

CANADA  
Province of Quebec  
District of Québec  
Division No.: 01-Montréal  
Court No.: 500-11-057985-208  
Estate No.: 41-2618947

SUPERIOR COURT  
(Commercial Division)  
*Bankruptcy and Insolvency Act*

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IN THE MATTER OF THE NOTICE OF INTENTION  
TO MAKE A PROPOSAL OF:

**STOKES INC.**

a legal person having its registered office at 5660  
Ferrier Street, Mont-Royal, Québec, H4P 1M7

Petitioner / Debtor

-and-

**RICHTER ADVISORY GROUP INC.**

Proposal Trustee

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FIRST REPORT OF THE PROPOSAL TRUSTEE  
ON THE STATE OF PETITIONER'S BUSINESS AND FINANCIAL AFFAIRS  
February 21, 2020

Richter Advisory Group Inc. ("**Richter**" or the "**Proposal Trustee**"), in its capacity as trustee under the Notice of Intention to Make a Proposal (the "**NOI**"), pursuant to the *Bankruptcy and Insolvency Act* (the "**BIA**") filed by Stokes Inc. ("**Stokes**", "Debtor" or the "**Company**"), an insolvent person, does hereby report to the Court the following:

**INTRODUCTION**

1. On February 18, 2020, the Company sought protection under the BIA by filing a NOI with the Proposal Trustee. A copy of the Certificate of Filing issued by the Superintendent of Bankruptcy is annexed hereto as Exhibit "A".
2. Prior to the filing of the NOI, this Court authorized Richter to act as trustee to the NOI. Such an authorization was required as an entity related to Richter acts as the auditor of the Company.

3. On February 19, 2020, the Company filed with the Official Receiver a Statement of Projected Cash Flow (the "**Projections**") together with its report pursuant to Section 50.4(2)(c) of the BIA, covering the period from January 26, 2020, to March 21, 2020, which included the major assumptions used in the preparation of the Projections. Concurrently therewith, the Proposal Trustee filed its Report on the reasonableness of the Projections in accordance with Section 50.4(2)(b) of the Act, all of which are annexed hereto as **Exhibit "B"**.
4. On February 20, 2020, the Company filed a motion entitled *Application for an order approving an administration charge, a D&O charge, a consulting agreement and sale guidelines and granting ancillary relief* (the "**First Motion**") which has been scheduled for hearing on February 24, 2020.
5. In order to monitor the affairs and finances of the Company, the Proposal Trustee has been provided with access to the books, records and other important documents of the Company.

#### **PURPOSE OF THIS REPORT**

6. The purpose of this first report of the Proposal Trustee (the "**First Report**") is to provide this Court with information pertaining to:
  - (i) General background information of the Company;
  - (ii) The Company's financial situation;
  - (iii) The Company's creditors;
  - (iv) The restructuring measures and CRA agreement;
  - (v) Solicitation process for a consultant to assist with inventory liquidation;
  - (vi) The offers and the proposed consulting agreement relating to the liquidation of inventory (the "**Inventory Liquidation Consulting Agreement**");
  - (vii) The financing of the ongoing operations;
  - (viii) The relief sought in the First Motion;
  - (ix) The Company's statement of projected cash flow for the period from January 26, 2020 to March 21, 2020;
  - (x) The Proposal Trustee's recommendations.

## TERMS OF REFERENCE

7. Unless otherwise noted, all monetary amounts contained in this First Report are expressed in Canadian dollars.
8. In preparing this First Report, the Proposal Trustee has relied upon certain unaudited financial information prepared by the Company's representatives, the Company's books and records, and discussions with the Company's representatives and legal counsel (the "Information").
9. Except as otherwise described in this First Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("GAAS") pursuant to the Chartered Professional Accountant of Canada Handbook and, as such, the Proposal Trustee expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
10. Future oriented financial information relied upon in this First Report is based on the Company's representatives' assumptions regarding future events; actual results achieved may vary from the Information presented even if the hypothetical assumptions occur and these variations may be material. Accordingly, the Proposal Trustee expresses no assurance as to whether Projections will be achieved.

## GENERAL BACKGROUND INFORMATION OF THE COMPANY

11. Stokes is a privately held retailer currently operating out of 147 stores across Canada. The Company also sells merchandise online and from temporary stores that operate during the months of November and December, its peak selling season.
12. Stokes offers a wide assortment of kitchenware products, mainly in the following subcategories: dinnerware, stemware, drinkware, small kitchen appliances, home decor, cookware, bakeware, cooking utensils and gadgets. Stokes sells products under its own private labels *Stokes*, *Remy Olivier* and *Thinkkitchen* and complements its product lines by offering renowned third-party brands, such as *Riedel*, *Ricardo* and *Trudeau*.
13. The following table provides an overview of Stokes' stores geographical presence:

| Stokes Inc.<br>Store Locations |            |
|--------------------------------|------------|
| Quebec                         | 75         |
| Ontario                        | 32         |
| Alberta                        | 13         |
| British Columbia               | 7          |
| Nova Scotia                    | 6          |
| Manitoba                       | 4          |
| New Brunswick                  | 4          |
| Saskatchewan                   | 3          |
| Newfoundland                   | 2          |
| Prince Edwards Island          | 1          |
|                                | <u>147</u> |

