

District of: Newfoundland and Labrador

Division No: 01 – Newfoundland and Labrador

Court No: 22375 & 22376

Estate No: 51-2440230 & 51-2440231

Supreme Court of Newfoundland and Labrador

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

**First 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")**

NOVEMBER 28, 2018

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1. INTRODUCTION AND BACKGROUND

- 1.1 British Confectionery Company Limited ("Confectionery") was incorporated in Newfoundland and Labrador on February 27, 1962. The shares of Confectionery are wholly owned by British Confectionery Company 1982 Limited ("1982").
- 1.2 British Bazaar Company Limited ("Bazaar") was incorporated in Newfoundland and Labrador on May 4, 1992. The shares of Bazaar are wholly owned by Confectionery.
- 1.3 1982 was incorporated in Newfoundland and Labrador on December 23, 1982 and was previously owned by David Connolly Sr. In September 2017, 1982 was purchased by BMC Holdings Inc., a company wholly owned by Blair Connolly (son of David Connolly Sr.).
- 1.4 In February 2018, BMC Holdings Inc. sold 50% of its interest in 1982 to Carosielli Enterprises Inc., which operates as Bingo Servi-Jeux ("Servi-Jeux"). A summary of the ownership structure outlined above is enclosed as Appendix A to this report.
- 1.5 Confectionery and Bazaar (referred to collectively herein as "British" or the "Company") represent the primary operating entities of the group of companies outlined in Appendix A. Confectionery operates a manufacturing facility out of leased premises located at 465 East White Hills Road, St. John's, Newfoundland and Labrador. This facility specializes in the production of specialty paper products; specifically, break-open lottery and promotional products.
- 1.6 Bazaar is a wholly owned subsidiary of Confectionery which owns and administers customer contracts for the purchase of break-open lottery and promotional products. To fulfill these contracts, Bazaar purchases tickets directly from Confectionery. Outside of the purchase and sale of tickets from Confectionery, there appears to be no other significant economic activity within Bazaar.
- 1.7 As noted in British's consolidated externally prepared financial statements, a significant portion of revenue is generated from two customers: Atlantic Lottery Corporation ("ALC") and British Columbia Lottery Corporation ("BCLC"). According to these financial statements, during fiscal 2017, these customers represented approximately 64% of total revenue.
- 1.8 On October 31, 2018, Confectionery, Bazaar and David Connolly Sr. received a demand for repayment of outstanding amounts owing and a notice of intention to enforce security from the Bank of Montreal ("BMO"), a copy of which is attached as Appendix B.
- 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 The Proposal Trustee has been advised by legal counsel of the Company that a request will be made to the Court to consolidate the estates of Bazaar and Confectionery. Taking into consideration the economic and operational dependency discussed above, the Proposal Trustee supports the consolidation of these estates.
- 1.11 Deloitte advises that this report (the "First Report") should be read in conjunction with the affidavit of Blair Connolly, the Affidavit of Tim Hill, Q.C. and other documents which have been filed in support of the Company's Application to be heard December 4, 2018.

2. TERMS OF REFERENCE

- 2.1 In preparing this First 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 First 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 First 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 First Report. Any use which any party makes of the First Report, or any reliance or decisions to be made on the First Report, is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the First Report are expressed in or converted to Canadian dollars.
- 2.5 The purpose of the First Report is to provide the Court with the following:
- (i) A brief history of the Company, an overview of the historical and current financial position and an outline of the causes of insolvency.
 - (ii) An overview of the Company's relationship with Seri-Jeux.
 - (iii) A summary of the activities of the Company to date.
 - (iv) A summary of the activities of the Proposal Trustee to date.
 - (v) A review of the actual cash flows for the period of November 5 to November 23, 2018 (the "NOI Cash Flow").
 - (vi) A review of the Company's statement of projected cash flow for the period of November 24, 2018 to February 22, 2019 (the "First Extension Cash Flow").
 - (vii) The Company's request for an administration charge (the "Administration Charge").
 - (viii) The Company's request for an extension order (the "Extension Order").

3. HISTORY, FINANCIAL POSITION AND CAUSES OF INSOLVENCY

- 3.1 According to information on Confectionery's website, the business was founded in 1958 for the purpose of importing and distributing confectionery products.
- 3.2 During its 60 years of operations, Confectionery has diversified its product offering to include charitable gaming products and in 1992, incorporated Bazaar for the purpose of bidding on a break-open lottery ticket contract tendered by ALC. As indicated above, this contract was subsequently awarded to the Company and the products produced for ALC remain a core part of the Company's business today.

- 3.3 During the late 1990's, British divested all of its interest in the confectionery business in order to focus exclusively on the lottery and charitable gaming industry.
- 3.4 As outlined in the Introduction and Background section above, control of the business transitioned from father (David Connolly) to son (Blair Connolly) in September 2017. Prior to taking ownership of the business, Blair Connolly led the Company's sales and client service team which focused on growing British's customer network and product offering.
- 3.5 The ownership structure changed again in February 2018, when Servi-Jeux purchased a 50% interest in the parent company 1982, through the issuance of new shares. Further information regarding this transaction and the relationship with Servi-Jeux is discussed in a later section of this report.
- 3.6 A summary of British's historical consolidated operating results for fiscal periods ending December 31, 2014 through to 2017 is presented below:

Summary of operating results (\$ CDN)				
December 31,	2014	2015	2016	2017
Revenue	8,120,517	10,245,069	7,625,214	9,047,994
Cost of goods sold	<u>3,803,334</u>	<u>5,471,712</u>	<u>6,436,076</u>	<u>6,037,354</u>
Gross profit	<u>4,317,183</u>	<u>4,773,357</u>	<u>1,189,138</u>	<u>3,010,640</u>
Expenses	5,057,900	4,859,542	4,602,054	3,565,859
Other expenses (income)	57,398	(324,281)	(10,642)	219,671
Income taxes (recovery)	<u>(149,000)</u>	<u>(19,460)</u>	<u>26,500</u>	<u>2,200</u>
	<u>4,966,298</u>	<u>4,515,801</u>	<u>4,617,912</u>	<u>3,787,730</u>
Net income	<u>(649,115)</u>	<u>257,556</u>	<u>(3,428,774)</u>	<u>(777,090)</u>

Note: The financial information presented above was prepared using externally reviewed financial statements prepared by Quinlan & Taylor CPA Professional Corporation.

- 3.7 As indicated in the results set out above, financial performance has demonstrated significant variability since 2014. According to Management, financial performance during this period was impacted by the following factors:
- (i) Operational and organizational deficiencies – increased sales during fiscal 2014 and 2015 resulted in increased pressure on the production and logistical areas of the business. Ultimately, British was unable to satisfy the demand it had created efficiently, resulting in reduced profitability and a subsequent downturn in sales during fiscal 2016. According to Management, a number of factors hindered the ability of the Company to operate efficiently, including but not limited to, the absentee management style of the owner at the time and the plant operating at significantly less than maximum capacity.
 - (ii) Development costs – during the period presented above, British invested approximately \$1.4 million cumulatively in development costs related to new product offerings, production improvements and barcode technology. The majority of these projects were partially funded through Atlantic Canada Opportunities Agency ("ACOA") programs and loans from Business Investment Corporation ("BIC"). Many of these projects are still in their infancy or have been put on hold by the Company and thus have not yet generated an economic return.

- (iii) 2016 inventory write off – after taking ownership of the business in 2017, Management performed a review of its inventory which resulted in a write off of approximately \$1.3 million. As outlined in the financial position section herein, this write off contributed to a significant working capital deficiency and concern from the Company’s creditors.
- (iv) 2017 ALC product recall – during fiscal 2017, the Company and its most significant customer, ALC, were forced to recall seven games distributed into the market and withhold an additional six games in production due to reports that the barcodes on certain tickets were not validating properly. According to a letter sent to the Company’s insurance provider, ALC is claiming estimated preliminary damages and losses as a result of the recall totaling approximately \$3.3 million. The Proposal Trustee has been in contact with representatives of Cox and Palmer, the legal counsel engaged in relation to this matter by the Company, and has been advised that no further information has been received from ALC and no formal action against the Company has been initiated. As a result of the product recall, the Company was required to reprint games which had already been sold, inhibiting the ability to grow sales and increasing production costs for the year.
- (v) Fire at production facility – in December 2017, a fire at the production facility resulted in the destruction of finished goods inventory and equipment. Despite the approximate \$475 thousand in insurance proceeds received in relation to this fire, the incident resulted in another reprint of lost games and several production delays. This incident continued to affect the Company’s performance into the first six months of fiscal 2018.

