report, the Proposal Trustee's activities have included, but were not limited to:

(i) monitoring actual cash flow and reporting on variances to the Fourth Extension Cash Flow;

(ii) participating and holding discussions with representatives from BIC and financial institutions;

(iii) participating and holding discussions with strategic partners and buyers;

(iv) reviewing the Investment Agreement received from the strategic partner and the revised expression of interest received from the strategic buyer;

(v) reporting to the Court and the Service List pursuant to the Administration Charge Order; and

(vi) holding discussions with Management regarding potential restructuring options.

7. ACTUAL CASH FLOW

7.1 The Company previously filed with the Court the Fourth Extension Cash Flow pursuant to Section 50.4(2)(a)(b)(c) of the BIA for the 6-week period March 23 to May 3, 2019.

7.2 The Proposal Trustee has prepared a reconciliation of the actual cash flow for the four-week period March 23 to April 19, 2019 as compared to the Fourth Extension Cash Flow (the "Cash Flow Reconciliation"), which is contained within Appendix A to the Fifth Report.

7.3 The Proposal Trustee offers the following commentary with respect to material variances contained within the Cash Flow Reconciliation:

(i) The $117 thousand unfavorable variance related to the collection of existing accounts receivable is timing in nature and relates to the slower than anticipated collection of five accounts receivable balances. The Company is taking steps to collect these balances, including but not limited to, placing one of the accounts with a collection agency.

(ii) The $99 thousand unfavorable variance related to new production is primarily attributable to a timing variance related to a payment anticipated to be received from ALC during the period.

(iii) The $80 thousand favorable variance related to materials and other variable costs is both timing and permanent in nature. During the period covered by the Fourth Extension Cash Flow, the Company incurred lower than anticipated logistics costs (shipping, customs, etc.) resulting from a new service provider and timing variances primarily related to the purchase of paper. These raw material costs will be incurred when the product is required for production.

(iv) The $85 thousand favorable variance related to general and administrative costs consists of the following:

(a) $4.8 thousand permanent favorable variance related to lower than anticipated printing supply purchases.

(b) $8.8 thousand permanent favorable variance related to lower than anticipated printing support staff wages.

(c) $5.0 thousand favorable timing variance related to licensing fees required in the United States.

(d) $7.8 thousand favorable timing variance related to the payment of utility invoices.

(e) $8.4 thousand timing variance related to the purchase of propane.

(f) $10.5 thousand favorable timing variance related to IT service.

(g) $6.5 thousand favorable timing variance related to printing equipment and maintenance purchases.

(h) $13.9 thousand favorable timing variance related to the second payment due to the Company’s external accountant.

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

8. CASH FLOW STATEMENTS

8.1 On April 29, 2019, pursuant to Section 10(2) of the CCAA, the Company filed the First CCAA Cash Flow, along with the statutory declarations with the Official Receiver. A copy of the First CCAA Cash Flow is enclosed as Appendix B.

8.2 In addition to the First CCAA Cash Flow and pursuant to the filing requirements stipulated under section 10(2) of the CCAA, the Company also filed its externally prepared financial statements for the fiscal period ending December 31, 2018. A copy of these financial statements is enclosed as Appendix C.

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

8.4 The Proposal Trustee’s review of the First CCAA 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 First CCAA 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 First CCAA Cash Flow.

8.5 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 First CCAA Cash Flow;

(ii) as at the date of this Fifth 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 First CCAA Cash Flow, given the hypothetical assumptions; or

(iii) the First CCAA Cash Flow does not reflect the probable and hypothetical assumptions.

8.6 Since the First 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 Proposal Trustee does not express an opinion to whether the projections in the First CCAA Cash Flow will be achieved.

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

8.8 The Proposal Trustee has reviewed the First CCAA Cash Flow and offers the following commentary:

(i) Based on the outcomes presented in the First CCAA Cash Flow, a significant portion of the revenues projected to be received 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) In addition to ALC revenue discussed above, Management is currently projecting five games to be produced during the projection period relating to its existing contract with BCLC. The collection of receivables generated by these games is based on Management expectations taking into consideration prior payment patterns.