14. The Company's head office and distribution center is located on the island of Montreal in the Town of Mount Royal, in the Province of Quebec. Stokes also leases a nearby secondary warehousing facility and uses temporary third-party storage during peak periods.
15. Stokes leases all of its premises from third party landlords. The following table summarizes the retail store landlords:

| Stokes Inc.<br>Retail Store Landlords | Premises   |               |
|---------------------------------------|------------|---------------|
| Cominar Real Estate Investment Trust  | 16         | 10.9%         |
| Ivanhoe Cambridge Inc.                | 15         | 10.2%         |
| Westcliff Management                  | 12         | 8.2%          |
| Cushman & Wakefield                   | 10         | 6.8%          |
| Morguard Investment Ltd.              | 10         | 6.8%          |
| Primaris Management Inc.              | 9          | 6.1%          |
| Piocan Property Services              | 9          | 6.1%          |
| Cadillac Fairview                     | 8          | 5.4%          |
| Oxford                                | 6          | 4.1%          |
| Centrecorp Management Services Ltd    | 4          | 2.7%          |
| Group Mach                            | 3          | 2.0%          |
| Beauward Shopping Centres Ltd.        | 2          | 1.4%          |
| Bentall Kennedy                       | 2          | 1.4%          |
| Crombie Developments Ltd.             | 2          | 1.4%          |
| McCor Management                      | 2          | 1.4%          |
| Quadreal Prop. Group                  | 2          | 1.4%          |
| Quint Inc.                            | 2          | 1.4%          |
| Simon                                 | 2          | 1.4%          |
| Smartcentres                          | 2          | 1.4%          |
| Others (29)                           | 29         | 19.7%         |
|                                       | <b>147</b> | <b>100.0%</b> |

16. The Company currently employs approximately 1,250 employees in its retail operations and a further 150 employees at its head office, distribution center and warehousing facilities. Approximately 300 employees are employed on a full-time basis. Employees' wages and remittance of deductions at source were current at the time of the filing. None of the employees are unionized and the Company does not offer a defined benefit pension plan.
17. In addition to its employees, Stokes stakeholders include its landlords, its trade and services creditors, federal and provincial governments, Scotiabank Asset Finance (a division of the Bank of Nova Scotia) ("**Scotia**"), HSBC Bank Canada ("**HSBC**") and its customers.
18. In addition to its core operations, the Company also operates a wholesaling business which sells private label goods to licensed retailers in France and in the Middle East. Also, until recently, Stokes sold merchandise and offered operating support to Thinkkitchen USA, Inc. a related party retailer operating out of three retail locations in the United States, all of which will be closed by the end of February 2020.

## THE COMPANY'S FINANCIAL SITUATION

19. Set out below is a summary of Stokes' audited financial results for the last three fiscal periods (ending January 28, 2017, January 27, 2018, and January 26, 2019) and the Company's unaudited internal financial results for the 11-month period ended December 28, 2019:

| Stokes Inc.<br>Financial Results<br>(000's)<br>For the period ended:<br>Months: | F2017<br><i>(Audited)</i><br>28-Jan-17<br>12 mths | F2018<br><i>(Audited)</i><br>27-Jan-18<br>12 mths | F2019<br><i>(Audited)</i><br>26-Jan-19<br>12 mths | YTD Dec 2019<br><i>(Unaudited)</i><br>28-Dec-19<br>11 mths |
|---|---|---|---|--|
| Sales   | \$ 110,432  | \$ 106,603  | \$ 105,622  | \$ 92,220  |
| Cost of sales & Expenses  | (109,881)   | (109,059)   | (106,278)   | (98,233)   |
| <b>Loss before income taxes</b>   | <b>551</b>  | <b>(2,456)</b>                                    | <b>(656)</b>                                      | <b>(6,014)</b>   |
| Income taxes  | 17  | 478   | (230)   | 1,497  |
| <b>Net Loss</b>   | <b>\$ 568</b>                                     | <b>\$ (1,978)</b>                                 | <b>\$ (886)</b>                                   | <b>\$ (4,517)</b>  |

20. Stokes has been experiencing financial difficulties for the last few years mainly as a result of the increasing competition from large-scale and online retailers, successive minimum wage increases across Canada and the high cost of rent in certain locations in accordance with the terms of certain long-term leases.
21. In addition to F2018 and F2019's audited net losses of \$2.0 million and \$0.9 million respectively, Stokes reported financial losses of approximately \$4.5 million for the 11-month period ended December 28, 2019. The significant losses, incurred during the January 25, 2020 fiscal year, are mainly attributable to operational issues experienced following the implementation of a new warehouse management system (the "WMS") in June 2019 and the concurrent change in the distribution methodology used internally. The conversion to the new WMS system was essential as the previous system was unstable and no longer supported by the software provider.
22. Immediately following the implementation, due to the significant distribution inefficiencies experienced, Stokes was unable to appropriately replenish its stores, especially during its peak selling months. Despite increasing the workforce through agency employees and adding supplementary distribution shifts, in-store inventory levels were significantly below the desired levels and multiple stores were missing key products. As a result, sales trended significantly below expectations. This situation was further exacerbated during the peak selling season of November and December 2019 as distribution requirements were significantly higher during this period. To minimize sales attrition, Stokes increased the length and magnitude of its promotions directly impacting its gross margin.