3.8 The Company’s preliminary operating results for the nine month period ending September 30, 2018 are presented below:

Summary of operating results (\$ CDN)	
Nine months ending September 30, 2018	
Revenue	5,577,298
Cost of goods sold	<u>2,296,173</u>
Gross profit	3,281,124
Expenses	<u>2,497,765</u>
Net income before taxes	<u><u>783,359</u></u>

Note: The financial information presented above was prepared by Management based on the internal books and records of the Company. These results have not be audited, reviewed or otherwise verified by the Proposal Trustee.

- 3.9 As discussed in the company’s activities section herein, efforts to reduce overhead expenses have continued into the current year. Average quarterly overhead expenses year-to-date total approximately \$833 thousand as compared to \$891 thousand during the prior fiscal year.
- 3.10 Despite improved profitability as compared to prior years, a number of factors have continued to impact the Company’s revenue during the first three quarters of fiscal 2018. Year-to-date average quarterly revenue is down approximately \$403 thousand as compared to average quarterly revenue in fiscal 2017. According to Management, factors impacting revenue year-to-date include:

- (i) Contract renegotiations with ALC – British supplies tickets to its two primary customers under long term contracts with set price schedules. Effective July 1, 2018, British extended its contract with ALC at a price per ticket approximately 21% lower than the previous contract. We are advised by Management that ALC’s confidence waned as a result of the product recall, and that this played a significant role in these negotiations. Additionally, contract negotiations with ALC and game format changes resulted in a number of games being delayed.
- (ii) Production delays – As indicated above, production delays experienced in fiscal 2017 had residual effects that were still impacting the Company during the initial quarters of fiscal 2018.

3.11 A summary of British’s historical consolidated financial position for fiscal periods ending December 31, 2014 through to 2017 is presented below:

Summary of financial position (\$ CDN)				
December 31,	2014	2015	2016	2017
Current Assets	4,433,736	5,966,222	2,732,928	3,126,108
Long-term Assets				
Property, plant and equipment	8,791,143	8,241,616	7,722,239	6,796,408
Development costs	2,636,611	2,806,217	2,981,329	3,047,554
Other	1,531,211	1,228,457	1,468,484	1,616,120
	12,958,965	12,276,290	12,172,052	11,460,082
Total Assets	17,392,701	18,242,512	14,904,980	14,586,190
Current Liabilities	7,597,569	7,922,012	6,842,369	7,380,129
Long-term Liabilities	1,822,475	2,090,287	3,228,850	3,149,390
Total Liabilities	9,420,044	10,012,299	10,071,219	10,529,519
Equity	7,972,657	8,230,213	4,833,761	4,056,671
Total liabilities and equity	17,392,701	18,242,512	14,904,980	14,586,190
Current ratio	0.58	0.75	0.40	0.42
Total asset/total debt ratio	1.85	1.82	1.48	1.39

Note: The financial information presented above was prepared using externally reviewed financial statements prepared by Quinlan & Taylor CPA Professional Corporation.

3.12 As indicated in the discussion above, inventory write offs, production delays, product recalls and increased debt due to development costs have resulted in decreases in the Company’s overall liquidity and solvency levels.

- 3.13 The Company's preliminary consolidated balance sheet as at September 30, 2018 is presented below:

Summary of financial position (\$ CDN)	
As at September 30, 2018	
Current Assets	2,332,627
Long-term Assets	<u>10,589,434</u>
Total Assets	<u>12,922,061</u>
Current Liabilities	5,590,873
Long-term Liabilities	<u>2,491,159</u>
Total Liabilities	8,082,032
Equity	<u>4,840,030</u>
Total liabilities and equity	<u>12,922,061</u>
Current ratio	0.42
Total asset/total debt ratio	1.60

Note: The financial information presented above was prepared by Management based on the internal books and records of the Company. These results have not been audited, reviewed or otherwise verified by the Proposal Trustee.

- 3.14 As discussed in the operating results section above, year-to-date profitability has increased significantly as compared to prior year results. This improved profitability has resulted in decreases in accounts payable and long-term debt levels.
- 3.15 Despite improved profitability year-to-date, utilization of the Companies operating facility increased slightly to approximately \$2.5 million as compared to \$2.4 million as at year end 2017. This debt level along with the working capital deficiencies discussed herein are believed to have resulted in demand notices being issued by BMO, and the subsequent decision of the Company to pursue the NOI filing.

4. SERVI-JEUX RELATIONSHIP

- 4.1 Servi-Jeux was founded in 1991 and manufactures and distributes bingo paper and related materials throughout Canada and the United States. The Company is located in Montreal, Quebec and is owned by Vito Carosielli and managed by Mr. Carosielli and his son Roberto ("Roby") Carosielli.
- 4.2 In February 2018, a purchase and sale agreement was executed whereby Servi-Jeux purchased 50% of 1982 from BMC Holdings Limited. According to Management, aspects of the transaction are still being finalized including the issuance of the shares, however, both parties have publically announced the partnership and Roby Carosielli has been named Chief Operations Officer of British.

- 4.3 According to Management the strategy behind the partnership was driven by increased demand from customers for the supply of both bingo products and break-open tickets, and to leverage Servi-Jeux's existing supplier relationships.
- 4.4 Since partnering with the Company, Servi-Jeux has sold raw materials, transportation and logistics services to British and purchased finished goods consisting of bingo paper and break-open tickets from British.
- 4.5 Based on the books and records of the Company, the net position owed to Servi-Jeux at the time of the NOI Filing is approximately \$632 thousand. This net position is outlined in detail below:

Summary of Servi-Jeux financial position (\$ CDN)

Accounts payable to Servi-Jeux	1,002,290
Accounts receivable from Servi-Jeux	(370,114)
Total net position	<u>632,176</u>

- 4.6 The Trustee has advised Management of both parties that it is imperative that Servi-Jeux's position does not improve as a result of the NOI Filing. Pursuant to this directive, the Proposal Trustee is closely monitoring post filing payments to this related party.

5. COMPANY'S ACTIVITIES

- 5.1 According to Management, British had undertaken a number of restructuring initiatives prior to the NOI filing. These include, but are not limited to:
- (i) reorganizing the Company's ownership structure;
 - (ii) partnering with Servi-Jeux in order to increase the Company's ability to source product and sell to the United States and central Canadian market;
 - (iii) hiring of a Chief Financial Officer in March 2018 and a new corporate accountant in October 2018; and
 - (iv) continuing to focus on overhead cost reductions. Since 2014, average monthly overhead expenditures have decreased by approximately \$124 thousand per month.
- 5.2 Since the date of the NOI Filing, the Company's activities have included, but were not limited to:
- (i) working with the Proposal Trustee in order complete statutory requirements, including giving notice to creditors and preparing the NOI Cash Flow;
 - (ii) meeting in person with both of its key customers, ALC and BCLC;
 - (iii) holding preliminary discussions with potential lenders and equity sources;
 - (iv) working with the Proposal Trustee to answer questions of creditors and establish payment arrangements regarding post-filing obligations;
 - (v) working with the Proposal Trustee to organize discussions with the significant secured and unsecured creditors including, BMO, ACOA, and BIC; and

- (vi) working with the Proposal Trustee to monitor actual cash flow and reporting on variances to the NOI Cash Flow.

5.3 The Proposal Trustee has been working with the Company closely since the NOI Filing and has been advised by Management on numerous occasions that it is committed to a restructuring; however, the Company requires a formal process to provide it with time and protection to bring forth a Proposal to its creditors.

6. PROPOSAL TRUSTEE'S ACTIVITIES

6.1 The Proposal Trustee advises the Court that prior to its engagement under the NOI Filing, Deloitte was retained by British to act as its financial advisor. The engagement letter executed in relation to this engagement was dated January 12, 2018. No formal reports were prepared in relation to this engagement and services provided during this engagement ceased in April 2018.