(iii) Collection of existing accounts receivable represents the receipt of outstanding accounts as at April 22, 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 new production revenue anticipated to be received 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 traditionally governed by long-term service agreements. Inflows from these customers is 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 new materials and logistics supplier. This supplier has agreed to provide product and services to the Company with payment being made within 45 days.

(vi) Outside of the professional fees associated with the restructuring, significant general and administrative expenses consist primarily of wages and related expenditures to non-production staff, monthly rent and related charges, utilities, supplies, licensing fees and insurance premiums. These costs have been projected based on historical rates taking into consideration the effects of the stay of proceeding.

(vii) As at April 25, 2019, the Company had outstanding post filing accounts payable balances with suppliers totaling approximately $276 thousand. Approximately 47% of this balance relates to purchases made on the Company's behalf by Servi-Jeux. Payment of these accounts payable balances have been incorporated into the First CCAA Cash Flow projection.

(viii) Based on the outcomes presented in the First CCAA Cash Flow, it is not anticipated at this time that the Company will require debtor-in-possession financing during the period contemplated in the projection.

9. INVOICES OF INSOLVENCY PROFESSIONALS

9.1 Pursuant to the Administration Charge order granted by the Court, the Proposal Trustee and legal counsel of the Company have been rendering invoices to the Company on a bi-weekly basis and informing the Court and the Service list when these invoices remain outstanding for longer than five days. Copies of the letters submitted to the Court in this regard are enclosed herein as Appendix D.

9.2 As at the date of the Fifth Report, the amount of professional invoices outstanding secured by the Administration Charge is approximately $14 thousand and represent one outstanding invoice owed to the Proposal Trustee. There is also an invoice from the Company's counsel rendered on April 22, 2019 in the approximate amount of $15 thousand, which is not yet past the 5 day period.

10. COMPANY'S REQUEST FOR CONVERSION TO CCAA

10.1 The Proposal Trustee has been advised that on May 1, 2019, the Company will be making an application to the Court seeking an order abridging the notice periods pursuant to section 11 of the CCAA and the *Rules of the Supreme Court, 1986, Rule 2.01(1),* effectively converting the current proceedings under Part III, Division I of the BIA to a proceeding under the CCAA.

10.2 Deloitte, as the Proposal Trustee appointed under the existing BIA proceedings, is the proposed monitor (the "Monitor") for the CCAA proceeding.

10.3 As the existing Trustee under the BIA proceedings, Deloitte advises the Court that it is prepared and is qualified to act as Monitor pursuant to the CCAA and if appointed will complete the following as required under section 23(1)(a) of the CCAA:

(i) within five days after the date of this initial order, make the initial order available in the manner prescribed under the CCAA;

(ii) send, in the prescribed manner, a notice to every known creditor who has a claim against the Company of more than $1,000; and

(iii) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims and make it publicly available in the prescribed manner.

10.4 As outlined in sections 4 and 5 above and within previous reports of the Proposal Trustee, since the filing of the NOI on November 5, 2018, the Company has and continues to expend considerable efforts in order to bring forth a proposal to its creditors.

10.5 As at the date of the Fifth Report, the Company has received a letter from BIC requesting additional time in order to consider supporting a proposal to creditors, has executed an

Investment Agreement with a interested strategic partner and continues to hold discussions with a party interested in purchasing the assets of the Company.

10.6 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.

10.7 The Trustee notes that the Company's customers and suppliers have continued to support the Company since the NOI Filing. Business has continued as anticipated by the Company and as presented in the cash flow projection filed to date, subject to the variances as discussed herein. The Proposal Trustee is of the opinion that no creditor would be materially prejudiced by the conversion as requested by the Company.

10.8 In the absence of the conversion, the Company will likely not be in a position to file a proposal before May 5, 2019, should that be the case, the Company would be deemed bankrupt. The Proposal Trustee is of the opinion that additional time is warranted to:

(i) to allow BIC to consider the transaction; and

(ii) to allow the strategic partner the necessary time to complete its due diligence.

10.9 Based on the foregoing, the Proposal Trustee supports the Company's application for an order abridging the notice periods pursuant to section 11 of the CCAA and the *Rules of the Supreme Court, 1986, Rule 2.01(1)*.

