

CANADA
Province of Quebec
District of Québec
Division No.: 01-Montréal
Court No.: 500-11-059566-212
Estate No.: 41-2716886

SUPERIOR COURT
(Commercial Division)
Bankruptcy and Insolvency Act

IN THE MATTER OF THE PROPOSAL OF:

**CHANGE DE SCANDINAVIE CANADA DETAIL
INC./CHANGE OF SCANDINAVIA CANADA
RETAIL INC.**

a legal person having its registered office at
9961 Saint-Vital Boulevard, Montreal, Quebec,
H1H 4S5

Debtor

-and-

RICHTER ADVISORY GROUP INC.

Trustee

**REPORT OF THE TRUSTEE
ON THE FINANCIAL SITUATION OF THE DEBTOR AND ON THE PROPOSAL
(Sections 50(5) and 50(10)(b) of the *Bankruptcy and Insolvency Act*)**

1. The purpose of the Meeting of Creditors is to consider the proposal filed on June 22, 2021 (hereinafter the “**Proposal**”) by Change de Scandinavie Canada Detail Inc./Change of Scandinavia Canada Retail Inc. (the “**Debtor**” or the “**Company**”).
2. All the capitalized terms that are not otherwise defined herein shall have the meaning ascribed thereto in the Proposal.
3. Pursuant to Sections 50(5) and 50(10)(b) of the *Bankruptcy and Insolvency Act* (the “**Act**”), and in order to assist the Ordinary Creditors in considering the Proposal, the Trustee is hereby submitting its report on the financial situation of the Debtor and on the Proposal.
4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

INTRODUCTION

5. On March 2, 2021, the Debtor filed a Notice of Intention to Make a Proposal (“**NOI**”) under the *Bankruptcy and Insolvency Act*, Canada (the “**BIA**”) naming Richter Advisory Group Inc. as trustee (the “**Trustee**”).
6. On March 3, 2021, the Company filed a motion entitled *Motion for approval of interim financing, administrative charge and other relief* (the “**First Motion**”).
7. On March 5, 2021, the Trustee sent a copy of the statutory documents under the NOI to all known creditors of the Company, as identified by them, the whole as appears in the documents filed in the court records.
8. On March 10, 2021, the Court issued an order approving the First Motion.
9. On March 24, 2021, the Debtor filed a motion to extend the delay to make a proposal (the “**First Extension Motion**”) until May 14, 2021. On March 31, 2021, the Court issued an order granting the First Extension Motion, which was supported by the Trustee (“**Second Report**”).
10. On May 7, 2021, the Debtor filed a second motion to extend the delay to make a proposal (the “**Second Extension Motion**”) until June 28, 2021. On May 13, 2021, the Court issued an order granting the Second Extension Motion, which was supported by the Trustee (“**Third Report**”).
11. On June 22, 2021 the Debtor filed a Proposal to their creditors. The Proposal will be submitted for creditors’ approval on July 13, 2021.
12. This report summarizes the relevant information and key elements that may assist the Ordinary Creditors in evaluating the Debtor’s affairs and the Proposal, presented as follows:
 - a) Overview of the Debtor
 - b) Causes of Insolvency
 - c) The Company’s Activities since the Filing of the NOI
 - d) Financial Information
 - e) Proposal
 - f) Estimated Distribution to Ordinary Creditors
 - g) Trustee’s Conclusion and Recommendation
13. All prior reports of the Trustee have been filed in the court record and can be found on the Trustee’s website at: <https://www.richter.ca/insolvencycase/change-of-scandinavia-canada-retail-inc/>

OVERVIEW OF THE DEBTOR

14. At the time of the NOI filing, the Debtor, a privately held retailer, was operating 26 stores across Canada under the name “*CHANGE Lingerie*”, a Denmark-based, international lingerie brand with over 200 stores worldwide. The Company also sells merchandise online.
15. The Company’s head office and warehouse are located in Montreal, in the Province of Quebec.
16. The Debtor’s stores were located in shopping malls and shopping areas throughout Canada with 10 in Québec, 9 in Ontario and 7 in British Columbia (“**B.C.**”) (each a “**Store**” and collectively, the “**Stores**”).
17. The Debtor’s parent company and principal shareholder, CHANGE of Scandinavia Holding A/S, and the supplier of the Products, CHANGE of Scandinavia A/S, are both based in Denmark (collectively “**Change Group**”).
18. The Company leases all of its premises from third party landlords (each a “**Lease**” and collectively, the “**Leases**”).
19. At the time of the NOI filing, the Company employed approximately 80 employees in its retail operations and a further 15 employees at its head office and warehousing facilities.

