

RICHTER

Court File No. CV-20-634980-00CL

SFP CANADA LTD.

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS MONITOR OF
SFP CANADA LTD.**

JANUARY 24, 2020

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Court File No. CV-20-634980-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SFP CANADA LTD.

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS MONITOR OF SFP CANADA LTD.**

JANUARY 24, 2020

I. INTRODUCTION

1. On January 23, 2020 (the "**Filing Date**"), the Ontario Superior Court of Justice (Commercial List) (the "**Court**") issued an order (the "**Initial Order**") granting SFP Canada Ltd. ("**SFP Canada**" or the "**Company**"), protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Initial Order, Richter Advisory Group Inc. ("**Richter**") was appointed as the Company's Monitor (the "**Monitor**").
2. The Initial Order, *inter alia*,
 - (a) granted a stay of proceedings in favour of the Company until January 31, 2020 (the "**Stay Period**");
 - (b) approved the engagement of Mackinac Partners, LLC ("**Mackinac**") to provide the services of Michael Nowlan and Craig M. Boucher to act as co-chief restructuring officers (the "**CROs**" and each a "**CRO**") of SFP Canada;
 - (c) ordered that the Company make no payments, transfers or disbursements to, or on account of, any related parties such that all funds generated from SFP Canada's operations throughout the CCAA Proceedings will remain available to SFP Canada; and
 - (d) granted the Administration Charge and Directors' Charge (each as defined hereinafter).

The proceedings commenced by SFP Canada under the CCAA are herein referred to as the "**CCAA Proceedings**".

II. PURPOSE OF REPORT

3. This report, the Monitor's first report (the "**First Report**") is to provide information to the Court in respect of the following:
 - (a) a limited summary of certain background information about SFP Canada;
 - (b) the objectives of the Company's CCAA Proceedings, including the Company's post-filing strategy and the liquidation process proposed to be undertaken by SFP Canada;
 - (c) the key terms of a consulting agreement (the "**Consulting Agreement**") between SFP Canada and Schurman Retail Group, LLC, and a contractual joint venture comprised of Gordon Brothers Retail Partners, LLC and Hilco Merchant Resources, LLC (collectively, the "**Consultant**"), pursuant to which the Company engaged the Consultant to act as liquidation consultant to assist in liquidating the Company's inventory, certain owned furniture, fixtures and equipment ("**FF&E**") and certain other goods at SFP Canada's retail locations in accordance with the sale guidelines (the "**Sale Guidelines**") appended to the Liquidation Sale Approval Order (as hereinafter defined) following the issuance thereof by the Court;

- (d) the Company's statement of projected cash flow (the "**Cash Flow Forecast**") for the thirteen-week period from January 18, 2020 to April 17, 2020 (the "**Forecast Period**");
- (e) the Court-ordered priority charges granted by the Initial Order; and
- (f) the Monitor's recommendation that the Court grant the Liquidation Sale Approval Order.

III. TERMS OF REFERENCE

4. In preparing this First Report, the Monitor has relied solely on information and documents provided by SFP Canada and their advisors, including unaudited financial information, and discussions with representatives of Mackinac and the Company's legal counsel (collectively, the "**Information**"). In accordance with industry practice, except as otherwise described in the First Report, Richter has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, Richter has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Auditing Standards ("**GAAS**") pursuant to the *Chartered Professional Accountant of Canada Handbook* and, as such, Richter expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
5. Capitalized terms not otherwise defined herein are as defined in the Company's motion materials, including the affidavit of Craig M. Boucher of Mackinac, sworn January 23, 2020 (the "**Boucher Affidavit**") filed in support of both the Initial Order and the Liquidation Sale Approval Order. This First Report should be read in conjunction with the Boucher Affidavit, as certain information contained in the Boucher Affidavit has not been included herein in order to avoid unnecessary duplication. A copy of the Boucher Affidavit (without exhibits) is attached hereto as **Appendix "A"**.
6. The Monitor has established a website at <http://www.richter.ca/insolvencycase/sfp-canada-ltd/> to make available copies of the orders granted in these proceedings as well as the motion materials and reports of the Monitor.
7. Unless otherwise noted, all monetary amounts contained in this First Report are expressed in Canadian dollars.