6.2 Since the date of the NOI Filing, the Proposal Trustee's activities have included, but were not limited to:

- (i) completing statutory requirements including notifying creditors and reviewing the NOI Cash Flow;
- (ii) holding discussions and answering queries with the significant secured and unsecured creditors including, BMO, ACOA, and BIC;
- (iii) answering questions of stakeholders regarding the NOI Filing;
- (iv) monitoring actual cash flow and reporting on variances to the NOI Cash Flow;
- (v) holding discussions with Management regarding potential restructuring options; and
- (vi) holding discussions with potential financing sources.

7. ACTUAL CASH FLOW

7.1 The Company previously filed with the Court the NOI Cash Flow pursuant to Section 50.4(2)(a)(b)(c) of the BIA for the 13-week period November 5, 2018 to February 1, 2019.

7.2 The Proposal Trustee has prepared a reconciliation of the actual cash flow for the 3-week period November 5 to November 23, 2018 as compared to the NOI Cash Flow (the "Cash Flow Reconciliation"), which is contained within Appendix C to the First Report.

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

- (i) The favorable variance of approximately \$13 thousand relating to the collection of existing accounts receivable is timing in nature as the company collected certain receivables earlier than anticipated.
- (ii) The unfavorable variance of approximately \$181 thousand relating to revenue from new production was primarily attributable to the delay of a payment projected to be received from ALC during the period. This variance is both timing and permanent in nature as described below:

- (a) During the creation of the NOI Cash Flow, the Company was advised by ALC that an additional game was going to be ordered. At the time, Management anticipated that this game would be a larger core game (approximately 17 million tickets).
- (b) After the NOI Cash Flow was filed, ALC determined based on its current demand that an alternative smaller game (approximately 9 million tickets) was required. Additionally, ALC also advised the Company that the payment for the game would not be paid until existing ALC work in progress was finished. As a result of these changes, the timing of this payment has been delayed by approximately four weeks and the amount of the payment has been reduced by approximately \$78 thousand. These changes have been incorporated into the First Extension Cash Flow discussed herein.
- (iii) The favorable variance relating to cost of goods sold of approximately \$19 thousand relates primarily to lower than anticipated raw material purchases than that which was originally projected.
- (iv) The favorable variance of approximately \$29 thousand related to general and administrative expenses is timing in nature. The Company originally projected payments related to utilities, supplies, and other general expenses to be incurred during the period under review. Costs related to these expenses have not yet been incurred by the Company.
- (v) The favorable variance related to professional fees of the Proposal Trustee is timing in nature. The Proposal Trustee is currently preparing an invoice which will be presented to the Company for payment during the week ending November 30, 2018.

8. CASH FLOW STATEMENTS

- 8.1 On November 28, 2018, pursuant to Section 50.4(2) (a) (b) (c) of the BIA, the Company filed the First Extension Cash Flow, along with the statutory declarations with the Official Receiver. A copy of the First Extension Cash Flow is enclosed as Appendix D.
- 8.2 The First Extension Cash Flow has been prepared by Management for the purpose described in the notes to the First Extension Cash Flow, using the probable and hypothetical assumptions set out in the notes.
- 8.3 The Proposal Trustee's review of the First Extension Cash Flow consisted of inquiries, analytical procedures and discussions on the information provided by Management of the Company. The Proposal Trustee's involvement with respect to the hypothetical assumptions was limited to evaluating whether they were consistent with the purpose of the First Extension Cash Flow. The Proposal Trustee has also reviewed the supporting documentation provided by Management of the Company for the probable assumptions and the preparation and presentation of the First Extension Cash Flow.
- 8.4 Based on our review and the foregoing reserves and limitations, nothing has come to the attention of the Proposal Trustee that causes us to believe that, in all material respects:
 - (i) the hypothetical assumptions are not consistent with the purpose of the First Extension Cash Flow;
 - (ii) as at the date of this First 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 Extension Cash Flow, given the hypothetical assumptions; or

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

8.5 Since the First Extension Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposal Trustee does not express an opinion to whether the projections in the First Extension Cash Flow will be achieved.

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

8.7 The Proposal Trustee has reviewed the First Extension Cash Flow and offers the following commentary:

- (i) Consistent with the Company's business model, a significant portion of the revenues projected to be received during the period covered by the First Extension Cash Flow are related to the existing contract and production schedule with ALC and Management's expectations regarding timing of demand for games.
- (ii) Other inflows anticipated to be received during the period consist of the collection of existing accounts receivable and new sales with customers other than ALC. Sales to these customers represent smaller purchases of tickets and are not traditionally governed by long-term service agreements like ALC and BCLC.
- (iii) Cost of goods sold consists primarily of expenditures on paper, ink, glues, transportation costs and labor. Due to the niche nature of the paper being provided, the majority of paper suppliers have required payment for product prior to it being shipped to the Company. One paper supplier has refused to sell paper directly to the Company and this supply of paper is purchased by Servi-Jeux, and subsequently sold to the Company.
- (iv) Outside professional fees associated with the restructuring, significant general and administrative expenses consisting 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.
- (v) Based on the outcomes presented in the First Extension Cash Flow, it is not anticipated at this time that the Company will require debtor-in-possession financing during the period contemplated in the First Extension Cash Flow.

9. ADMINISTRATION CHARGE

9.1 A preliminary analysis of the Company's financial situation concluded that the NOI Filing was the most pragmatic strategy to stabilize the Company and generate a recovery for its stakeholders.

9.2 The Company requires the services of its legal counsel, the Proposal Trustee and the Proposal Trustee's legal counsel (the "Insolvency Professionals") to assist in the NOI Filing.

9.3 Pursuant to Subsection 64.2(1) of the BIA, this Court may order security or a charge to cover certain costs related to the NOI Filing.

- 9.4 The Proposal Trustee understands that the Company is requesting from this Court that an order be granted that provides for a charge that ranks in priority over the claim of any secured creditor or persons in these proceedings (the "Administration Charge").
- 9.5 The Company is requesting that the Insolvency Professionals, as security for the professional fees and disbursements incurred both before and after the granting of the Administration Charge, shall be entitled to the benefits of a charge on all of the property of the Company, which charge shall not exceed an aggregate amount of \$100 thousand as security for their professional fees and disbursements incurred at the normal rate and charges of the Insolvency Professionals, both before and after the making of this Administration Charge in respect of the NOI Filing.
- 9.6 The Company believes it is critical to the success of its restructuring to have such a charge in place to ensure that the Insolvency Professionals are protected with respect to their fees and costs.
- 9.7 Based on the projections set out in the First Extension Cash Flow discussed herein, an Administration Charge may not be required. However, it is a prudent measure to protect the Insolvency Professionals involved in the Administration of the estate.
- 9.8 Based on the foregoing, the Proposal Trustee supports the Company's request for an Administration Charge pursuant to s. 64.2(1) of the BIA be granted by this Court, as it believes that it is appropriate under all of the circumstances.

10. STAY EXTENSION APPLICATION

- 10.1 As discussed above, the ability of the Company to file a viable proposal is dependent on being provided the necessary time to source alternative financing and or an equity investment.
- 10.2 The Proposal Trustee is of the opinion that the Company has acted and is acting in good faith and with due diligence in connection with the initial preparation of a restructuring plan and a proposal to creditors.
- 10.3 The Proposal Trustee believes that a 45 day extension will enhance the prospect of the Company filing a viable proposal to its creditors. As described herein, the Company has held initial discussions to date with potential financing and equity partners, but requires additional time to finalize a business plan and execute a formal financing and investment process.
- 10.4 The Trustee notes that the Company's customers and suppliers have continued to support of the Company since the NOI Filing. Business has continued as anticipated by the Company and as presented in the cash flow projection filed to date. As such, the Proposal Trustee is of the opinion that no creditor would be materially prejudiced by the extension as requested by the Company.
- 10.5 In the absence of an extension, the Company will not be in a position to file a proposal before December 4, 2018 and as such, will be deemed bankrupt. The Proposal Trustee is of the view that more time is required to allow the Company to assess its options in drafting a proposal which the Proposal Trustee believes will result in a higher return to the unsecured creditors of the Company as compared to a liquidation scenario in the event the Company is deemed bankrupt.
- 10.6 Based on the foregoing, the Proposal Trustee supports the Company's application for an Order extending the amount of time for the Company to file a proposal to its creditors.