CAUSES OF INSOLVENCY

20. The worldwide COVID-19 pandemic (the “**Pandemic**”) and government-imposed closure of all non-essential services in March 2020 caused a significant decline in the Debtor’s sales.
21. In addition to such store closures, since reopening, the Company has noted greatly reduced foot traffic in their stores and a shift in spending activities by consumers, away from purchasing fashion and lingerie items.
22. In particular, as a result of the government-imposed lockdowns, social distancing requirements, business shutdowns, travel restrictions and the general decrease of consumers’ spending, the retail lingerie and swimwear business has been greatly impacted as a whole, including the Debtor’s.
23. Although the Debtor has an e-commerce platform, insufficient sales were generated online to offset the decline of in-store sales given the particular fit and feel of lingerie and swimwear items which traditionally require an in-store experience.
24. The Pandemic has had a severe effect on the Debtor’s 2020 sales, particularly sales related to Black Friday (*‘vendredi fou’*), Valentine’s Day, spring break, the winter holiday season and Boxing Day which were all well below historical results.
25. As a result of the Pandemic, the forced store closures in Quebec and Ontario, as well as the declining sales, the Company did not meet its rent obligations for most of their Stores for the months of December 2020, January and February 2021 which put the Debtor in an even more precarious position.

26. Additionally, given the Debtor's financial situation, the Debtor's principal secured lender, Royal Bank of Canada ("**RBC**"), sent the Debtor demand and default notices together with a notice of intention to enforce security pursuant to s. 244 of the BIA.
27. Following discussions, the Company entered into a forbearance agreement with RBC, which stipulates certain milestones and conditions to be respected during its restructuring.
28. Given the foregoing, the Debtor filed an NOI.

THE COMPANY'S ACTIVITIES SINCE THE FILING OF THE NOI

29. Subsequent to the filing of the NOI, the Company has continued to operate its Stores in the ordinary course to the extent permitted.
30. The Company has also been communicating with its employees, customers and suppliers in order to continue its operations and maintain a continued supply of goods.
31. As part of its restructuring activities, the Company hired a lease consultant (the "**Lease Consultant**") in order to assist management in its negotiations with landlords, with the objective of reaching viable lease arrangements for many of their stores.
32. Since the issuance of the Second Extension Motion, the Debtor, assisted by the Lease Consultant and its advisors, has renegotiated more favorable lease terms for 25 of its 26 Stores and has executed agreements with landlords. The results of these negotiations were essential to the Debtor's ability to make the Proposal and to continue as a going concern.
33. RBC and Change Group supported the Debtor through its restructuring.

FINANCIAL INFORMATION

34. The following financial data is based upon unaudited financial information prepared by the Debtor, the Debtor's books and records, and discussions with the Debtor's representatives. The Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. This information is submitted solely to assist the reader in assessing the financial position of the Debtor. The Trustee makes no representation or warranty as to the accuracy of said financial information.
35. For the year ended June 30, 2020 and for the 7-month period ended January 31, 2021, the Debtor reported losses before income taxes of \$1,122,000 and \$75,000 respectively. Consequently, the Debtor was unable to generate sufficient liquidities to meet its obligations as they became due.
36. As at June 22, 2021, the Company's assets were mainly comprised of:
 - a) Cash balance amounting to approximately \$1.2 million; and

- b) Inventory with a book value of approximately \$2.2 million.
37. The Debtor's financial information included fixed assets with a book value of approximately \$2 million, mostly comprised of leasehold improvements, equipment, furniture and fixtures. The Trustee is of the view that the market value of the fixed assets in a sale process would be significantly lower than its book value.
38. The Debtor operates from leased premises and does not own any real estate.
39. We have summarized the liabilities below which are based on the books and records of the Debtor, the Statement of Affairs as of June 22, 2021 and management's representations:

| Change of Scandinavia Canada Retail Inc. | |
|--|--------------|
| Estimated Liabilities as at June 22, 2021 | |
| (\$000's) | |
| Secured Creditors | 1,867 |
| Preferred Creditors | - |
| Subsequent Creditors | - |
| Related Creditors | 1,142 |
| Ordinary Creditors | |
| Trade Claims | 129 |
| Landlord Claims | 797 |
| Employees | - |
| Total Ordinary Creditors | 926 |
| Total | 3,935 |

Secured Creditors (\$1.9M)

- At the time of the filing of the Proposal, the Debtor's books and records reflected an amount owing to RBC of approximately \$1.9 million, excluding fees and expenses, in respect of a number of term loans, secured by hypothecs and security interests charging the Debtor's present and future movable and personal property. The secured creditor has registered a first ranking charge on substantially all of the Company's assets (the "**RBC Security**").
- Change Group has security interests and hypothecs registered against the Company's assets ranking after the RBC Security. As at June 22, 2021, the secured amount owed to Change Group is approximately \$7K.
- The Trustee is in the process of obtaining a legal opinion from its independent legal advisors as to the validity of the RBC Security and any other secured charges registered against the Company's assets.