11. CONCLUSION

11.1 The Fifth Report has been prepared to provide this Court with information regarding the activities of the Company since the date of the Fourth Report, an update regarding the restructuring efforts of the Company, an update regarding the search for a strategic buyer or partner, the activities of the Proposal Trustee since the date of the Fourth Report, a review of the Fourth Extension Cash Flow, an update regarding invoices of restructuring professionals, a summary of the First CCAA Cash Flow and its outcomes, and a review of the Company's application for an Order converting the proceedings to the CCAA.

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

Per:

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

APPENDIX A – CASH FLOW RECONCILIATION

British Confectionery Company Limited and British Bazaar Companies Limited
Variance Analysis - Consolidated Statement of Projected Cash Flows
For the period March 23 to April 19, 2019

	3/29/2019			4/5/2019			4/12/2019			4/19/2019			Cumulative		
Week ending (Friday)	**Projected**	**Actual**	**Variance**	**Projected**	**Actual**	**Variance**	**Projected**	**Actual**	**Variance**	**Projected**	**Actual**	**Variance**	**Projected**	**Actual**	**Variance**
Cash inflows															
Collection of existing accounts receivable	11,074	8,615	(2,459)	163,596	58,136	(105,460)	52,252	77,223	24,971	54,693	20,644	(34,049)	281,615	164,619	(116,997)
New production	-	-	-	102,800	-	(102,800)	195,291	174,355	(20,936)	54,420	79,267	24,847	352,511	253,622	(98,889)
Other	8,997	-	(8,997)	-	9,214	9,214	97	405	308	-	97	97	9,094	9,715	621
Total inflows A	20,071	8,615	(11,456)	266,396	67,349	(199,046)	247,640	251,984	4,344	109,113	100,008	(9,105)	643,221	427,957	(215,264)
Cash outflows															
Cost of goods sold															
Compensation	-	-	-	45,000	38,251	6,749	-	1,710	(1,710)	45,000	41,235	3,765	90,000	81,197	8,803
Materials and other	20,649	22,214	(1,565)	28,266	863	27,404	57,300	77,626	(20,326)	75,300	369	74,931	181,516	101,072	80,444
Overhead expenses															
Compensation	-	-	-	30,854	26,226	4,628	-	1,173	(1,173)	30,854	28,273	2,581	61,708	55,672	6,036
Compensation related expenditures	2,724	2,636	88	13,000		13,000	-	11,903	(11,903)	-	-	-	15,724	14,539	1,184
Rent	-	-	-	-		-	-	892	(892)	33,913	42,510	(8,597)	33,913	43,403	(9,489)
General and administrative	20,581	13,055	7,526	69,277	19,155	50,122	28,932	26,999	1,933	28,663	3,597	25,066	147,453	62,806	84,646
Due diligence and other fees	-		-	40,000	-	40,000	5,000		5,000	-	-	-	45,000	-	45,000
Sales taxes payable (refund)	1,981	-	1,981	-	-	-	(6,458)	(6,458)	-	-	-	-	(4,478)	(6,458)	1,981
Total outflows from operations	45,935	37,905	8,030	226,397	84,495	141,902	84,774	113,846	(29,072)	213,730	115,984	97,746	570,835	352,230	218,605
Professional Fees															
BoyneClarke - Company Counsel	-	-	-	-	-	-	10,000	13,440	(3,440)	-	-	-	10,000	13,440	(3,440)
Deloitte Restructuring Inc. - Proposal Trustee	-	-	-	16,236	-	16,236	5,878	16,236	(10,358)	17,000	-	17,000	39,114	16,236	22,878
	-	-	-	16,236	-	16,236	15,878	29,677	(13,799)	17,000	-	17,000	49,114	29,677	19,438
Total outflows B	45,935	37,905	8,030	242,633	84,495	158,138	100,652	143,523	(42,871)	230,730	115,984	114,746	619,950	381,907	238,043
Weekly cash flow (A-B)	(25,863)	(29,290)	(3,427)	23,762	(17,145)	(40,908)	146,988	108,461	(38,527)	(121,616)	(15,976)	105,641	23,271	46,050	22,779
Opening cash balance	51,810	53,718	1,908	25,947	24,428	(1,519)	49,709	7,282	(42,427)	196,697	115,743	(80,954)	51,810	53,718	1,908
Projected ending cash balance	**25,947**	**24,428**	**(1,519)**	**49,709**	**7,282**	**(42,427)**	**196,697**	**115,743**	**(80,954)**	**75,081**	**99,768**	**24,687**	**75,081**	**99,768**	**24,687**