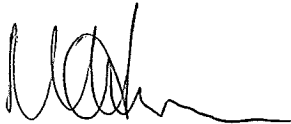
11. CONCLUSION

- 11.1 The First Report has been prepared to provide this Court with information regarding an overview of the Company's history, historical performance and causes of insolvency, an overview of the Company's relationship with Seri-Jeux, a summary of the activities of the Company to date, a review of the NOI Cash Flow, a summary of the First Extension Cash Flow and its outcomes, the Trustee's opinion regarding the proposed Administration Charge, and a review of the Company's Application for an Extension Order pursuant to s. 50.4 (7) of the BIA.

DELOITTE RESTRUCTURING INC.

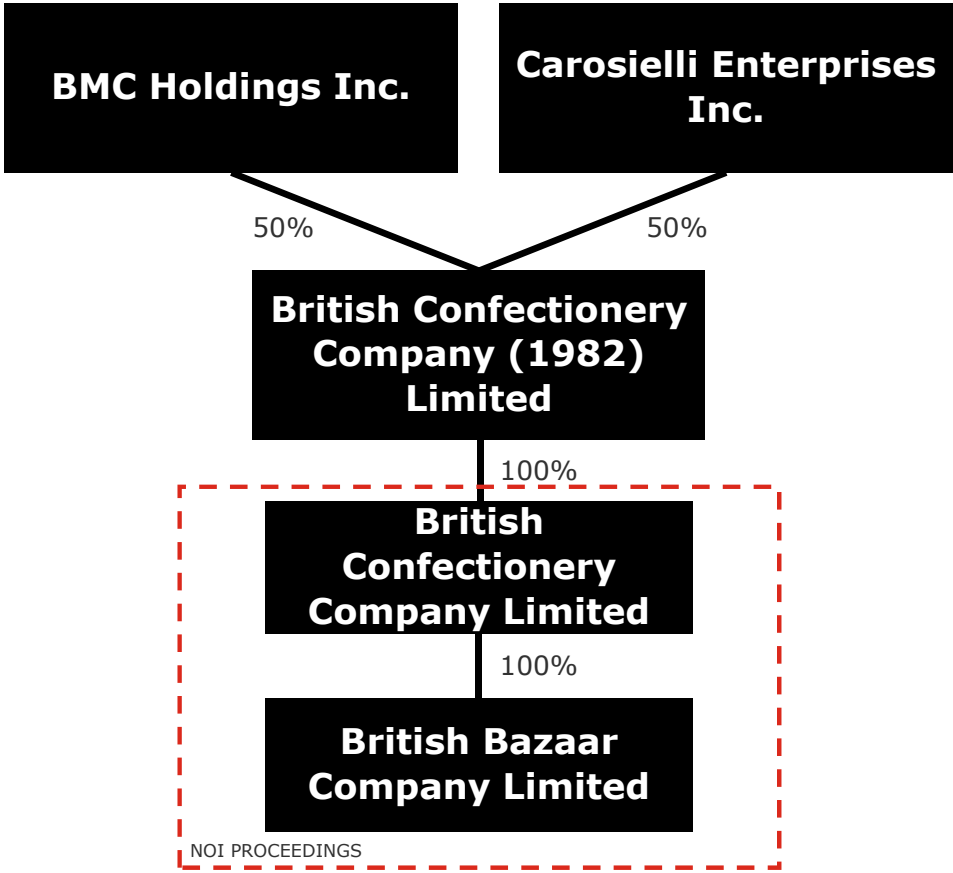
Acting in its capacity as
Licensed Insolvency Trustee under the Notice of Intention to Make a Proposal of
British Confectionery Company Limited and British Bazaar Company Limited
and not in its personal capacity.

Per:



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

APPENDIX A – CORPORATE STRUCTURE



APPENDIX B – BMO DEMAND LETTERS

October 31, 2018

DELIVERED BY REGISTERED MAIL AND REGULAR MAIL

British Confectionery Company Ltd.
7 Panther Place
Mount Pearl, NL A1N 5B7

Attention: David Connolly

Dear Sirs:

Re: British Confectionery Company Ltd. (the "Corporation") and BMO Bank of Montreal (the "Bank")
Our File No.: 50005491-00166

We are the solicitors for the Bank and as such we are authorized to issue this demand for payment on its behalf. We are advised by the Bank that the Corporation is indebted to it under various loan agreements.

As of October 31, 2018, the aggregate indebtedness of the Corporation was \$3,452,908.88 with a fluctuating per diem interest charge of \$588.75 (including accrued interest but excluding any costs, fees or expenses).

As security for the Corporation's indebtedness to it, the Bank holds various security including guarantees of the Corporation's liabilities, chattel mortgage, a general security agreement and a debenture (collectively, the "Security").

On behalf of the Bank, we hereby declare all of the Corporation's obligations and indebtedness to the Bank to be due and payable and we hereby demand payment of the Corporation's indebtedness and liabilities, and satisfaction of all obligations of the Corporation including, without limitation, those under the Security, to the Bank, together with payment of interest, fees, costs and expenses thereon from August 10, 2017 to the date of payment.

The total amount hereby demanded is \$3,452,908.88 together with interest thereon at the current per diem rate of \$588.75 and payment of all fees, costs and expenses until

Josh J.B. McElman* | Partner

Direct 506 633 2708 Main 506 632 8900 Fax 506 632 8809 Email jmcelman@coxandpalmer.com

1 Germain Street, Suite 1500 | Saint John, NB | E2L 4V1

Correspondence: P. O. Box 1324, Saint John, NB E2L 4H8

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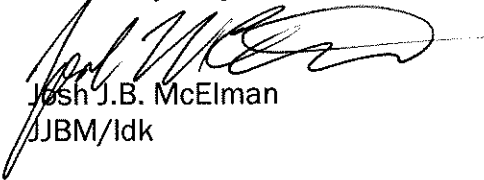
payment is received by the Bank. Payment is to be made forthwith by certified cheque or bank draft.

Failing payment, the Bank will have no other alternative but to take such steps as the Bank considers necessary or appropriate to recover payment of the Corporation's indebtedness and liabilities in full, including the enforcement of the Security.

Enclosed is a copy of the Notice of Intention to Enforce Security, which is given to the Corporation by the Bank pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* (Canada). We have also enclosed a waiver of all notice periods for your consideration.

All demands remain outstanding and unsatisfied and no intermediate acts, negotiations or indulgences shall act as a waiver of the Bank's rights, or, demand for payment, unless so expressly stated in writing. The Bank reserves all rights including the right to determine not to immediately proceed with enforcement of this demand, but in no case shall such determination vary or relieve you of your duty to satisfy your obligations to the Bank.

Yours very truly,



Josh J.B. McElman
JJBM/ldk

Enclosures

FORM 86
NOTICE OF INTENTION TO ENFORCE SECURITY
(Subsection 244(1) of the *Bankruptcy and Insolvency Act*)

TO: **British Confectionery Company Ltd.**, an insolvent person (hereinafter the "Corporation").

TAKE NOTICE THAT:

1. **BMO BANK OF MONTREAL** (the "Bank"), a secured creditor, intends to enforce its security on the Corporation's property described below:
 - a) all personal property of the Corporation of any nature or kind and wheresoever situated, including, without limiting the foregoing, all personal property described in the security below; and
 - b) all real property described in the security listed below.
2. The security that is to be enforced is in the form of the security listed in Schedule A hereto (collectively, the "Security").
3. The total amount of the indebtedness secured by the Security is \$3,452,908.88 as of October 31, 2018, together with interest therefrom and all other costs, fees, expenses and charges as set out in the Security.
4. The secured creditor will not have the right to enforce the Security until after the expiration of the 10-day period after this notice is sent, unless the insolvent person consents to an earlier enforcement.

DATED at Saint John, New Brunswick, this 31st day of October, 2018.