Related Creditors (\$1.1M)

- The unsecured portion of the balance due to Change Group amounts to approximately \$1.1 million pursuant to various advances and merchandise sales.

Ordinary Creditors (\$926K)

With regards to Ordinary Creditors, we note the following:

- Trade claims: the amounts reflected above are based on the books and records of the Debtor;

- Landlord claims: the amounts reflected above are based on the books and records of the Debtor as all Landlord Claims shall be deemed to be Ordinary Claims under the Proposal;
 - Employees: To the knowledge of the Trustee, all obligations incurred by the Debtor with regards to employees' salaries and vacation owing were paid by the Debtor in the normal course of business.
40. Proof of claim forms are being sent to all known creditors. However, at the present date, the Trustee is unable to determine if the Debtor's records are consistent with those of its creditors. Upon reception of the proofs of claims, the Trustee will review them and deal with any discrepancies for purposes of collocation of claims.
41. The Trustee cautions that the above amounts may change as proofs of claims are filed and such changes may be significant.

PROPOSAL

42. The Trustee notes that the following is only a summary of the terms of the Proposal. Creditors are advised to read the Proposal for complete details of the terms of the Proposal.
43. In addition to paying all Employee Claims, all Crown Claims, all Proposal Expenses and all Subsequent Claims, the terms of the Proposal provide for a payment of \$100,000 that will be remitted to the Trustee by the Debtor within 60 days following the approval of the Proposal by the Court, for distribution to all Preferred Creditors and Ordinary Creditors (the "**Dividend**").
44. The Dividend represents an amount that will provide for a recovery to Ordinary Creditors while allowing the Debtor's business to continue operating and its continued occupancy in leased premises pursuant to newly negotiated lease agreements.
45. For further clarity, according to the terms of the Proposal:
- a) All Secured Claims shall be paid in accordance with the existing agreements or as may be otherwise arranged with each of the Secured Creditors;
 - b) All Subsequent Claims have been or shall be paid in full by the Debtor in the ordinary course of the Debtor's business;
 - c) All Crown Claims, to the extent not already paid by the Debtor in the ordinary course of the Debtor's business, shall be paid in full, within 6 months after Approval or as may otherwise be arranged with the Crown;
 - d) All Employee Claims will be paid in full, if any, immediately after Approval; and
 - e) All Proposal Expenses, to the extent not already paid by the Debtor in the ordinary course of the Debtor's business, shall be paid by the Debtor in priority to all Preferred Claims and Ordinary Claims.

46. The Dividend shall be distributed by the Trustee as follows:
- a) First, to the Preferred Creditors, according to the amount of their respective Preferred Claims (if any);
 - b) Second, after full payment of all Preferred Claims, to the Ordinary Creditors on a pro rata basis, calculated on the basis of their respective Proven Ordinary Claims;
 - c) The levy payable to the Superintendent of Bankruptcy under the BIA will be deducted and paid from all amounts payable under the Proposal.
47. Conditional upon approval of the Proposal, for the benefit of the ordinary creditors, the Change Group waives and renounces to any dividend that could have otherwise been payable to them under the Proposal. Change Group agrees that its claim will not constitute an Ordinary Claim or a Secured Claim under the Proposal and will not be compromised, settled, or discharged by the Proposal.
48. The Dividend, without any interest whatsoever thereon, once paid to the Trustee in accordance with the provisions of the Proposal, shall constitute full and final settlement and shall operate as a complete release and discharge of all Preferred Claims and Ordinary Claims.

ESTIMATED DISTRIBUTION TO ORDINARY CREDITORS

49. In the event that the creditors reject the Proposal, the Debtor will automatically be bankrupt. The following information serves to advise the creditors of the Trustee's estimate as to the distribution to creditors under the Proposal in comparison to the estimated distribution under a bankruptcy scenario.

Proposal

50. Based on the Claims reflected in the Debtor's Statement of Affairs, the amount of the Proposal (\$100,000) would be distributed as follows:

| Change of Scandinavia Canada Retail Inc. Proposal Summary in \$000's | # of Creditors | Estimated Claims | Proposal | |
|--|-------------------|---------------------|---------------------------|---------------|
| | | | Estimated Distribution | Recovery % |
| Secured Creditors (Note 1) | 1 | 1,867 | - | 0.0% |
| Preferred Creditors | - | - | - | N/A |
| Subsequent Creditors | - | - | - | N/A |
| Related Creditors | 1 | 1,142 | - | 0.0% |
| Ordinary Creditors | | | | |
| Trade Claims | 11 | 129 | 14 | 10.8% |
| Landlord Claims | 24 | 797 | 86 | 10.8% |
| Employees | - | - | - | N/A |
| Total Ordinary Creditors | 35 | 926 | 100 | 10.8% |
| Total | 37 | 3,935 | 100 | N/A |

Note 1:

Secured creditors are not affected or bound by the Proposal. All Secured Claims will be paid in accordance with existing agreements or as may be otherwise arranged with each of the Secured Creditors.