IV. GENERAL BACKGROUND INFORMATION

8. SFP Canada operates 76 retail stores across Canada under the "Papyrus", "Carlton Cards / Cartes Carlton", and "Paper Destiny" brand names selling stationary, greeting cards, paper products and gift items. As noted in the Boucher Affidavit, SFP US (defined below), SFP Canada's parent company, operates an e-commerce website that is accessible to Canadian consumers, but SFP Canada does not operate its own website.

9. SFP Canada's business, affairs, financial performance and position, as well as the causes of its insolvency, are detailed in the Boucher Affidavit and are, therefore, not repeated herein. The Monitor has reviewed the Boucher Affidavit and discussed the business and affairs of SFP Canada with the CROs and the Company's legal counsel and other advisors and is of the view that the Boucher Affidavit provides a fair summary thereof.

Historical Overview and Organizational Structure

10. As noted in the Boucher Affidavit, Schurman Fine Papers ("**SFP US**", and together with its subsidiaries, including SFP Canada, the "**Schurman Group**") was founded in 1950 by Marcel and Margrit Schurman, as in importer and wholesaler of fine art greeting cards and stationary from Europe. SFP Canada is a wholly owned subsidiary of SFP US. Over the years, SFP US' business evolved and, in 2009, as part of a larger transaction (the "**Transaction**") expanded into Canada.
11. As also noted in the Boucher Affidavit, the Transaction involved the sale of SFP US' wholesale business and the "Papyrus" brand and related trademarks to American Greetings Corporation ("**American Greetings**"). As part of the Transaction, the Schurman Group acquired the retail business operated by American Greetings in Canada and the United States. To facilitate the Transaction, the Schurman Group and American Greetings also entered into mutual transition services agreements in addition to ongoing commercial licensing, supply and marketing agreements (collectively, the "**American Greetings Agreements**"). As a result of these agreements, the Schurman Group was highly dependent on American Greetings for the majority of goods sold in SFP Canada's retail locations as well as for the trademarks (the "**Trademarks**") required to operate its retail business under the "Papyrus" and "Carlton Cards / Cartes Carlton" names.

Events Leading to the CCAA Proceedings

12. As noted in the Boucher Affidavit, due to a number of factors, including costs incurred in refurbishing and / or closing underperforming retail stores acquired as part of the Transaction with American Greetings, pricing decisions made by American Greetings in respect of the products it sold to the Schurman Group, and unfavourable brick-and-mortar retail market trends, the Schurman Group's Canadian and US operations have suffered financial losses, resulting in liquidity issues.
13. As a result of these and other challenges, the Schurman Group's collective obligations to American Greetings have ballooned to approximately USD\$48 million of which, the Monitor understands, approximately USD\$9 million is owed by SFP Canada.

14. Unfortunately, the Schurman Group's attempts to address their liquidity issues have been unsuccessful and, in early December 2019, American Greetings informed SFP US that it was immediately terminating the American Greetings Agreements and ceasing its supply of products to the Schurman Group. Subsequent negotiations between the Schurman Group and American Greetings to settle on new terms upon which the Schurman Group would be permitted to continue using the Trademarks and purchasing products from American Greetings have failed, and the Monitor understands that American Greetings recently informed the Schurman Group that it is not willing to engage in further negotiations.
15. As a result of the above, and for the reasons described in the Boucher Affidavit, SFP US concluded that it can no longer operate as a going concern and commenced insolvency proceedings to, among other things, pursue an orderly wind-down / liquidation of their retail stores in the United States. On January 23, 2020, SFP US commenced voluntary reorganization proceedings (the "**Chapter 11 Proceedings**") in the United States Bankruptcy Court for the District of Delaware by filing voluntary petitions for relief under chapter 11 of the *United States Bankruptcy Code*, in order to, among other things, pursue an orderly liquidation of the Schurman Group's retail stores in the United States.
16. SFP Canada is in a similar position to that of SFP US. Without a license to use the Trademarks or the ongoing supply of products from American Greetings that, as noted in the Boucher Affidavit, account for in excess of 50% of SFP Canada's gross sales, SFP Canada can no longer operate as a going concern. Moreover, as the Schurman Group is a highly integrated business primarily managed out of the United States, SFP Canada is dependent on SFP US for many critical services (discussed further below). As a result of the Chapter 11 Proceedings, these critical services will no longer be available. Without the continued support of SFP US, SFP Canada determined that it could no longer survive as a going concern and that, in the circumstances, it is in the best interest of all stakeholders for SFP Canada to complete an orderly wind-down / liquidation of their inventory and other assets.
17. The Monitor understands that no relief is being sought in the Chapter 11 Proceedings with respect to SFP Canada and, similarly, no relief is being sought in the CCAA Proceedings with respect to SFP US save and except for the provisions in the Initial Order restricting transfers to related parties by SFP Canada and providing for SFP Canada's continued use of trademarks. The Monitor further understands that SFP Canada is not jointly and severally liable for, and has not guaranteed, SFP US' senior secured debt.