BMO BANK OF MONTREAL

Per: 

its solicitors, Cox & Palmer
1 Germain Street
Suite 1500, P.O. Box 1324
Saint John, N.B. E2L 4H8
Phone: (506) 632-8900
Fax: (506) 632-8809

Schedule A – Security

1. General Security Agreement dated July 20, 2004
2. General Assignment of Debts dated July 28, 2004
3. Chattel Mortgage dated July 31, 2006
4. Chattel Mortgage dated March 19, 2007
5. Chattel Mortgage dated May 23, 2007
6. Chattel Mortgage dated January 29, 2008
7. Chattel Mortgage dated March 13, 2014
8. Debenture registered on August 9, 2004 with Number 14402
9. Supplemental Debenture registered on June 13, 2006 with Number 130922
10. The following in relation to Bank Act Security in 2006:
 - a. Notice for registration under section 427 of the Bank Act dated September 7, 2006
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated September 12, 2006
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated September 12, 2006
 - d. Security under section 427 of the Bank Act dated September 12, 2006
11. The following in relation to Bank Act Security in 2009:
 - a. Notice for registration under section 427 of the Bank Act dated September 8, 2009
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated September 11, 2009
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated September 11, 2009
 - d. Security under section 427 of the Bank Act dated September 11, 2009
12. The following in relation to Bank Act Security in 2012:
 - a. Notice for registration under section 427 of the Bank Act dated August 9, 2012
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated August 15, 2012
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated August 15, 2012
 - d. Security under section 427 of the Bank Act dated August 15, 2012

CONSENT AND WAIVER

The undersigned hereby acknowledges receipt of the demand for payment dated October 31, 2018 and the Notice of Intention to Enforce Security dated October 31, 2018 from BMO Bank of Montreal (the "Bank"). The undersigned further acknowledges that it is unable to meet the demand for payment set forth in the demand and hereby: i) waives any requirement for time to meet the demand for payment; ii) waives the 10 day time period set forth in Section 244(2) of the **Bankruptcy and Insolvency Act**; and iii) consents to the immediate enforcement of all security held by the Bank in support of the loans and obligations of the undersigned including the appointment of a licensed trustee as agent and/or receiver pursuant to the Bank's security.

DATED this ____ day of _____, 2018.

British Confectionery Company Ltd.

Per:

I have authority to bind the above-noted
Corporation

October 31, 2018

DELIVERED BY REGISTERED MAIL AND REGULAR MAIL

British Bazaar Company Limited
465 White Hills Road
St. John's, NL A1A 5X7

Dear Directors:

Re: British Confectionery Company Ltd. (the "Corporation") and BMO Bank of Montreal (the "Bank")
Our File No.: 50005491-00166

We are the solicitors for the Bank with respect to the indebtedness of the Corporation and the guarantee granted by British Bazaar Company Limited, Atlantic Gaming Inc. and Atlantic Star satellite Bingo Network Inc. on July 28, 2004 in the amount of \$4,432,000 (the "Guarantee"). In addition, British Bazaar Company Limited granted a General Security Agreement on July 28, 2004 to the Bank in support of its obligations (the "Security").

As of October 31, 2018, the aggregate indebtedness of the Corporation was \$3,452,908.88. On behalf of the Bank, we demanded payment by the Corporation of its indebtedness and liabilities, and satisfaction of all obligations of the Corporation to the Bank. Enclosed is a copy of the demand made on the Corporation.

The Bank hereby demands payment of the Guarantee and satisfaction of all obligations thereunder and under the Security. The amount due is \$3,452,908.88 plus interest, costs, fees and expenses in accordance with the Guarantee and the Security. Payment is to be made forthwith by certified cheque or bank draft. Failing payment, the Bank will have no other alternative but to take such steps as the Bank considers necessary or appropriate to recover payment.

Enclosed is a copy of the Notice of Intention to Enforce Security, which is given to you by the Bank pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* (Canada). We have also enclosed a waiver of all notice periods for your consideration.

All demands remain outstanding and unsatisfied and no intermediate acts, negotiations or indulgences shall act as a waiver of the Bank's rights, or, demand for payment, unless so expressly stated in writing. The Bank reserves all rights including the right to determine not

Josh J.B. McElman* | Partner

Direct 506 633 2708 Main 506 632 8900 Fax 506 632 8809 Email jmcelman@coxandpalmer.com

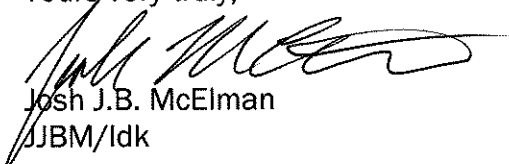
1 Germain Street, Suite 1500 | Saint John, NB | E2L 4V1

Correspondence: P. O. Box 1324, Saint John, NB E2L 4H8

*Practicing through Josh McElman PC Inc.

to immediately proceed with enforcement of this demand, but in no case shall such determination vary or relieve you of your duty to satisfy your obligations to the Bank.

Yours very truly,



Josh J.B. McElman
JJBM/ldk

Enclosure

FORM 86
NOTICE OF INTENTION TO ENFORCE SECURITY
(Subsection 244(1) of the *Bankruptcy and Insolvency Act*)

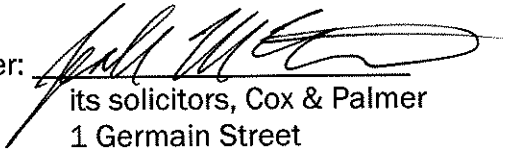
TO: **British Bazaar Company Limited**, an insolvent person (hereinafter the "Corporation").

TAKE NOTICE THAT:

1. **BMO BANK OF MONTREAL** (the "**Bank**"), a secured creditor, intends to enforce its security on the Corporation's property described below:
 - a) all personal property of the Corporation of any nature or kind and wheresoever situated, including, without limiting the foregoing, all personal property described in the security below; and
2. The security that is to be enforced is in the form of the General Security Agreement dated July 28, 2004 (collectively, the "**Security**").
3. The total amount of the indebtedness secured by the Security is \$3,452,908.88 as of October 31, 2018, together with interest therefrom and all other costs, fees, expenses and charges as set out in the Security.
4. The secured creditor will not have the right to enforce the Security until after the expiration of the 10-day period after this notice is sent, unless the insolvent person consents to an earlier enforcement.

DATED at Saint John, New Brunswick, this 31st day of October, 2018.

BMO BANK OF MONTREAL

Per: 
its solicitors, Cox & Palmer
1 Germain Street
Suite 1500, P.O. Box 1324
Saint John, N.B. E2L 4H8
Phone: (506) 632-8900
Fax: (506) 632-8809

CONSENT AND WAIVER

The undersigned hereby acknowledges receipt of the demand for payment dated October 31, 2018 and the Notice of Intention to Enforce Security dated October 31, 2018 from BMO Bank of Montreal (the "Bank"). The undersigned further acknowledges that it is unable to meet the demand for payment set forth in the demand and hereby: i) waives any requirement for time to meet the demand for payment; ii) waives the 10 day time period set forth in Section 244(2) of the **Bankruptcy and Insolvency Act**; and iii) consents to the immediate enforcement of all security held by the Bank in support of the loans and obligations of the undersigned including the appointment of a licensed trustee as agent and/or receiver pursuant to the Bank's security.

DATED this ____ day of _____, 2018.

British Bazaar Company Limited.

Per:

I have authority to bind the above-noted
Corporation

October 31, 2018

DELIVERED BY REGISTERED MAIL AND REGULAR MAIL

British Confectionery Company Ltd.
7 Panther Place
Mount Pearl, NL A1N 5B7

Attention: David Connolly

Dear Sirs:

Re: British Confectionery Company Ltd. (the "Corporation") and BMO Bank of Montreal (the "Bank")
Our File No.: 50005491-00166

We are the solicitors for the Bank and as such we are authorized to issue this demand for payment on its behalf. We are advised by the Bank that the Corporation is indebted to it under various loan agreements.

As of October 31, 2018, the aggregate indebtedness of the Corporation was \$3,452,908.88 with a fluctuating per diem interest charge of \$588.75 (including accrued interest but excluding any costs, fees or expenses).

As security for the Corporation's indebtedness to it, the Bank holds various security including guarantees of the Corporation's liabilities, chattel mortgage, a general security agreement and a debenture (collectively, the "**Security**").

On behalf of the Bank, we hereby declare all of the Corporation's obligations and indebtedness to the Bank to be due and payable and we hereby demand payment of the Corporation's indebtedness and liabilities, and satisfaction of all obligations of the Corporation including, without limitation, those under the Security, to the Bank, together with payment of interest, fees, costs and expenses thereon from August 10, 2017 to the date of payment.