APPENDIX B – FIRST CCAA CASH FLOW

IN THE MATTER OF
THE COMPANIES' CREDITOR ARRANGEMENT ACT,
and
IN THE MATTER OF
THE COMPROMISE OR ARRANGEMENT OF THE APPLICANTS, 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 29th day of April 2019, consisting of weekly cash flows for the period April 20, 2019 to July 19, 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 29th day of April, 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 APRIL 20 TO JULY 19, 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 April 22, 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 historical filing amounts.

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 29th day of April, 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 April 20, 2019 to the week ending July 19, 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 29th day of April, 2019.

DELOITTE RESTRUCTURING INC.
Acting in its capacity as Proposed 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

British Confectionery Company Limited and British Bazaar Companies Limited
Consolidated Statement of Projected Cash Flows
For the period April 20 to July 19, 2019

Week ending (Friday)	1 4/26/2019	2 5/3/2019	3 5/10/2019	4 5/17/2019	5 5/24/2019	6 5/31/2019	7 6/7/2019	8 6/14/2019	9 6/21/2019	10 6/28/2019	11 7/5/2019	12 7/12/2019	13 7/19/2019	Total
Cash inflows														
Collection of existing accounts receivable	85,286	14,679	-	27,447	21,151	10,000	-	-	-	-	-	-	-	158,562
New production	60,782	11,500	95,250	106,404	57,400	153,195	335,547	72,387	103,977	106,052	64,887	199,000	179,000	1,545,380
Other	3,183	-	97	-	97	-	97	-	97	-	97	-	97	3,765
Total inflows A	149,251	26,179	95,347	133,850	78,648	163,195	335,644	72,387	104,074	106,052	64,984	199,000	179,097	1,707,708
Cash outflows														
Cost of goods sold														
Compensation	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	270,000
Materials and other	39,166	17,000	18,000	14,500	39,000	48,000	12,000	68,500	52,000	15,500	61,500	61,000	66,500	512,666
Overhead expenses														
Compensation	133	26,404	7,500	26,404	-	33,904	-	31,404	-	31,404	-	31,404	-	188,557
Compensation related expenditures	-	729	13,000	-	-	2,229	-	13,000	-	2,229	-	13,000	-	44,187
Rent	-	-	-	34,805	-	-	-	12,000	34,805	-	-	-	34,805	116,416
General and administrative	49,733	35,620	5,300	19,875	14,800	15,800	46,052	12,020	26,200	9,300	26,552	18,800	10,020	290,072
Sales taxes payable (refund)	-	3,000	15,000	-	-	4,200	15,000	-	-	-	5,250	20,000	-	62,450
Total outflows from operations	89,033	127,753	58,800	140,584	53,800	149,133	73,052	181,924	113,005	103,433	93,302	189,204	111,325	1,484,348
Professional Fees														
BoyneClarke - Company Counsel	7,500	7,308	7,308	10,000	-	-	10,000	-	-	10,000	-	-	2,500	54,615
Deloitte Restructuring Inc. - Proposal Trustee	5,879	7,015	16,306	-	20,000	-	20,000	-	20,000	-	20,000	-	20,000	129,200
	13,379	14,323	23,613	10,000	20,000	-	30,000	-	20,000	10,000	20,000	-	22,500	183,815
Total outflows B	102,411	142,076	82,413	150,584	73,800	149,133	103,052	181,924	133,005	113,433	113,302	189,204	133,825	1,668,163
Weekly cash flow (A-B)	46,840	(115,897)	12,934	(16,734)	4,848	14,062	232,592	(109,537)	(28,931)	(7,381)	(48,318)	9,796	45,272	39,545
Opening cash balance	97,857	144,697	28,801	41,734	25,000	29,848	43,909	276,502	166,965	138,034	130,652	82,334	92,130	97,857
Projected ending cash balance	144,697	28,801	41,734	25,000	29,848	43,909	276,502	166,965	138,034	130,652	82,334	92,130	137,402	137,402