23. The above poor results led to a significant increase in the Company's borrowings and a breach of certain loan covenants with Scotia.

24. Presented below is an overview of the Company's balance sheet as at December 28, 2019:

| Stokes Inc.<br>Balance Sheet<br>(000's) | As at<br>28-Dec-19<br>(Unaudited) |
|---|-----------------------------------|
| <b>Assets</b>                           |                                   |
| Cash                                    | \$ 2,328                          |
| Inventory                               | 23,385                            |
| Fixed Assets                            | 8,349                             |
| Prepays, Receivables & Other            | 3,564                             |
| Deferred Income Taxes                   | 1,499                             |
|   | <u>\$ 39,126</u>                  |
| <b>Liabilities</b>                      |                                   |
| Bank Debt                               | \$ 5,487                          |
| Accounts Payable & Accruals             | 16,532                            |
| Capital Leases                          | 2,917                             |
| Future Income Tax                       | 289                               |
| Lease Inducements                       | 2,364                             |
|   | <u>27,589</u>                     |
| <b>Equity &amp; Retained Earnings</b>   | <b>11,537</b>                     |
| <b>Liabilities &amp; Equity</b>         | <b><u>\$ 39,126</u></b>           |

25. As at December 28, 2019, the Company's assets were mainly comprised of \$23.4 million of inventory and \$8.3 million of fixed assets broken down as follows: \$4.8 million of leasehold improvements, \$2.1 million of capitalized software development costs and \$1.4 million of equipment, computers and furniture and fixtures.

#### THE COMPANY'S CREDITORS

26. At the time of the filing of the NOI, the Company's books and records reflected the following amounts owing to its creditors.

##### Secured Creditors

27. The Company owed to its principal lender, Scotia, an amount of \$9.7 million (CAD \$6.6 million and USD \$2.3 million), excluding interest, fees and expenses.

28. The Proposal Trustee is informed that Scotia has registered a first ranking charge on substantially all of the Company's assets. The Proposal Trustee will, in due course, obtain a legal opinion from its independent legal advisors as to the validity of the Scotia security and any other secured charges that may have been registered on the Company's assets.

29. Approximately \$2.3 million (USD \$1.7 million) of the Scotia exposure relates to letters of credit issued to foreign vendors.

30. As a result of the recent breach of certain covenants, Stokes entered into a Forbearance Agreement with Scotia on February 18, 2020 (the "**Forbearance Agreement**"). A copy of the Forbearance Agreement is annexed to the First Motion under seal as Exhibit P-5. Under the terms of the Forbearance Agreement, Scotia has agreed to tolerate the various defaults and to continue to finance Stokes' operations during the restructuring period, subject to certain conditions being respected.

Leasing Contracts

31. The Company has entered into sale and lease back agreements and capital leases with various financial institutions. The Company's books and records reflect that \$2.9 million is owed to such lessors. Of this amount, approximately \$2.3 million is owed to HSBC. At the time of the filing of the NOI, all such leases were current. The Proposal Trustee is informed that pursuant to these agreements, certain security registrations have been made.

Unsecured Creditors

32. Set out below is an overview of the Company's unsecured creditors at the time of the filing of the NOI:

| <b>Stokes Inc.<br/>Unsecured Creditors<br/>(000's)</b> |                  |
|--|------------------|
| Vendors & Landlords                                    | \$ 7,744         |
| Sales Taxes  | 575              |
| Employees  | 2,000            |
| Gift Cards   | 1,062            |
|  | <u>\$ 11,381</u> |

33. The amount shown as owing to employees is comprised of accrued vacation pay of \$1.2 million and gross unpaid wages for the period from February 9, 2020 to the date of filing of the NOI, which amount will be paid in the normal course. Wages are paid every two weeks. The next pay is due on February 27, 2020.
34. Stokes will continue honoring all gift cards and certificates.

**THE RESTRUCTURING MEASURES AND CRA AGREEMENT**

35. As indicated above, despite the significant efforts deployed by management to minimize the impact of the operational issues, Stokes suffered extensive losses in the last year and consequently was unable to generate enough liquidities to meet its obligations as they came due.
36. Under the circumstances, the Company determined that it was in the best interests of all stakeholders for Stokes to file for protection under the BIA, with a view to restructuring its operations, renewing with profitability and making a proposal to its creditors as soon as possible.