The total amount hereby demanded is \$3,452,908.88 together with interest thereon at the current per diem rate of \$588.75 and payment of all fees, costs and expenses until

Josh J.B. McElman* | Partner

Direct 506 633 2708 Main 506 632 8900 Fax 506 632 8809 Email jmcelman@coxandpalmer.com

1 Germain Street, Suite 1500 | Saint John, NB | E2L 4V1

Correspondence: P. O. Box 1324, Saint John, NB E2L 4H8

*Practicing through Josh McElman PC Inc.

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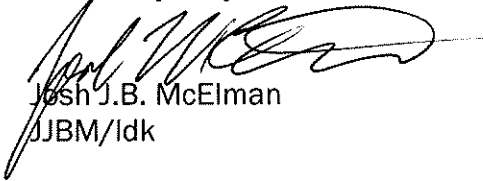
payment is received by the Bank. Payment is to be made forthwith by certified cheque or bank draft.

Failing payment, the Bank will have no other alternative but to take such steps as the Bank considers necessary or appropriate to recover payment of the Corporation's indebtedness and liabilities in full, including the enforcement of the Security.

Enclosed is a copy of the Notice of Intention to Enforce Security, which is given to the Corporation by the Bank pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* (Canada). We have also enclosed a waiver of all notice periods for your consideration.

All demands remain outstanding and unsatisfied and no intermediate acts, negotiations or indulgences shall act as a waiver of the Bank's rights, or, demand for payment, unless so expressly stated in writing. The Bank reserves all rights including the right to determine not to immediately proceed with enforcement of this demand, but in no case shall such determination vary or relieve you of your duty to satisfy your obligations to the Bank.

Yours very truly,



Josh J.B. McElman
JJBM/Idk

Enclosures

FORM 86
NOTICE OF INTENTION TO ENFORCE SECURITY
(Subsection 244(1) of the *Bankruptcy and Insolvency Act*)

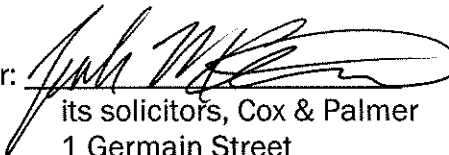
TO: British Confectionery Company Ltd., an insolvent person (hereinafter the "Corporation").

TAKE NOTICE THAT:

1. BMO BANK OF MONTREAL (the "Bank"), a secured creditor, intends to enforce its security on the Corporation's property described below:
 - a) all personal property of the Corporation of any nature or kind and wheresoever situated, including, without limiting the foregoing, all personal property described in the security below; and
 - b) all real property described in the security listed below.
2. The security that is to be enforced is in the form of the security listed in Schedule A hereto (collectively, the "Security").
3. The total amount of the indebtedness secured by the Security is \$3,452,908.88 as of October 31, 2018, together with interest therefrom and all other costs, fees, expenses and charges as set out in the Security.
4. The secured creditor will not have the right to enforce the Security until after the expiration of the 10-day period after this notice is sent, unless the insolvent person consents to an earlier enforcement.

DATED at Saint John, New Brunswick, this 31st day of October, 2018.

BMO BANK OF MONTREAL

Per: 
its solicitors, Cox & Palmer
1 Germain Street
Suite 1500, P.O. Box 1324
Saint John, N.B. E2L 4H8
Phone: (506) 632-8900
Fax: (506) 632-8809

Schedule A – Security

1. General Security Agreement dated July 20, 2004
2. General Assignment of Debts dated July 28, 2004
3. Chattel Mortgage dated July 31, 2006
4. Chattel Mortgage dated March 19, 2007
5. Chattel Mortgage dated May 23, 2007
6. Chattel Mortgage dated January 29, 2008
7. Chattel Mortgage dated March 13, 2014
8. Debenture registered on August 9, 2004 with Number 14402
9. Supplemental Debenture registered on June 13, 2006 with Number 130922
10. The following in relation to Bank Act Security in 2006:
 - a. Notice for registration under section 427 of the Bank Act dated September 7, 2006
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated September 12, 2006
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated September 12, 2006
 - d. Security under section 427 of the Bank Act dated September 12, 2006
11. The following in relation to Bank Act Security in 2009:
 - a. Notice for registration under section 427 of the Bank Act dated September 8, 2009
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated September 11, 2009
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated September 11, 2009
 - d. Security under section 427 of the Bank Act dated September 11, 2009
12. The following in relation to Bank Act Security in 2012:
 - a. Notice for registration under section 427 of the Bank Act dated August 9, 2012
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated August 15, 2012
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated August 15, 2012
 - d. Security under section 427 of the Bank Act dated August 15, 2012

CONSENT AND WAIVER

The undersigned hereby acknowledges receipt of the demand for payment dated October 31, 2018 and the Notice of Intention to Enforce Security dated October 31, 2018 from BMO Bank of Montreal (the "Bank"). The undersigned further acknowledges that it is unable to meet the demand for payment set forth in the demand and hereby: i) waives any requirement for time to meet the demand for payment; ii) waives the 10 day time period set forth in Section 244(2) of the **Bankruptcy and Insolvency Act**; and iii) consents to the immediate enforcement of all security held by the Bank in support of the loans and obligations of the undersigned including the appointment of a licensed trustee as agent and/or receiver pursuant to the Bank's security.

DATED this ____ day of _____, 2018.

British Confectionery Company Ltd.

Per:

I have authority to bind the above-noted
Corporation

October 31, 2018

DELIVERED BY REGISTERED MAIL AND REGULAR MAIL

David Connolly Sr.
301 Country Estate Pl
Vernon, BC V1B 2W7

Dear Sir:

**Re: British Confectionery Company Ltd. (the "Corporation") and BMO Bank of Montreal
(the "Bank")
Our File No.: 50005491-00166**

We are the solicitors for the Bank with respect to the indebtedness of the Corporation and the following guarantees granted by you thereof:

1. Guarantee granted on January 26, 2015 in the amount of \$605,177
2. Guarantee granted on July 28, 2004 in the amount of \$1,000,000
3. Guarantee granted on July 9, 2015 in the amount of \$300,000

(collectively, the "Guarantees").

As of October 31, 2018, the aggregate indebtedness of the Corporation was \$3,452,908.88. On behalf of the Bank, we demanded payment by the Corporation of its indebtedness and liabilities, and satisfaction of all obligations of the Corporation to the Bank. Enclosed is a copy of the demand made on the Corporation.

The Bank hereby demands payment of the Guarantees. The amount due is \$1,905,177 plus interest, costs, fees and expenses in accordance with the Guarantees. Payment is to be made forthwith by certified cheque or bank draft. Failing payment, the Bank will have no other alternative but to take such steps as the Bank considers necessary or appropriate to recover payment.

All demands remain outstanding and unsatisfied and no intermediate acts, negotiations or indulgences shall act as a waiver of the Bank's rights, or, demand for payment, unless so expressly stated in writing. The Bank reserves all rights including the right to determine not

Josh J.B. McElman* | Partner

Direct 506 633 2708 Main 506 632 8900 Fax 506 632 8809 Email jmcelman@coxandpalmer.com

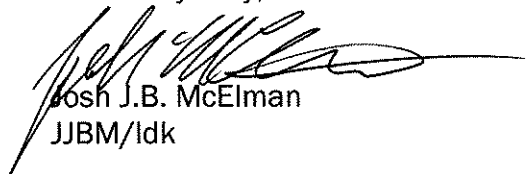
1 Germain Street, Suite 1500 | Saint John, NB | E2L 4V1

Correspondence: P. O. Box 1324, Saint John, NB E2L 4H8

*Practicing through Josh McElman PC Inc.

to immediately proceed with enforcement of this demand, but in no case shall such determination vary or relieve you of your duty to satisfy your obligations to the Bank.

Yours very truly,



Josh J.B. McElman
JJBm/ldk

Enclosure

October 31, 2018

DELIVERED BY REGISTERED MAIL AND REGULAR MAIL

British Confectionery Company Ltd.
7 Panther Place
Mount Pearl, NL A1N 5B7

Attention: David Connolly

Dear Sirs:

Re: **British Confectionery Company Ltd. (the "Corporation") and BMO Bank of Montreal (the "Bank")**
Our File No.: 50005491-00166

We are the solicitors for the Bank and as such we are authorized to issue this demand for payment on its behalf. We are advised by the Bank that the Corporation is indebted to it under various loan agreements.