51. It is estimated that the \$100,000 Proposal would represent an approximate recovery of 11% to the Ordinary Creditors, based upon the estimated claims known by the Trustee as of this date. We caution the creditors that the above estimates may vary as proofs of claims are filed and such changes may be significant.

Bankruptcy

52. In a bankruptcy scenario, the net realization in a forced liquidation is estimated as follows:

| Change of Scandinavia Canada Retail Inc. Estimated Net Realization in a Forced Liquidation Reported Book Value as at May 31, 2021 (except for Cash) (\$000's) | Book Value | Estimated Net Realization Value |
|--|-----------------|---------------------------------------|
| PROJECTED NET REALIZATION | | |
| Net Realization | | |
| Inventory (Note 1) | 2,175 | 1,088 50% |
| Leasehold Improvements (Note 2) | 1,609 | 80 5% |
| Cash balance as at June 20, 2021 | 1,220 | 1,220 100% |
| Furniture & Office Equipment (Note 2) | 343 | 34 10% |
| Prepays (Note 2) | 167 | 25 15% |
| | 5,515 | 2,448 |
| Estimated Realization Expenses | | |
| Estimated Professional Fees | | (250) |
| Other Contingency (10%) | | (245) |
| | | (495) |
| Projected Net Realization | A | 1,953 |
| ESTIMATED FUNDS AVAILABLE FOR ORDINARY CREDITORS | | |
| Priority Claims (Salaries and Vacations) | B | \$ (239) |
| Secured Creditors | | |
| RBC | | (1,860) |
| Change Group | | (7) |
| | C | (1,867) |
| Surplus (Deficit) | A+B+C= D | (152) |
| Estimated Preferred Creditors | | |
| Preferred Rent and Levy | E | TBD |
| Estimated Funds Av. for Ordinary Creditors | D+E=F | (152) |
| ESTIMATED RECOVERY FOR ORDINARY CREDITORS | | |
| Estimated Ordinary Claims in a Bankruptcy | G | 2,261 |
| Estimated Ordinary Creditors Recovery (%) | F/G=H | Nil |

Note 1: The net realization value of the inventory was estimated based on discussions with liquidators/appraisers.

Note 2: The net realization value was estimated based on the Trustee's past experiences in similar liquidations.

53. In the event that the Proposal is rejected by the creditors, the estimated realization prepared by the Trustee indicates that the Ordinary Creditors would not receive any distribution in a forced liquidation scenario.

Forced Liquidation – Risks Factors

54. In the context of a forced liquidation or bankruptcy, in addition to the impact of the Pandemic, below are other factors to be considered by the Ordinary Creditors which may negatively impact the realization values estimated by the Trustee:

- The risk that the landlords do not allow a liquidation to take place in the existing store premises;
- The liquidation of stock over a short period of time, which could negatively impact the pricing of the inventory;
- The loss or shortage of store personnel; and
- The potential additional professional fees incurred as a result of a liquidation.

55. In arriving at its recommendation, the Trustee takes into consideration the fact that the foregoing risk factors could further serve to reduce the quantum of the dividend payable to creditors in a bankruptcy scenario.

Other Considerations

56. Conditional upon the approval of the Proposal, sections 95 to 101 of the BIA will not be applicable to the Proposal, and neither the Trustee nor the Debtor's creditors will have any right or recourse whatsoever under these sections. The remedies pursuant to these provisions relate to the recovery of certain amounts under reviewable transactions, preferential treatments, and asset disposals.
57. By approving the Proposal, the Debtor's creditors will release definitively the directors from any director liabilities in accordance with paragraph 50(13) of the BIA.

TRUSTEE'S CONCLUSION AND RECOMMENDATION

58. The Proposal presented and funded by the Debtor will provide an average estimated dividend to the Ordinary Creditors of approximately 11%. Alternatively, in the context of a bankruptcy, it is estimated that there will be no recovery whatsoever to Ordinary Creditors.
59. It is the Trustee's view that the Proposal will not materially prejudice or adversely affect any creditors. On the contrary, should the Proposal sought herein not be approved, the Ordinary Creditors will be prejudiced in that a liquidation scenario will ensue, the Stores would likely close, rent would not be paid, landlords would lose a tenant and many jobs would be lost.
60. Accordingly, the Trustee recommends that Ordinary Creditors vote in favor of the Proposal.

Respectfully submitted at Montreal, this 23rd day of June 2021.

Richter Advisory Group Inc.
Licensed Insolvency Trustee



Olivier Benchaya, CPA, CA, CIRP, LIT