37. The restructuring plan developed by management and its advisors involves numerous initiatives which are summarized as follows:
- (i) Reducing the Company's footprint through the closure of 43 stores (with the possibility of closing approximately 20 additional stores) (collectively, the "**Closing Stores**");
  - (ii) Liquidating the inventory and the furniture, fixtures and equipment located in the Closing Stores and the slow-moving inventory located in the distribution center and warehousing facilities by means of a promotional "store closing" or similar themed sale (the "**Contemplated Liquidation**");
  - (iii) Reducing the Company's operating costs and improving its efficiency through the continued implementation of additional cost-cutting and operational measures.
38. On or about January 30, 2020, the Company mandated a well-known advisory firm, FAAN Advisors Group Inc. (the "**CRA**"), to assist management with the implementation of the restructuring measures and the development of a proposal to the Company's creditors. The CRA's engagement will be led by Mr. Naveed Manzoor, an individual with extensive retail and restructuring experience.
39. A copy of the CRA engagement letter is annexed to the First Motion under seal as Exhibit P-8 (the "**CRA Agreement**"). The Proposal Trustee has reviewed the terms of the CRA Agreement, including the remuneration to be paid to the CRA, and found that these terms compare favorably with those found in engagement agreements for chief restructuring officers entered into in the context of similar insolvency files.
40. The Proposal Trustee is of the view that the involvement of the CRA will benefit all stakeholders and that the CRA Agreement should be approved by the Court.

#### **SOLICITATION PROCESS FOR A CONSULTANT TO ASSIST WITH INVENTORY LIQUIDATION**

41. On February 12, 2020, prior to the filing of the NOI, the Company, with the assistance of Richter, launched an expedited and targeted solicitation process (the "**SP**") for the purpose of selecting a liquidator to assist the Company with the Contemplated Liquidation. As the SP was launched prior to filing of the NOI, the Company limited the SP to four (4) experienced and well-recognized liquidators to ensure the process remained confidential. The request for proposals, annexed as **Exhibit "C"**, was sent to these parties.
42. Richter created a virtual data room with the necessary information to enable the parties to evaluate all aspects of the Contemplated Liquidation. Ultimately, all four (4) parties signed a confidentiality agreement and were granted access to the data room. Many of them were in communication with the Proposal Trustee as they performed their due diligence.



43. Throughout the SP, Richter responded to information requests from interested parties and posted additional financial information to the data room.
44. The bid deadline was February 17, 2020, at 5 p.m. eastern time (the "Bid Deadline") with offers to be submitted to the office of the Proposal Trustee.

#### THE OFFERS AND THE PROPOSED INVENTORY LIQUIDATION CONSULTING AGREEMENT

45. Two (2) joint offers were submitted by email to the Proposal Trustee by the Bid Deadline. A summary of the offers received is attached, under seal, as **Exhibit "D"**.
46. Following an analysis of the offers received, the Company, Scotia and the Proposal Trustee reached a consensus that the most advantageous offer was the joint offer submitted by Tiger Asset Solutions Canada, ULC and GA Retail Canada ULC (the "**Consultant**").
47. On February 20, 2020, the Consultant and the Company executed an agreement (the "**Inventory Liquidation Consulting Agreement**") which sets out the terms and conditions of the services to be provided by the Consultant. Below is a brief summary of the salient terms of the Inventory Liquidation Consulting Agreement, a copy of which is annexed under seal as Exhibit P-9 to the First Motion:
  - (i) The Consultant will assist the Company with the liquidation of certain inventory and furniture, fixtures and equipment at the Closing Stores;
  - (ii) The Company may modify (by addition or removal) the number of Closing Stores, it may also add inventory currently located, or to be located, in the Company's distribution center or warehousing facilities which Stokes requires to be liquidated through the Closing Stores;
  - (iii) This is a best effort "fee-based deal" and there is no guarantee as to the amounts that will be realized;
  - (iv) The duration of the realization is expected to take approximately 13 weeks, beginning on the date of issuance of the order authorizing the execution of the Inventory Liquidation Consulting Agreement (the "**Sale Term**") and is expected to be completed no later than the end of May 2020; and
  - (v) The Inventory Liquidation Consulting Agreement contains standard provisions that govern the management of the liquidation process, indemnification, insurance and representations and warranties. Among other terms, it is contemplated that the Consultant will assist the Company in implementing strategies to liquidate its assets at the best possible prices and that for the duration of the process, the Company will continue to employ its employees, collect sales taxes and otherwise continue operating at its various locations for so long as these locations are required.

48. The Inventory Liquidation Consulting Agreement contains sale guidelines (the "**Sale Guidelines**"), which are also appended to the form of order sought by the Company, filed as Exhibit P-10. These guidelines are based on the guidelines which have been developed and adopted in other large-scale retail insolvencies across the country, including in the Province of Quebec. It is expected that the Sale Guidelines will enable the Company, with the assistance of the Consultant, to maximize the realization value of the Contemplated Liquidation. As such, we recommend that the Court authorize the Sale Guidelines.
49. The Proposal Trustee is of the view that executing the Inventory Liquidation Consulting Agreement represents the best course of action to maximize the realization value of the Contemplated Liquidation.
50. The Proposal Trustee recommends that this Court authorize the implementation of the Inventory Liquidation Consulting Agreement. In making this recommendation, the Proposal Trustee is mindful of the fact that the Consulting Agreement is supported by Scotia, which has a first ranking security on the inventory.