As of October 31, 2018, the aggregate indebtedness of the Corporation was \$3,452,908.88 with a fluctuating per diem interest charge of \$588.75 (including accrued interest but excluding any costs, fees or expenses).

As security for the Corporation's indebtedness to it, the Bank holds various security including guarantees of the Corporation's liabilities, chattel mortgage, a general security agreement and a debenture (collectively, the "Security").

On behalf of the Bank, we hereby declare all of the Corporation's obligations and indebtedness to the Bank to be due and payable and we hereby demand payment of the Corporation's indebtedness and liabilities, and satisfaction of all obligations of the Corporation including, without limitation, those under the Security, to the Bank, together with payment of interest, fees, costs and expenses thereon from August 10, 2017 to the date of payment.

The total amount hereby demanded is \$3,452,908.88 together with interest thereon at the current per diem rate of \$588.75 and payment of all fees, costs and expenses until

Josh J.B. McElman* | Partner

Direct 506 633 2708 Main 506 632 8900 Fax 506 632 8809 Email jmcelman@coxandpalmer.com

1 Germain Street, Suite 1500 | Saint John, NB | E2L 4V1

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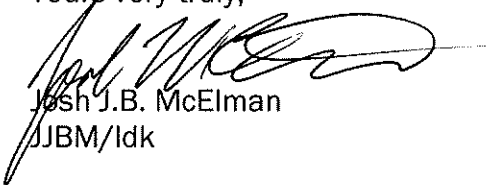
payment is received by the Bank. Payment is to be made forthwith by certified cheque or bank draft.

Failing payment, the Bank will have no other alternative but to take such steps as the Bank considers necessary or appropriate to recover payment of the Corporation's indebtedness and liabilities in full, including the enforcement of the Security.

Enclosed is a copy of the Notice of Intention to Enforce Security, which is given to the Corporation by the Bank pursuant to Section 244(1) of the *Bankruptcy and Insolvency Act* (Canada). We have also enclosed a waiver of all notice periods for your consideration.

All demands remain outstanding and unsatisfied and no intermediate acts, negotiations or indulgences shall act as a waiver of the Bank's rights, or, demand for payment, unless so expressly stated in writing. The Bank reserves all rights including the right to determine not to immediately proceed with enforcement of this demand, but in no case shall such determination vary or relieve you of your duty to satisfy your obligations to the Bank.

Yours very truly,



Josh J.B. McElman
JJBM/ldk

Enclosures

FORM 86
NOTICE OF INTENTION TO ENFORCE SECURITY
(Subsection 244(1) of the *Bankruptcy and Insolvency Act*)

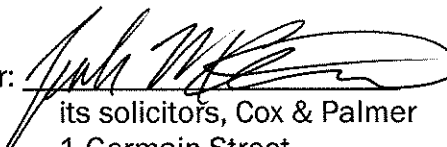
TO: **British Confectionery Company Ltd.**, an insolvent person (hereinafter the "Corporation").

TAKE NOTICE THAT:

1. **BMO BANK OF MONTREAL** (the "Bank"), a secured creditor, intends to enforce its security on the Corporation's property described below:
 - a) all personal property of the Corporation of any nature or kind and wheresoever situated, including, without limiting the foregoing, all personal property described in the security below; and
 - b) all real property described in the security listed below.
2. The security that is to be enforced is in the form of the security listed in Schedule A hereto (collectively, the "Security").
3. The total amount of the indebtedness secured by the Security is \$3,452,908.88 as of October 31, 2018, together with interest therefrom and all other costs, fees, expenses and charges as set out in the Security.
4. The secured creditor will not have the right to enforce the Security until after the expiration of the 10-day period after this notice is sent, unless the insolvent person consents to an earlier enforcement.

DATED at Saint John, New Brunswick, this 31st day of October, 2018.

BMO BANK OF MONTREAL

Per: 
its solicitors, Cox & Palmer
1 Germain Street
Suite 1500, P.O. Box 1324
Saint John, N.B. E2L 4H8
Phone: (506) 632-8900
Fax: (506) 632-8809

Schedule A – Security

1. General Security Agreement dated July 20, 2004
2. General Assignment of Debts dated July 28, 2004
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6. Chattel Mortgage dated January 29, 2008
7. Chattel Mortgage dated March 13, 2014
8. Debenture registered on August 9, 2004 with Number 14402
9. Supplemental Debenture registered on June 13, 2006 with Number 130922
10. The following in relation to Bank Act Security in 2006:
 - a. Notice for registration under section 427 of the Bank Act dated September 7, 2006
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated September 12, 2006
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated September 12, 2006
 - d. Security under section 427 of the Bank Act dated September 12, 2006
11. The following in relation to Bank Act Security in 2009:
 - a. Notice for registration under section 427 of the Bank Act dated September 8, 2009
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 - d. Security under section 427 of the Bank Act dated September 11, 2009
12. The following in relation to Bank Act Security in 2012:
 - a. Notice for registration under section 427 of the Bank Act dated August 9, 2012
 - b. Agreement as to loans and advances for security under section 427 of the Bank Act dated August 15, 2012
 - c. Application for Credit and Promise to give bills of lading, warehouse receipts for security under section 427 of the Bank Act dated August 15, 2012
 - d. Security under section 427 of the Bank Act dated August 15, 2012

CONSENT AND WAIVER

The undersigned hereby acknowledges receipt of the demand for payment dated October 31, 2018 and the Notice of Intention to Enforce Security dated October 31, 2018 from BMO Bank of Montreal (the "Bank"). The undersigned further acknowledges that it is unable to meet the demand for payment set forth in the demand and hereby: i) waives any requirement for time to meet the demand for payment; ii) waives the 10 day time period set forth in Section 244(2) of the **Bankruptcy and Insolvency Act**; and iii) consents to the immediate enforcement of all security held by the Bank in support of the loans and obligations of the undersigned including the appointment of a licensed trustee as agent and/or receiver pursuant to the Bank's security.

DATED this _____ day of _____, 2018.

British Confectionery Company Ltd.

Per:

I have authority to bind the above-noted
Corporation

APPENDIX C – CASH FLOW RECONCILIATION

British Confectionery Company Limited and British Bazaar Companies Limited												
Variance Analysis - Consolidated Statement of Projected Cash Flows												
For the period November 5 to November 23, 2018												
Week ending (Friday)	11/9/2018			11/16/2018			11/23/2018			Cumulative		
	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance
Cash inflows												
Collection of existing accounts receivable	19,518	19,518	-	90,427	11,785	(78,642)	32,367	124,022	91,655	142,312	155,325	13,013
New production	81,508	81,508	-	185,574	7,813	(177,762)	82,787	79,734	(3,053)	349,869	169,055	(180,815)
Other	-	-	-	7,692	813	(6,879)	-	-	-	7,692	813	(6,879)
Total inflows A	101,026	101,026	-	283,693	20,410	(263,283)	115,154	203,756	88,602	499,874	325,192	(174,681)
Cash outflows												
Cost of goods sold												
Compensation	-	-	-	45,000	43,048	1,952	-	-	-	45,000	43,048	1,952
Materials and other	106,142	106,142	-	7,791	2,013	5,779	81,500	70,297	11,203	195,433	178,452	16,982
Overhead expenses												
Compensation	-	-	-	25,950	24,825	1,125	-	-	-	25,950	24,825	1,125
Compensation related expenditures	-	-	-	13,817	11,379	2,438	-	-	-	13,817	11,379	2,438
Rent	-	-	-	28,261	28,261	-	-	-	-	28,261	28,261	-
General and administrative	2,443	1,845	599	37,381	16,624	20,757	30,989	23,713	7,276	70,813	42,182	28,631
Sales taxes payable (refund)	(122,442)	(122,442)	-	-	(6,858)	6,858	-	-	-	(122,442)	(129,300)	6,858
Total outflows from operations	(13,856)	(14,455)	599	158,199	119,291	38,908	112,489	94,010	18,479	256,833	198,846	57,987
Professional Fees												
BoyneClarke - Company Counsel	-	-	-	17,250	-	17,250	-	17,334	(17,334)	17,250	17,334	(84)
Deloitte Restructuring Inc. - Proposal Trustee	-	-	-	17,250	-	17,250	-	-	-	17,250	-	17,250
	-	-	-	34,500	-	34,500	-	17,334	(17,334)	34,500	17,334	17,166
Total outflows B	(13,856)	(14,455)	599	192,699	119,291	73,408	112,489	111,344	1,145	291,333	216,180	75,152
Weekly cash flow (A-B)	114,883	115,481	599	90,994	(98,881)	(189,875)	2,665	92,412	89,747	208,541	109,012	(99,529)
Opening cash balance	-	(599)	(599)	114,883	114,883	-	205,876	16,002	(189,875)	-	(599)	(599)
Projected ending cash balance	114,883	114,883	-	205,876	16,002	(189,875)	208,541	108,413	(100,128)	208,541	108,413	(100,128)

