

*ONTARIO*

**SUPERIOR COURT OF JUSTICE**

**(COMMERCIAL LIST)**

**BETWEEN:**

**NATIONAL BANK OF CANADA**

Applicant

**- and -**

**EVERGREEN CONSUMER BRANDS INC.**

Respondents

**SUPPLEMENT TO THE FIRST REPORT OF THE RECEIVER  
DELOITTE RESTRUCTURING INC.**

**DATED MARCH 9, 2020**

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## INTRODUCTION

1. This Supplement to the First Report of the Receiver (the “**Supplemental Report**”) is to update the Court on the process undertaken by the Receiver with respect to certain third-party claims to the ownership of inventory at the Company’s leased premise at 1020 Birchmount Road, Scarborough, ON (the “**Birchmount Premises**”). All capitalized terms herein shall have the meanings ascribed to them in the First Report unless otherwise defined herein.

## TERMS OF REFERENCE

2. In preparing this Supplemental Report, Deloitte has been provided with, and has relied upon unaudited, draft and/or internal financial information, ECB's books and records, discussions with management of ECB, discussions with NBC and its legal counsel, and information from third-party sources (collectively, the “**Information**”). Except as described in this Supplemental Report:
  - (a) Deloitte has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, Deloitte has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and

- (b) Deloitte has prepared this Supplemental Report in its capacity as Court-appointed Receiver to support the Court's approval of the relief being sought. Parties using the First Report and this Supplemental Report other than for the purposes outlined herein are cautioned that it may not be appropriate for their purposes.

### **BACKGROUND AND INVENTORY QUESTIONS**

3. As set out in the First Report, in June 2018, ECB completed the purchase of the Salon Selectives and Daily Defense brands from CLT International ("**CLT**") for \$20.0 million (the "**CLT Transaction**").
4. As part of the CLT Transaction, various arrangements were put in place to permit the Company to purchase inventory on hand at the time of transaction (the "**CLT Inventory**") to support the Business through the first months of the transition. The inventory was located exclusively at the Birchmount Premises, previously occupied by CLT. A mechanism was agreed to whereby the Company would issue a purchaser order to CLT for product it wished to purchase from time to time from the CLT Inventory, at which point CLT would issue an invoice and title to such invoiced inventory would pass to the Company and a corresponding obligation to pay for such inventory would be created.
5. On or about February 20, 2020, the Receiver was contacted by Venkat Ganesh D K, Chief Accountant of CLT, who provided a report which indicated what CLT believed to be the CLT Inventory that remained at the Birchmount Premises and who also requested access to retrieve such inventory during a period from February 24 to February 28.

6. The Receiver had various questions with respect to the claims made by CLT and wished to obtain further information to identify and substantiate the inventory and the basis for such claims.
7. On February 28, 2020, the Receiver began discussions with CLT to invite representatives of CLT to attend the Birchmount Premises with a view to identifying the CLT Inventory that remained in the warehouse. CLT was advised that this was a matter of urgency for the Receiver as an asset purchase agreement with the Purchaser was being finalized for an en bloc sale of the Company's assets, including all inventory, and accounting for third party claims would impact the ultimate purchase price.
8. CLT did not attend the premises during the week ending March 7, which the Receiver understands was due to a delay on their part in compiling background documentation to enable it to appropriately determine from their perspective the CLT Inventory still on hand in the Birchmount Premises.
9. For its part, the Receiver commenced a review of both the documentation available to it and the inventory itself and has formed a view as to what inventory at the Birchmount Premises might constitute the CLT Inventory.
10. On March 6, 2020, CLT advised the Receiver that it would be prepared to attend the Birchmount Premises on March 9, 2020 to undertake its own assessment of the amount of CLT Inventory that remains in the warehouse.

11. Following CLT's review, the Receiver will attempt to reconcile any differences with CLT and, to the extent possible, include undisputed inventory in the Transaction with the Purchaser.
12. To the extent there remain disputes over entitlement and ownership of the inventory, the Receiver intends to deal with these as expeditiously as possible through negotiation, or failing this through further proceedings in the receivership.
13. At this point, it is not clear how this dispute will impact the Purchase Price.

All of which is respectfully submitted at Toronto, Ontario this 9<sup>th</sup> day of March, 2020.

**DELOITTE RESTRUCTURING INC.,**  
solely in its capacity as Court-appointed  
Receiver and Manager of  
Evergreen Consumer Brands Inc. and not in  
its personal or corporate capacity

Per: \_\_\_\_\_

Paul Casey, CPA, CA, FCIRP, LIT

*Senior Vice-President*