#### **THE FINANCING OF THE ONGOING OPERATIONS**

51. As previously indicated, Stokes entered into a Forbearance Agreement with Scotia on February 18, 2020. Under the terms of this agreement, Scotia has agreed to tolerate the various defaults and to continue to finance Stokes' operations during the restructuring, subject to several conditions being respected throughout the forbearance term.
52. As part of the Forbearance Agreement, Scotia was provided with management's weekly cash flow projections and Stokes will be required to respect these financial projections to ensure continued support from Scotia.

#### **THE RELIEF SOUGHT IN THE FIRST MOTION**

53. Through the First Motion, amongst other approvals and authorizations, the Debtor seeks the following relief:
  - (i) **Administration Charge**: An amount of \$750,000 in respect of the post-filing professional fees of Osler, counsel for the Debtor, the Proposal Trustee and its counsel, and the CRA.
  - (ii) **D&O Charge**: An amount of \$500,000 in respect of potential post-filing claims including payroll and sales taxes. This charge will benefit the Company's director and officers. The Proposal Trustee understands that the Company was unable to obtain a director and officer insurance policy given its financial situation.
54. As outlined in the First Motion, the Debtor requests that the Administration Charge and the D&O Charge (collectively the "**Charges**") rank after the security interests registered over the assets of the Debtor by its secured creditors, namely Scotia and HSBC.

55. The Proposal Trustee is supportive of the Charges. The Administration Charge is reasonable in view of the level of work being undertaken by the various professionals. The D&O Charge is reasonable as it will allow the director and officers to focus their efforts on the restructuring proceedings, for the benefit of all stakeholders. As for their rank, the Proposal Trustee is advised that the beneficiaries of these charges, namely the professionals and the directors, all consent to it.
56. In addition to the Charges, Stokes seeks authorization to pay its rent on a bi-monthly basis (half on the first day of the month and half on the 15<sup>th</sup> day of the month), as opposed to on a monthly basis. Obtaining this relief, which has been granted by Courts in the context of similar insolvency files involving large retail chains in the recent past, will decrease the pressure on the Company's cash flow. As landlords will continue to receive payments for post-filing services and since no credit will be provided to Stokes as a result of this measure, we are of the opinion that landlords will not be materially prejudiced.

**THE COMPANY'S STATEMENT OF PROJECTED CASH FLOW**

57. The Projections were prepared by management with the assistance of Richter to present the estimated cash receipts, disbursements and indebtedness of Stokes from January 26, 2020 to March 21, 2020. We summarize the Projections as follows:

| Stokes Inc.<br>Statement of Projected Cash Flow<br>For the Period from Jan 26 to Mar 21, 2020<br>(\$000's) | Total<br><br>56 days |
|--|----------------------|
| <b>Receipts</b>  | <b>\$ 12,401</b>     |
| <b>Disbursements</b>   |                      |
| Merchandise  | (7,903)              |
| Payroll  | (3,819)              |
| Rent   | (2,278)              |
| Inventory Liquidation Expenses   | (1,091)              |
| Professional Fees & Consultants  | (590)                |
| Others   | (2,100)              |
|  | <b>(17,781)</b>      |
| <b>Projected Cash Flow</b>   | <b>\$ (5,380)</b>    |
| <b>Projected Opening Scotia Indebtedness</b>   | <b>\$ 7,007</b>      |
| <b>Projected Ending Scotia Indebtedness</b>  | <b>\$ 12,367</b>     |

Scotia indebtedness excludes approximately \$2.3M of outstandings LCs (\$1.7M USD) which have not yet been drawn upon.

58. For additional information regarding the Projections, including management's major assumptions and the Proposal Trustee report on the reasonableness of the Projections, please refer to forms 29 and 30 included in Exhibit "B".

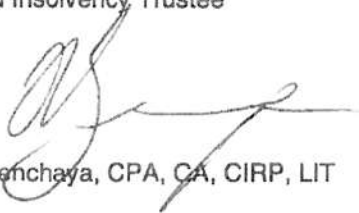
**CONCLUSION AND RECOMMENDATION**

59. Based on the foregoing, the Proposal Trustee respectfully recommends that this Honourable Court grant the relief sought in the First Motion, as summarized below:

- (i) Approving the CRA Agreement;
- (ii) Approving the Inventory Liquidation Consulting Agreement;
- (iii) Authorizing the Company to conduct the liquidation of certain stores in accordance with the terms of the order sought by the Company, the Consulting Agreement and the Sale Guidelines;
- (iv) Granting an Administration Charge and a D&O Charge; and
- (v) Granting certain ancillary relief with a goal of facilitating the present proceedings.

Respectfully submitted at Montreal, this 21<sup>st</sup> day of February 2020.

**Richter Advisory Group Inc.**  
Licensed Insolvency Trustee



Olivier Benchaya, CPA, CA, CIRP, LIT

**EXHIBIT A**



Industry Canada

Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada

Bureau du surintendant  
des faillites Canada

District of Québec  
Division No. 01 - Montreal  
Court No. 500-11-057985-208  
Estate No. 41-2618947

In the Matter of the Notice of Intention to make a  
proposal of:

**Stokes Inc.**  
Insolvent Person

**RICHTER ADVISORY GROUP INC / RICHTER GROUPE  
CONSEIL INC**  
Licensed Insolvency Trustee

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Date of the Notice of Intention: February 18, 2020

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CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL  
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act*.