SFP Canada's Financial Results

18. Summarized below are SFP Canada's unaudited financial results for the fiscal year ended January 31, 2019 ("FY19") and the ten (10) months ended November 30, 2019 ("YTD FY20"):

SFP Canada Ltd. Historical Financial Results (CAD\$, in millions; unaudited)	FY20 10-months ended 30-Nov-19		FY19 Year ended 31-Jan-19	
Total revenues, net	\$	28.9	\$	47.3
Total Cost of Goods Sold		9.2		16.6
Gross Profit	\$	19.7	\$	30.7
Operating Expenses				
Payroll and benefits		6.3		8.8
Rent and occupancy costs		10.3		13.6
Selling, general, and administrative		0.8		1.3
Amortization and depreciation		0.5		0.7
Shared services cost		2.0		2.5
Total operating expenses	\$	20.0	\$	26.9
Operating Profit	\$	(0.2)	\$	3.8
Non-operating expenses		2.1		2.8
Income (loss) before income taxes	\$	(2.3)	\$	0.9
Taxes		0.2		0.2
Net income (loss)	\$	(2.5)	\$	0.7

Source: Information provided by the Schurman Group

19. As detailed above, SFP Canada incurred a net loss of \$2.5 million YTD FY20 as compared to net income of \$0.7 million in FY19. The Monitor understands the YTD FY20 losses have depleted the Company's cash reserves needed to continue operations.

Retail Operations

20. As noted above, as at the Filing Date, SFP Canada operated 76 retail stores across Canada, of which 35 stores are located in Ontario, 12 in Alberta, 11 in British Columbia, 6 in Quebec, 5 in Nova Scotia, 3 in Manitoba, 3 in Saskatchewan and 1 in Newfoundland and Labrador. All of SFP Canada's retail locations are leased.

Employees

21. As at the Filing Date, SFP Canada had approximately 405 employees of which approximately 323 were part-time employees. SFP Canada's employees are not represented by a union and are not subject to a collective bargaining agreement. SFP Canada has established a group Registered Retirement Saving Plan ("RRSP") for employees, which is administered by Manulife Financial – SFP Canada does not make any matching contributions to the RRSP. A chart

detailing the geographic distribution of SFP Canada employees by province is included at paragraph 46 of the Boucher Affidavit.