APPENDIX D – FIRST EXTENSION CASH FLOW

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

The management of British Confectionery Company Limited and British Bazaar Company Limited (the "Insolvent Person") has developed the assumptions and prepared the attached statement of projected cash flow of the Insolvent Person, as of the 28th day of November 2018, consisting of weekly cash flows for the period November 24th, 2018 to February 22nd, 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 Person 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 28th day of November, 2018.

British Confectionery Company Limited and British Bazaar Company Limited

Per:



Blair Connolly
President

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

Note A:

The statement of projected cash flow is being filed pursuant to *Bankruptcy and Insolvency Act s. 50.4(2)* in association with the Notice of Intention to Make a Proposal by British Confectionery Company Limited and British Bazaar Company Limited (collectively the "Insolvent Person") 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 Person:

Operating Inflows

- Collection of existing accounts receivable is projected based on the books and records of the Insolvent Person as at November 26, 2018. 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 Person. Amounts related to new production are projected to be collected based on existing contract terms with customers and the current production schedule of the Insolvent Person. 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 Person with deposits prior to the production of games. These deposits are assumed to be received during the week the game is approved by the customer.
 - Residual balance – for customers who provide deposits, the residual balance is projected to be received during the week following the fulfillment of the order.

Non-operating Inflows

- Other inflows include the following:
 - Insurance proceeds in relation to a fire which occurred during late fiscal 2017. This claim has not yet been presented to the insurance provider however, the Insolvent Person intends to make this claim during the forecast period; and
 - Proceeds related to a Learnisphere rebate program. The Insolvent Person intends to make a claim under this program during the forecast period.

Operating Outflows

- Cost of goods sold during the projection period is comprised of the following:
 - Compensation and related expenditures including all statutory remittances. The amounts incorporated into the projection are based on current employment levels and management's expectations during the period covered by the projection.

- Materials and other expenditures represent the anticipated cost of paper products, ink, plates, and other consumables used in production. These estimates are based on Management's experience and estimates received from key suppliers taking into consideration the current production schedule.
 - Overhead expenses during the projection period is comprised of the following:
 - Compensation and related expenditures consist of wages payable to administrative and sales staff, including all statutory remittances.
 - Rent represents monthly rent expense associated with the Insolvent Person's production facility. Additional costs included in this amount include quarterly costs related to property and various municipal taxes. These amounts have been pro-rated to reflect the stay of proceedings and are included in the December rent amount.
-
- General and administrative expenses are based on historical amounts taking into account the effect of the stay of proceedings.

HST/PST Payments (Refunds)

- Government sales taxes payable and receivable are based on the outstanding tax position as at November 26, 2018 and projected sales and expenses anticipated during the period.

Professional fees

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

Dated at St. John's, Newfoundland and Labrador this 28th day of November, 2018.

British Confectionery Company Limited and British Bazaar Company Limited

Per:


Blair Connolly
President

Deloitte

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

The attached consolidated statement of projected cash flow of British Confectionery Company Limited and British Bazaar Company Limited (collectively the "Insolvent Person"), consisting of weekly projections through the week beginning November 24, 2018 to the week beginning February 22, 2019 has been prepared by the management of the Insolvent Person 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 Person. 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 person 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 28th day of November, 2018.

DELOITTE RESTRUCTURING INC.

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

Per:



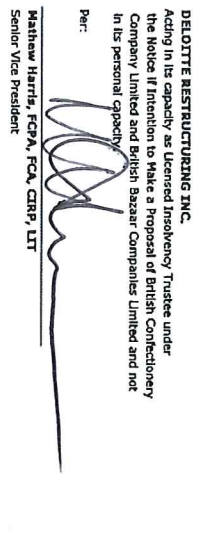
Mathew Harris, FCPA, FCA, CIRP, LIT
Senior Vice President

British Confectionery Company Limited and British Bazaar Companies Limited
 Consolidated Statement of Projected Cash Flows
 For the period November 24, 2018 to February 22, 2019

Week ending (Friday)	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
	11/30/2018	12/7/2018	12/14/2018	12/21/2018	12/28/2018	1/4/2019	1/11/2019	1/18/2019	1/25/2019	2/1/2019	2/8/2019	2/15/2019	2/22/2019	
Cash inflows														
Collection of existing accounts receivable	39,017	89,722	-	28,000	-	24,815	-	32,500	-	102,000	74,348	355,300	156,578	231,854
New production	169,385	-	281,310	65,420	111,882	28,235	278,658	108,289	171,856	102,000	74,348	355,300	156,578	1,901,489
Other	-	-	-	-	-	30,000	25,000	-	-	-	-	-	-	59,000
Total Inflows A	208,402	89,722	281,310	81,420	111,882	60,050	303,658	140,789	171,856	102,000	74,348	355,300	156,578	2,178,323
Cash outflows														
Cost of goods sold	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	-	45,000	315,000
Compensation	151,404	33,813	65,348	55,000	48,874	36,374	114,050	71,248	47,000	89,248	5,000	116,248	-	811,607
Materials and other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overhead expenses	25,950	-	25,950	-	25,950	-	25,950	-	25,950	-	25,950	-	25,950	181,650
Compensation	-	3,583	13,000	817	-	3,583	13,000	-	817	-	3,583	-	817	52,280
Compensation related expenditures	-	15,948	-	-	-	-	-	-	-	-	-	-	-	117,688
Rent	8,250	45,184	35,231	38,384	20,471	25,783	15,881	33,043	17,800	10,250	20,014	29,543	25,800	323,694
General and administrative	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales taxes payable (refund)	-	-	-	-	7,796	-	-	-	-	19,899	-	-	-	27,694
Total outflows from operations	230,604	88,509	184,528	128,094	148,091	65,740	213,881	138,204	138,567	102,880	108,964	179,704	97,567	1,829,443
Professional Fees														
Boyer/Clark - Company Counsel	11,500	-	11,500	-	11,500	-	11,500	-	11,500	-	11,500	-	11,500	80,500
Debitte Restructuring Inc. - Proposal Trustee	36,072	-	30,000	-	-	25,000	-	-	23,000	-	-	-	-	141,072
	47,572	-	41,500	-	11,500	-	11,500	-	36,500	-	11,500	-	11,500	221,572
Total outflows B	278,178	88,509	226,028	128,094	157,591	90,740	225,481	138,204	173,067	102,880	120,464	204,704	109,067	2,051,015
Weekly cash flow (A-B)	(69,774)	1,213	55,281	(34,674)	(45,709)	(9,890)	78,377	2,595	(1,211)	(890)	(46,118)	150,596	47,512	127,309
Opening cash balance	108,832	39,057	40,270	95,551	60,877	15,188	5,278	83,555	86,250	85,039	84,150	38,032	188,628	108,832
Projected ending cash balance	39,057	40,270	95,551	60,877	15,188	5,278	83,555	86,250	85,039	84,150	38,032	188,628	206,140	236,140

British Confectionery Company Limited and British Bazaar Companies Limited

Per: 
 Blair Connolly
 President

DELOITTE RESTRUCTURING INC.
 Acting in its capacity as Licensed Insolvency Trustee under
 the Notice of Intention to Make a Proposal of British Confectionery
 Company Limited and British Bazaar Companies Limited and not
 in its personal capacity
 Per: 
 Matthew Harris, FCPA, FCA, CRRP, LIT
 Senior Vice President