British Confectionery Company Limited and British Bazaar Companies Limited

Per:

Blair Connolly
President

DELOITTE RESTRUCTURING INC.
Acting in its capacity as Proposed 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

British Confectionery Company Limited and British Bazaar Companies Limited
Consolidated Statement of Projected Cash Flows
For the period April 20 to July 19, 2019

Week ending (Friday)	1 4/26/2019	2 5/3/2019	3 5/10/2019	4 5/17/2019	5 5/24/2019	6 5/31/2019	7 6/7/2019	8 6/14/2019	9 6/21/2019	10 6/28/2019	11 7/5/2019	12 7/12/2019	13 7/19/2019	Total
Cash inflows														
Collection of existing accounts receivable	85,286	14,679	-	27,447	21,151	10,000	-	-	-	-	-	-	-	**158,562**
New production	60,782	11,500	95,250	106,404	57,400	153,195	335,547	72,387	103,977	106,052	64,887	199,000	179,000	**1,545,380**
Other	3,183	-	97	-	97	-	97	-	97	-	97	-	97	**3,765**
Total inflows A	149,251	26,179	95,347	133,850	78,648	163,195	335,644	72,387	104,074	106,052	64,984	199,000	179,097	**1,707,708**
Cash outflows														
Cost of goods sold														
Compensation	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	**270,000**
Materials and other	39,166	17,000	18,000	14,500	39,000	48,000	12,000	68,500	52,000	15,500	61,500	61,000	66,500	**512,666**
Overhead expenses														
Compensation	133	26,404	7,500	26,404	-	33,904	-	31,404	-	31,404	-	31,404	-	**188,557**
Compensation related expenditures	-	729	13,000	-	-	2,229	-	13,000	-	2,229	-	13,000	-	**44,187**
Rent	-	-	-	34,805	-	-	-	12,000	34,805	-	-	-	34,805	**116,416**
General and administrative	49,733	35,620	5,300	19,875	14,800	15,800	46,052	12,020	26,200	9,300	26,552	18,800	10,020	**290,072**
Sales taxes payable (refund)	-	3,000	15,000	-	-	4,200	15,000	-	-	-	5,250	20,000	-	**62,450**
Total outflows from operations	89,033	127,753	58,800	140,584	53,800	149,133	73,052	181,924	113,005	103,433	93,302	189,204	111,325	**1,484,348**
Professional Fees														
BoyneClarke - Company Counsel	7,500	7,308	7,308	10,000	-	-	10,000	-	-	10,000	-	-	2,500	**54,615**
Deloitte Restructuring Inc. - Proposal Trustee	5,879	7,015	16,306	-	20,000	-	20,000	-	20,000	-	20,000	-	20,000	**129,200**
	13,379	14,323	23,613	10,000	20,000	-	30,000	-	20,000	10,000	20,000	-	22,500	**183,815**
Total outflows B	102,411	142,076	82,413	150,584	73,800	149,133	103,052	181,924	133,005	113,433	113,302	189,204	133,825	**1,668,163**
Weekly cash flow (A-B)	46,840	(115,897)	12,934	(16,734)	4,848	14,062	232,592	(109,537)	(28,931)	(7,381)	(48,318)	9,796	45,272	**39,545**
Opening cash balance	97,857	144,697	28,801	41,734	25,000	29,848	43,909	276,502	166,965	138,034	130,652	82,334	92,130	**97,857**
Projected ending cash balance	**144,697**	**28,801**	**41,734**	**25,000**	**29,848**	**43,909**	**276,502**	**166,965**	**138,034**	**130,652**	**82,334**	**92,130**	**137,402**	**137,402**

British Confectionery Company Limited and British Bazaar Companies Limited

Per:

Blair Connolly
President

DELOITTE RESTRUCTURING INC.
Acting in its capacity as Proposed 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

APPENDIX C – FISCAL YEAR ENDING DECEMBER 31, 2018 FINANCIAL STATEMENTS

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

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-concolidated 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	**-**	(109,645)
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

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 PlayLinxx 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 sufficent 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.

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

Financial instruments policy

The carrying amounts for cash and cash equivalents, trade receivable and account payabl approximate fair market value becasue 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 that 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.