22. As described in the Boucher Affidavit, the Schurman Group is a highly integrated business managed out of the United States where the Schurman Group maintains its head office. Although SFP Canada's registered office is in Saint John, New Brunswick, the Monitor understands that:
- (a) all material decisions regarding SFP Canada's business and its operations are managed by Schurman Group personnel located in the United States. In particular, all of SFP Canada's treasury and financial decisions are made at the Schurman Group's head office located in Goodlettsville, Tennessee (the "**US Head Office**");
 - (b) the Schurman Group's human resources, legal, accounting, information technology, marketing and communications functions are primarily administered from the US Head Office or from satellite offices in the United States;
 - (c) there are no management personnel employed directly by SFP Canada or located in Canada. Although SFP Canada does employ store managers and area managers to oversee day-to-day operations of SFP Canada stores, as noted above, all material retail store related matters are managed from the US Head Office;
 - (d) other than retail employees located at SFP Canada stores across Canada, there are no customer service personnel employed by SFP Canada. All customer service matters are managed by the US Head Office (other than in-store service);
 - (e) all of SFP Canada's accounts payable and accounts receivable are managed from the US Head Office;
 - (f) SFP Canada does not have any information technology personnel. All technology decisions are managed by the US Head Office. Further, the Schurman Group's e-commerce sites are managed in the United States;
 - (g) all strategic decisions for SFP Canada, including asset management, capital expenditure and planning decisions are made by the US Head Office; and
 - (h) SFP Canada's sole director is Dominique Schurman, a California resident.
23. The Schurman Group engaged the CROs pursuant to an engagement letter dated January 22, 2020 (the "**CRO Engagement Letter**") to, among other things, assist with the implementation of the CCAA Proceedings, the Chapter 11 Proceedings and the Liquidation Sale. The Monitor understands that SFP Canada's sole director will not be directly involved in the CCAA Proceedings and, therefore, the appointment of the CROs is appropriate and necessary in the circumstances.

24. The CRO Engagement Letter provides that Mackinac will be paid for the services of the CROs at their customary hourly billing rates. The Monitor understands that the cost for the CROs will be split between SFP Canada and SFP US based on the time spent by the CROs in respect of matters relating to SFP Canada and SFP US respectively; however, SFP Canada will not be liable for payment of the "Completion Fee" contemplated under the CRO Engagement Letter.

SFP Canada's Creditors

25. As noted in the Boucher Affidavit, as at November 30, 2019 (the most recent date for which financial information is available), SFP Canada had liabilities totaling approximately USD\$11.7 million, as follows:

Liabilities	Amount Owing (USD\$, in 000s)
Current Liabilities	
Trade Payables*	10,416
Income Taxes Payable	121
Sales and Use Tax Payable	152
Accrued Liabilities	585
Non Current Liabilities	
Deferred Rent	306
Tenant Improvement Allowance	176
Total Liabilities	11,756

* Approximately USD\$9.1 million is owing to American Greetings

26. As described in the Boucher Affidavit, the Monitor understands that SFP Canada has entered into loan and security agreements with Wells Fargo Bank, National Association ("**Wells Fargo**") and a security agreement with American Greetings. As at the Filing Date, the Monitor understands that no amounts are owed by SFP Canada to Wells Fargo and that approximately USD\$9.1 million is owed by SFP Canada to American Greetings.

Wells Fargo

27. As noted in the Boucher Affidavit, the Schurman Group has outstanding secured obligations to Wells Fargo pursuant to a consolidated credit agreement among SFP Canada, SFP US (and another related US entity) and Wells Fargo dated April 17, 2019 (as amended, the "**Wells Fargo Credit Agreement**").
28. Pursuant to the Wells Fargo Credit Agreement, SFP US and another related US entity (collectively the "**US Borrowers**") were permitted to borrow funds in US dollars (the "**US Revolving Facility**") and SFP Canada was permitted to borrow funds in Canadian dollars (the "**Canadian Revolving Facility**") up to a collective maximum of USD\$35 million on a revolving basis. As stated in the Boucher Affidavit, as at January 20, 2020, the US Borrowers owed approximately USD\$6.3 million on the US Revolving Facility and SFP Canada had no amounts owing in respect of the Canadian Revolving Facility.

29. Under the Wells Fargo Credit Agreement, each borrower has granted a security interest in their present and after acquired property to secure the obligations under the Wells Fargo Credit Agreement. The Monitor further understands that the US Borrowers are jointly and severally liable for all obligations under the Wells Fargo Credit Agreement. SFP Canada, however, is not jointly and severally liable for the obligations of the US Borrowers.
30. As also noted in the Boucher Affidavit, American Greetings has provided a limited guarantee of the obligations owing by the Schurman Group under the Wells Fargo Credit Agreement up to a maximum of USD\$10 million.