Pursuant to subsection 69(1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: February 18, 2020, 14:42

E-File/Dépôt Electronique

Official Receiver

Sun Life Building, 1155 Metcalfe Street, Suite 950, Montréal, Québec, Canada, H3B2V6, (877)376-9902

**Canada**

**EXHIBIT B**

District of: Québec  
Division No.: 01-Montréal  
Court No.: 500-11-057985-208  
Estate No.: 41-2618947

- FORM 30 -  
Report on Cash-Flow Statement by the Person Making the Proposal  
(Paragraphs 50(6)(c) and 50.4(2) (c) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of  
Stokes Inc.  
Of the City of Montréal  
In the Province of Québec


The management of Stokes Inc. developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 19th day of February 2020, consisting of the period from January 26, 2020 to March 31, 2020.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, 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 the notes attached.

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 the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Montreal in the Province of Quebec, this 19<sup>th</sup> day of February 2020.

  
\_\_\_\_\_  
Stokes Inc.  
Debtor

MOHAMMAD RAHAMAN CFO  
Name and title of signing officer



District of: Québec  
Division No.: 01-Montréal  
Court No.: 500-11-057985-208  
Estate No.: 41-2618947

- FORM 30 - Attachment  
Report on Cash-Flow Statement by the Person Making the Proposal  
(Paragraphs 50(6)(c) and 50.4(2) (c) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of  
Stokes Inc.  
Of the City of Montréal  
In the Province of Québec

**Purpose:**

Stokes Inc. filed a Notice of Intention to Make a Proposal on February 18, 2020. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Stokes Inc. (the "Company"), for the period January 26, 2020 to March 31, 2020, relating to the filing of a Notice of Intention to Make a Proposal on February 18, 2020. This Statement of Projected Cash Flow has been prepared by management on February 19, 2020 based on available financial information at that date in accordance with Section 50.4(2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

**Projection Notes:**

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period January 26, 2020 to March 31, 2020, considering the economic conditions that are considered the most probable by management.


As the cash flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

**Assumptions:**

- Projected Cash Receipts
  - Receipts include projected receipts from stores, e-commerce platform and liquidation sales including applicable sales taxes. Stores and e-commerce receipts are projected based on historical sales and collection patterns. Inventory liquidation receipts are projected based on the result of historical store liquidations and recent inventory appraisal reports.
- Projected Cash Disbursements
  - Merchandise disbursements are projected based on current domestic and foreign open purchase orders and projected inventory requirements. They reflect conservative payment terms as Management expects supplier to limit Stokes' credit. Amounts include sales taxes when applicable;
  - Payroll is based on current headcount levels adjusted to reflect management's restructuring plan;
  - Rent is based on rent agreements with lessors adjusted to reflect bi-monthly payments and management's restructuring plan. Amounts include sales taxes;
  - Liquidation disbursements include all projected operating expenses relating to the closing stores and liquidator fees & expenses. They were projected based on historical operating disbursements and recent inventory appraisals. Amounts include sales taxes;

- o Other expenses are primarily comprised of warehouse and head office costs as well as capital lease payments and interest. These expenses are based on historical data adjusted to reflect the current level of activity, current agreements and current interest rates. Amounts include sales taxes where applicable;
- o Professional fees and consulting disbursements reflects management's best estimate to implement the Company's restructuring plan. Amounts include sales taxes;
- o The current government remittances for source deductions and sales taxes are included in the disbursement assumptions;
- o The cash disbursements do not provide for the payment of arrears to unsecured creditors.

Dated at the City of Montréal, in the Province of Quebec, this 19th day of February 2020.



Stokes Inc.  
Debtor

MOLHAMMAD RAHMAN CFO  
Name and title of signing officer

District of: Québec  
Division No.: 01-Montréal  
Court No.: 500-11-057985-208  
Estate No.: 41-2618947

FORM 29  
Trustee's Report on Cash-Flow Statement  
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of  
Stokes Inc.  
Of the City of Montréal  
In the Province of Québec

The attached statement of projected cash flow of Stokes Inc., as of the 19th day of February 2020, consisting of the period from January 26, 2020 to March 31, 2020, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion 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,

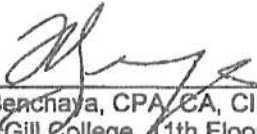
- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given 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 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 the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Montréal, in the Province of Quebec, this 19th day February 2020.

Richter Advisory Group Inc.  
Licensed Insolvency Trustee  
Per:

  
\_\_\_\_\_  
Olivier Benchaya, CPA/CA, CIRP, LIT  
1981 McGill College, 11th Floor  
Montréal QC H3A 0G6  
Phone: (514) 934-3400 Fax: (514) 934-8603

District of: Québec  
Division No.: 01-Montréal  
Court No.: 500-11-057985-208  
Estate No.: 41-2618947

FORM 29 – ATTACHMENT  
Trustee's Report on Cash-Flow Statement  
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of  
Stokes Inc.  
Of the City of Montréal  
In the Province of Québec

**Purpose:**

Stokes Inc. filed a Notice of Intention to Make a Proposal on February 18, 2020. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of Stokes Inc. (the "Company"), for the period January 26, 2020, 2020 to March 31, 2020., relating to the filing of a Notice of Intention to Make a Proposal on February 18, 2020. This Statement of Projected Cash Flow has been prepared by management on February 19, 2020, based on available financial information at that date in accordance with Section 50.4(2) of the Bankruptcy and Insolvency Act and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

**Projection Notes:**

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period January 26, 2020 to March 31, 2020., considering the economic conditions that are considered the most probable by management.