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.

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

7. RELATED PARTIES

	2018	2017
Related party transactions		
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

8. DEVELOPMENT COSTS

The Company is developing a pull tab dispensing kiosk system known as "The PlayLinxx". 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 Playlinxx	**$ 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.

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

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.

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	380,260
2022	389,573
2023	391,125

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 Compay'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.

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 totaling 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 it's "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

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

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)

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

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.

Harris 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	723,416
	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

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 Isolvency 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 sufficent 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)

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)

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
Related party transactions		
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)

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
	$ 1,144,789	$ 1,246,809

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)
	$ 43,417	$ 86,837

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)
	$ -	$ -

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.

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 totaling approximately $350,000, thish it is defending and against whihc 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.

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.

BRITISH CONFECTIONERY COMPANY LIMITED

Consolidated Financial Statements

Year Ended December 31, 2018

(Unaudited - See Notice To Reader)

HARRIS RYAN

BRITISH CONFECTIONERY COMPANY LIMITED
Index to Consolidated Financial Statements
Year Ended December 31, 2018
(Unaudited - See Notice To Reader)

HARRIS RYAN

NOTICE TO READER

On the basis of information provided by management, we have compiled the consolidated balance sheet of British Confectionery Company Limited (the "Company") as at December 31, 2018 and the consolidated statements of retained earnings and loss for the year then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these consolidated statements may not be appropriate for their purposes.

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
Consolidated Balance Sheet
December 31, 2018
(Unaudited - See Notice To Reader)

		2018		2017
ASSETS				
CURRENT				
Cash	$	53,943	$	39,717
Accounts receivable		860,886		1,296,538
Inventory		1,373,146		1,418,701
Prepaid expenses		131,056		49,677
Scientific research and development receivable		-		321,475
		2,419,031		3,126,108
Due from related parties		28,013		1,382,013
Development costs		2,496,633		3,047,554
Property, plant and equipment		6,657,157		6,796,408
Cash surrender value of life insurance		109,533		112,944
Patents and trademarks		137,712		121,163
	$	11,848,079	$	14,586,190
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT				
Bank indebtedness	$	-	$	2,437,468
Accounts payable		2,474,781		2,611,798
HST Payable		161,678		452,280
Income taxes payable		103,616		103,616
Due to director		126,922		54,699
Deferred income		126,897		-
Current portion of obligations under capital lease		-		11,788
Current portion of long term debt		458,476		275,796
		3,452,370		5,947,445
OTHER CURRENT				
Bank of Montreal demand loans		3,248,593		1,432,684
Reclassified long term debt		2,152,995		-
		8,853,958		7,380,129
Long term debt		-		2,232,916
Due to Bingo Servi-Jeux		-		125,000
Due to related parties		784,940		791,474
		9,638,898		10,529,519
SHAREHOLDERS' EQUITY				
Share capital		2,300		2,300
Contributed surplus		120,833		120,833
Retained earnings		2,086,048		3,933,538
		2,209,181		4,056,671
	$	11,848,079	$	14,586,190

APPROVED BY SOLE DIRECTOR

_______________ *Director*

See notes to financial statements

BRITISH CONFECTIONERY COMPANY LIMITED

Consolidated Statement of Retained Earnings

Year Ended December 31, 2018

(Unaudited - See Notice To Reader)

		2018		2017
RETAINED EARNINGS - BEGINNING OF YEAR	**$**	**3,933,538**	$	4,710,628
NET LOSS FOR THE YEAR		**(1,847,490)**		(777,090)
RETAINED EARNINGS - END OF YEAR	**$**	**2,086,048**	$	3,933,538

See notes to financial statements

BRITISH CONFECTIONERY COMPANY LIMITED

Consolidated Statement of Loss

Year Ended December 31, 2018

(Unaudited - See Notice To Reader)