American Greetings

31. On June 25, 2019, SFP Canada, the US Borrowers and American Greetings entered into a security agreement (the **"American Greetings Security Agreement"**), pursuant to which SFP Canada and the US Borrowers granted American Greetings a continuing lien and security interest over their present and after-acquired property to secure, among other things, the payment and performance of the Schurman Group's obligations pursuant to the American Greetings Agreements or any other agreements between the Schurman Group and American Greetings.
32. The Monitor has been advised that prior to entering into the American Greetings Security Agreement, American Greetings supplied goods and services to the Schurman Group, pursuant to the American Greetings Agreements, on credit on an unsecured basis. The Monitor further understands that the parties entered into the American Greetings Security Agreement to, among other things, secure the amounts due by the Schurman Group to American Greetings.
33. Pursuant to a subordination and intercreditor agreement between Wells Fargo and American Greetings (the **"Subordination and Intercreditor Agreement"**), Wells Fargo has first-ranking priority over the Collateral (as defined in the agreement).
34. The Monitor has instructed its independent legal counsel, Stikeman Elliott LLP (**"Stikeman"**) to review the validity and enforceability of the security granted by SFP Canada in favour of American Greetings in the jurisdictions in which the Company has retail operations and the Monitor will report back to this Honourable Court on this matter following its receipt of Stikeman's opinion.

V. OBJECTIVES OF THE CCAA PROCEEDINGS

35. As noted above, as a result of a number of factors, SFP Canada cannot continue operating as a going concern and has determined that, in the circumstances, it is in the best interest of all stakeholders for SFP Canada to complete an orderly wind-down of its retail operations and liquidation of its inventory and other assets with the assistance of an experienced liquidator under the supervision of the Monitor.

VI. LIQUIDATOR SELECTION PROCESS

36. It is SFP Canada's belief that realizations from its retail operations will be maximized through the appointment of an experienced liquidator to assist SFP Canada with the orderly wind-down of its retail operations (the "**Liquidation Sale**").
37. As described in the Boucher Affidavit, in anticipation of the commencement of insolvency proceedings in both the United States and Canada, on November 29, 2019, the Schurman Group retained Mackinac as their financial advisor to, among other things, develop a plan to solicit proposals from third parties to assist with the Liquidation Sale.
38. Following a competitive process, as detailed in the Boucher Affidavit, SFP US and SFP Canada notified the Consultant of their desire to proceed with its proposal and, with the assistance of their respective advisors, worked to finalize the terms of the Consulting Agreement.

VII. THE INVENTORY LIQUIDATION CONSULTING AGREEMENT

39. On January 17, 2020, SFP US, SFP Canada and the Consultant agreed on the final form of the Consulting Agreement, a copy of which is attached hereto as **Appendix "B"**. The key terms of the Consulting Agreement are as follows:
 - (a) the Consultant will assist SFP Canada in conducting a store closing or other similar-themed liquidation sale in respect of all merchandise and certain other owned assets in SFP Canada's retail locations;
 - (b) the Liquidation Sale commenced on or about January 16, 2020 and will conclude no later than February 29, 2020, or such other dates as agreed to by SFP Canada and the Consultant, in consultation with the Monitor (but no later than March 31, 2020 in accordance with the terms of the proposed Liquidation Sale Approval Order (as defined below) and the Sale Guidelines);
 - (c) SFP Canada is responsible for all costs and expenses in connection with the Liquidation Sale, certain of which are subject to an agreed upon budget with the Consultant, except solely for certain amounts in excess of specifically enumerated "Consultant Controlled Expenses" in accordance with a budget appended to the Consulting Agreement;
 - (d) in consideration of its services, the Consultant will earn a fee based on gross recoveries (net of applicable sales taxes) realized from the sale of SFP Canada's owned merchandise (subject to certain exceptions, including defective merchandise) (either in stores, in transit or on order) from SFP Canada's retail stores, as part of the Liquidation Sale, as follows:

Gross Recovery Percentage	Merchandise Fee
Below 190%	1.75% of Gross Proceeds
Above 190%	2.00% of Gross Proceeds