As the cash flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

**Assumptions:**

- Projected Cash Receipts
  - Receipts include projected receipts from stores, e-commerce platform and liquidation sales including applicable sales taxes. Stores and e-commerce receipts are projected based on historical sales and collection patterns. Inventory liquidation receipts are projected based on the result of historical store liquidations and recent inventory appraisal reports.
  
- Projected Cash Disbursements
  - Merchandise disbursements are projected based on current domestic and foreign open purchase orders and projected inventory requirements. They reflect conservative payment terms as Management expects supplier to limit Stokes' credit. Amounts include sales taxes when applicable;
  - Payroll is based on current headcount levels adjusted to reflect management's restructuring plan;
  - Rent is based on rent agreements with lessors adjusted to reflect bi-monthly payments and management's restructuring plan. Amounts include sales taxes;
  - Liquidation disbursements include all projected operating expenses relating to the closing stores and liquidator fees & expenses. They were projected based on historical operating disbursements and recent inventory appraisals. Amounts include sales taxes;
  - Other expenses are primarily comprised of warehouse and head office costs as well as capital lease payments and interest. These expenses are based on historical data adjusted to reflect the current level of activity, current agreements and current interest rates. Amounts include sales taxes where applicable;.

- o Professional fees and consulting disbursements reflects management's best estimate to implement the Company's restructuring plan. Amounts include sales taxes;
- o The current government remittances for source deductions and sales taxes are included in the disbursement assumptions;
- o The cash disbursements do not provide for the payment of arrears to unsecured creditors.

Dated at the City of Montréal in the Province of Quebec, this 19th day February 2020.

Richter Advisory Group Inc.

Licensed Insolvency Trustee

Per:



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Olivier Benchaya, CPA, CA, CIRP, LIT  
1981 McGill College, 11th Floor  
Montréal QC H3A 0G6  
Phone: (514) 934-3400 Fax: (514) 934-8603

**EXHIBIT C**

Feb 12, 2020

**RICHTER**

**Project S**  
Request for Proposals

*Private & Confidential*

MONTRÉAL

1981 McGill College  
Montréal QC H3A 0G6  
T 514 934 3400

TORONTO

181 Bay St., #3320  
Bay Wellington Tower  
Toronto ON M5J 2T3  
T 416.488 2345

CHICAGO

200 South Wacker, #3100  
Chicago IL 60606  
T 312 625 0800

RICHTER

# Introduction

- Richter Advisory Group Inc. ("Richter") is working with a Canadian retailer (name to be disclosed upon execution of a Confidentiality Agreement) (the "Company") in connection with the Company's solicitation of bids for the purpose of selecting a consultant (the "Consultant"), on an exclusive basis, to assist the Company in the liquidation of certain inventory and furniture, fixtures and equipment (the "Transaction") at selected store locations located in Canada ("Closing Stores") by means of a promotional "store closing" or similar themed sale.
- Through a virtual data room maintained by the Company, Richter is providing to each Bidder who has executed and returned the required Confidentiality Agreement certain select financial information concerning the business.
- Requests for additional financial information and site visits should be directed to:
  - Olivier Benchaya - [OBenchaya@richter.ca](mailto:OBenchaya@richter.ca) - 514.934.8618
  - Marc-Vincent Caillé - [MVCaille@richter.ca](mailto:MVCaille@richter.ca) - 514.934.3417

**PARTICIPATION BY A BIDDER AND SUBMISSION OF A PROPOSAL IN THIS PROPOSAL SOLICITATION PROCESS IS EXPRESSLY SUBJECT TO THE TERMS AND CONDITIONS OF THE CONFIDENTIALITY AGREEMENT BETWEEN THE COMPANY AND SUCH BIDDER, AS WELL AS COMPLIANCE WITH THE TERMS AND PROVISIONS OF THIS REQUEST FOR PROPOSALS. WITHOUT LIMITING THE TERMS AND CONDITIONS OF ANY CONFIDENTIALITY AGREEMENT BETWEEN YOU AND THE COMPANY, NO BIDDER MAY CONTACT ANY OTHER PARTY ABOUT THIS PROCESS OR A POTENTIAL PROPOSAL WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMPANY. THE COMPANY RESERVES THE RIGHT TO REJECT ANY OR ALL PROPOSALS, WITHDRAW ANY OR ALL OF ITS ASSETS OR STORES AT ANY TIME IN ITS DISCRETION PRIOR TO EXECUTION OF A DEFINITIVE AGREEMENT AND EXCLUDE ANY BIDDER FROM ANY FURTHER PARTICIPATION IN THE PROPOSAL SOLICITATION PROCESS.**

The Company is currently conducting a strategic review which may include seeking relief under the *Companies' Creditors Arrangement Act* or the *Bankruptcy and Insolvency Act*. In the event such a filing is made, the Company will seek Court authorization and approval of the Accepted Proposal (as defined thereafter). In the event required or advisable, the Company may file a motion seeking authorization of sales guidelines ("**Sales Guidelines**") consistent with recent Canadian retail liquidations to facilitate the conduct of the Sale. Unless otherwise provided in any Court order approving the Sales Guidelines in the event of any filing, the Bidders shall comply in all material respects with the terms and provisions of any leases, mortgages and other occupancy agreements for any of the Closing Stores as well as federal, provincial, and local laws, ordinances, rules and regulations and with terms of any intellectual property licenses or permits.