	2018	2017
REVENUES	**$ 6,396,083**	$ 9,047,994
COST OF SALES		
Purchases	**2,286,902**	5,239,699
Direct wages	**1,081,432**	1,272,984
	3,368,334	6,512,683
GROSS PROFIT	**3,027,749**	2,535,311
EXPENSES *(Schedule 1)*	**3,242,789**	3,565,859
LOSS FROM OPERATIONS	**(215,040)**	(1,030,548)
OTHER INCOME		
Loss on disposal of investment	**-**	(285,757)
Other Income	**44,705**	59,264
Insurance proceeds	**525,086**	475,329
(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	**(507,502)**	-
	(1,632,450)	255,658
LOSS BEFORE INCOME TAXES	**(1,847,490)**	(774,890)
INCOME TAXES	**-**	2,200
NET LOSS	**$ (1,847,490)**	$ (777,090)

See notes to financial statements

1. BASIS OF PRESENTATION

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

These consolidated financial statements include the accounts of the Company and its subsidiary, British Bazaar Company Limited. All significant intercompany transactions and balances have been eliminated upon consolidation. These financial statements should be read in conjunction with the December 31, 2018 year end financial statements for the Company (non-consolidated) and its subsidiary.

2. COMPARATIVE FIGURES

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

BRITISH CONFECTIONERY COMPANY LIMITED

Consolidated Expenses **(Schedule 1)**

Year Ended December 31, 2018

(Unaudited - See Notice To Reader)

	2018	2017
Advertising and promotion	**$ 9,050**	$ 8,915
Amortization	**428,358**	454,776
Amortization of development costs	**43,420**	43,420
Bad debts (recovery)	**(18,210)**	29,395
Business taxes, licenses and memberships	**41,008**	34,981
Equipment rentals	**16,329**	19,622
Insurance	**122,152**	94,842
Interest and bank charges	**89,163**	83,056
Interest on long term debt	**203,709**	234,190
Interest on obligations under capital lease	**-**	1,677
Meals and entertainment	**2,043**	10,876
Office	**171,048**	152,392
Professional fees	**184,529**	188,801
Property taxes	**91,139**	107,663
Rental	**331,090**	498,360
Repairs and maintenance	**384,540**	205,513
Salaries and wages	**640,162**	950,383
Telephone	**16,618**	35,526
Travel	**25,034**	34,905
US Operations	**202,964**	121,680
Utilities	**62,925**	74,289
Vehicle	**16,939**	41,150
Warehouse operations	**178,779**	139,447
	$ 3,242,789	$ 3,565,859

See notes to financial statements

APPENDIX D – LETTER TO THE COURT AND SERVICE LIST

Deloitte Restructuring Inc.
Purdy's Wharf Tower II
1969 Upper Water St., Suite 1500
Halifax NS B3J 3R7
Canada

Tel: 902.721.5602
Fax: 902.423.5820
www.deloitte.ca

April 5, 2019

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

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

Dear Lord/Lady:

Subject: Administration Charge Order

Pursuant to Subsection 11 and 12 of the Administration Charge Order (the "Order") approved by Justice Burrage on January 15, 2019, the Proposal Trustee rendered accounts to British Confectionery Company Limited and British Bazaar Company Limited (collectively, the "Company") on Thursday, March 28th, 2019. The Proposal Trustee would like to advise the Court and the Service List that as of close of business on Thursday, April 4, 2019, this account remains unpaid.

As at the date of this letter, two invoices with a total value of approximately $22 thousand are outstanding and all previous invoices of the Proposal Trustee have been paid.

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

Per:

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

cc. Service List

Deloitte.

Deloitte Restructuring Inc.
Purdy's Wharf Tower II
1969 Upper Water St., Suite 1500
Halifax NS B3J 3R7
Canada

Tel: 902.721.5602
Fax: 902.423.5820
www.deloitte.ca

April 26, 2019

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

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

Dear Lord/Lady:

Subject: Administration Charge Order

Pursuant to Subsections 11 and 12 of the Administration Charge Order (the "Order") approved by Justice Burrage on January 15, 2019, the Proposal Trustee rendered accounts to British Confectionery Company Limited and British Bazaar Company Limited (collectively, the "Company") on Thursday, April 18, 2019 for an amount of approximately $14 thousand. The Proposal Trustee would like to advise the Court and the Service List that as of close of business on Thursday, April 25, 2019, this account remains unpaid.

As at the date of this letter, only the invoice rendered on April 18, 2019 is outstanding and all previous invoices of the Proposal Trustee have been paid in full.

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

Per:

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

cc. Service List