- (e) the Consultant will also assist SFP Canada in selling any owned FF&E other than Retained FF&E (as defined in the Consulting Agreement). The Consultant will earn a fee of fifteen percent (15%) of the gross proceeds from the sale of SFP Canada's owned FF&E;
 - (f) the Consultant will have the ability, at its sole cost and expense, to supplement SFP Canada's merchandise with additional goods procured by the Consultant, which are of like kind and of no lesser quality than SFP Canada's merchandise, to include in the Liquidation Sale (the "**Consultant Goods**"). SFP Canada will be paid seven and one-half percent (7.5%) of the gross proceeds (net of applicable sales taxes) realized from the sale of the Consultant Goods; and
 - (g) the Consulting Agreement is subject to approval of the Court as part of the CCAA Proceedings and shall be subject to the terms of the Liquidation Sale Approval Order and the Sale Guidelines following such approval.
40. The Monitor is supportive of the proposed order approving, among other things, the Consulting Agreement (the "**Liquidation Sale Approval Order**"), and the Sale Guidelines regarding the conduct of the Liquidation Sale following such approval, for the following reasons:
- (a) the Consultant has extensive experience in retail liquidations and inventory disposition in the Canadian marketplace;
 - (b) the fee payable to the Consultant is, in the Monitor's view, comparable to the fee payable to liquidators in other recent retail liquidations;
 - (c) the Consultant has experience working with Canadian landlords of retail tenants in insolvency proceedings and understands their requirements and concerns;
 - (d) the Sales Guidelines provide that, subject to certain exceptions, the Liquidation Sale is to be conducted in accordance with the terms of the applicable leases for each of SFP Canada's retail location;
 - (e) in the Monitor's view, the Sale Guidelines are in a form similar to sale guidelines approved by the Court in other recent Canadian retail liquidations; and
 - (f) the cash flow forecast filed by SFP Canada (discussed further below) contemplates that the merchandise in SFP Canada's retail stores will be sold expeditiously. In the Monitor's view, it is essential that the Liquidation Sale Approval Order be approved as soon as possible, as any delay could negatively impact the Company's cash flows and potentially impair recoveries.

VII. SFP CANADA'S CASH FLOW STATEMENT

41. SFP Canada, with the assistance of the Monitor, has prepared the Cash Flow, a copy of which is attached as **Appendix "C"** and is summarized below:

SFP Canada Ltd Cash Flow Forecast From January 18, 2020 to April 17, 2020 (CAD\$, in millions; unaudited)	
	<u>13 Week Total</u>
Receipts	
Canada Retail Receipts	9.9
Total Receipts	\$ 9.9
Disbursements	
Freight	\$ (0.2)
Rent & Utilities	(1.2)
Store Expenses and Other	(0.3)
Payroll & Benefits	(1.5)
Liquidation Fee & Expenses	(0.5)
Sales Tax Remittances	(2.1)
Professional Fees	(2.3)
Miscellaneous/Other	(0.2)
Total Disbursements	\$ (8.4)
Net Cash Flow	\$ 1.5
Opening Cash Balance	\$ 4.1
Net Cash Flow	1.5
Ending Cash Balance	\$ 5.6

42. The Cash Flow Forecast indicates that SFP Canada will have sufficient liquidity to fund both operating costs as part of the Liquidation Sale and the costs of the CCAA Proceedings during the Forecast Period. As at January 18, 2020, SFP Canada had approximately \$4.1 million of cash on hand. The Cash Flow Forecast projects that the Company will experience a net cash inflow of approximately \$1.5 million over the Forecast Period, comprised of:
- (a) cash receipts of approximately \$9.9 million, relating to the gross proceeds from the sale of merchandise as part of the Liquidation Sale; and
 - (b) cash disbursements of approximately \$8.4 million, primarily related to payroll and benefits, rent and operating expenses for the Company's retail locations, sales tax remittances, and the costs of the CCAA Proceedings.