# Request for Fee Proposals

- All proposals to be considered must be binding upon the Bidder and conform to each and every one of the requirements outlined herein (subject to such compliance, as may be determined at the discretion of the Company (a "**Conforming Proposal**").
  - Conforming Proposals must :
    - ❖ Stipulate the proposed fee structure and quantum and projected expenses.
    - ❖ Stipulate that they are irrevocable and open for acceptance until 5 pm (EST) on Feb 21, 2020;
    - ❖ Be received, in writing (by e-mail, or messenger), no later than 5 pm (EST) on Feb 17, 2020 (the "**Proposal Deadline**"); and
    - ❖ Be marked as "Strictly Confidential" and delivered to the following on or before the Proposal Deadline:

**Richter Advisory Group Inc.**

Attention: Olivier Benchaya, CPA, CA, CIRP, LIT

1981 McGill College, 12th Floor

Montréal, Québec H3A 0G6

Email: [OBenchaya@richter.ca](mailto:OBenchaya@richter.ca)

- It is the present intention of the Company to only consider proposals that arrive on or before the Proposal Deadline, and which conform to the terms and provisions of this proposal solicitation
- The Company with the assistance of its advisors will review each Conforming Proposal. The Company may share any Conforming Proposal with certain of its key constituents, including its Lenders. The Company with the assistance of its advisors may provide feedback to each Bidder about its Conforming Proposal. Ultimately, the Company with the assistance of its advisors and after consultation with other appropriate constituents shall determine which of the Conforming Proposals constitutes the highest and best proposal received (the "**Accepted Proposal**"). The Company reserves the right, in its sole discretion, to make any changes hereto, extend any delays stipulated herein, accept or reject all, some or any components of a Bidder's Conforming Proposal or to seek clarification or enhancement of a Bidder's Conforming Proposal.
- Neither the Company nor its representatives including Richter, nor any of their directors, officers, employees or advisors make, have made or shall be deemed to have made any representation or warranty, express or implied, at law or in equity, in respect of the Company, the inventory, the furniture, fixtures and equipment, the Closing Stores or any other matter in connection with the proposed transaction contemplated herein.

## Request for Fee Proposals (Cont'd)

As noted above, any offer that the Company determines not to be a Conforming Proposal may not be considered for designation as the Accepted Proposal. Any Bidder who desires to submit a Conforming Proposal to serve as the Company's Consultant to assist in the liquidation of inventory and furniture, fixtures and equipment at the Closing Stores must submit an offer which will include the following material terms:

1. Subject to Court approval, if necessary, the Bidder submitting the Accepted Proposal shall be allowed to conduct the Sale in a manner consistent with the terms of the Sales Guidelines;
2. The Sale is expected to commence on or about Feb 23, 2020;
3. In consideration of the services provided by the Consultant in connection with the Sale, the Company shall pay to the Consultant a fee equal to an agreed upon percentage of the gross proceeds of the merchandise sold at the Closing Stores. In addition to the fees, the Consultant shall be reimbursed for certain expenses to be agreed upon;
4. The Closing Stores are projected to be liquidated, provided that the Merchant may elect to modify (by addition or removal) the Closing Stores as well as add certain inventory currently located, or to be located, in the Merchant's distribution center which the Merchant requires to be sold through the Sale, by means of a promotional "store closing", "everything must go" or similar themed sale;
5. The inventory in the 43 Closing Stores which are Likely to Close is presently projected to approximate \$4.7M at cost on or about Feb 23, 2020. The final number of Closing Stores will be dependent on the outcome of landlord negotiations.

**RICHTER**

**EXHIBIT D**

UNDER SEAL

**SUPERIOR COURT  
(Commercial Division)**

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N°. 500-11-057985-208

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**CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL**

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**IN THE MATTER OF THE NOTICE OF  
INTENTION TO MAKE A PROPOSAL OF:**

**STOKES INC.**

Debtor / Petitioner

-and-

**RICHTER ADVISORY GROUP INC.**

Proposal Trustee

BS0350

N/D: 033491-1034

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**FIRST REPORT OF THE PROPOSAL  
TRUSTEE**

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**COPY**

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Me Joseph Reynaud +1 514 397 3019  
jreynaud@stikeman.com

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Stikeman Elliott LLP AVOCATS  
41<sup>e</sup> étage  
1155, boul. René-Lévesque Ouest  
Montréal, Canada H3B 3V2