43. The Monitor notes that the Cash Flow Forecast contemplates the payment of certain pre-filing amounts during the Forecast Period including (i) sales taxes owing for December 2019 (\$0.7 million) and (ii) accrued pre-filing wages and vacation pay owing to the Company's employees (\$0.5 million).
44. As noted in the Boucher Affidavit, on January 17, 2020, SFP Canada transferred USD\$3 million to SFP US on account of (i) repayment for certain costs previously paid by SFP US for the benefit of SFP Canada and (ii) prepayment of certain costs to be paid by SFP US for the benefit SFP Canada during the CCAA Proceedings. As at the date of this First Report, the Monitor has not conducted a detailed review of the support for this payment but notes that the Initial Order provides that SFP Canada will not make any further payments to, or on account of, any related party until further Order of the Court.
45. The Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings. The Canadian Association of Restructuring Professionals' standards of professional practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on the Cash Flow Forecast. A copy of the Monitor's Report on the Cash Flow Forecast is attached hereto as **Appendix "D"**.
46. Pursuant to this standard, the Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussion related to information supplied to it by SFP Canada and its advisors. Since the probable and hypothetical assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Monitor also reviewed the support provided by SFP Canada and its advisors for the probable and hypothetical assumptions and the preparation and presentation of the Cash Flow Forecast.
47. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in all material respects, that:
 - (a) the probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;
 - (b) as at the date of this report, the probable and hypothetical assumptions are not suitably supported and consistent with the Company's plans or do not provide a reasonable basis for the Cash Flow Forecast, given the probable and hypothetical assumptions; or
 - (c) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

48. Since the Cash Flow Forecast is based on assumptions regarding future events, actual results may vary from the information presented even if the probable and hypothetical assumptions occur, and the variation could be material. Accordingly, the Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Cash Flow Forecast or relied upon by the Monitor in preparing this report.
49. The Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

VIII. PRIORITY CHARGES

50. The Initial Order provides for certain priority charges on the current and future assets, undertakings and properties of the Company wherever located, including all proceeds thereof, that rank in the following order:
 - (a) first, the Administration Charge (to the maximum amount of \$0.4 million); and
 - (b) second, the Directors' Charge (to the maximum amount of \$1.0 million).

Administration Charge

51. The Initial Order provides for a priority charge up to a maximum of \$0.4 million (the "**Administration Charge**") in favour of the Company's counsel, Osier, Hoskin & Harcourt LLP, the CROs, and the Monitor and its counsel, as security for the professional fees and disbursements incurred prior to and after the commencement of the CCAA Proceedings.
52. The amount of the Administration Charge sought by the Company was determined in consultation with the Monitor, and the Monitor is of the view that the Administration Charge is reasonable in the circumstances.

Directors' Charge

53. The Initial Order provides for a charge to indemnify the current directors and officers of the Company (the "**Directors and Officers**") against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of these CCAA proceedings (the "**Directors' Charge**").
54. The Directors and Officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent such coverage is insufficient to pay an indemnified amount. As per the Boucher Affidavit, the Monitor understands that SFP Canada maintains directors' and officers' liability insurance with a USD\$5.0 million aggregate limit but that the coverage limits are shared with directors and officers of SFP US.

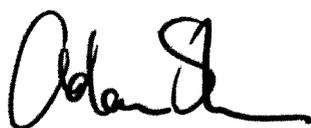
55. The amount of the Directors Charge has been calculated by the Company, in consultation with the Monitor, taking into consideration sales taxes, employee payroll and related expenses (including source deductions) as well as other employment related liabilities that attract potential liability for the Directors and Officers. The Monitor is of the view that the Directors' Charge is reasonable in the circumstances.

VIII. MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

56. For the reasons set out in this First Report, the Monitor is of the view that the relief requested by the Company is both appropriate and reasonable and the Monitor therefore recommends that this Court approve the Consulting Agreement and grant the Liquidation Sale Approval Order.

All of which is respectfully submitted on this 24th day of January, 2020.

Richter Advisory Group Inc.
in its capacity as Monitor of
SFP Canada Ltd.
and not in its personal capacity



Adam Sherman, MBA, CIRP, LIT



Pritesh Patel, MBA, CFA, CIRP, LIT

APPENDIX A

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF **SFP CANADA LTD.**

Applicant

AFFIDAVIT OF CRAIG M. BOUCHER

I, Craig M. Boucher, of the City of Hollywood, in the State of Florida, MAKE OATH AND

SAY:

1. This affidavit is made in support of an application by SFP Canada Ltd. ("**SFP Canada**" or the "**Applicant**") for an Initial Order and related relief under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36 (the "**CCAA**").
2. I am a Senior Managing Director at Mackinac Partners ("**Mackinac**"), a turnaround, restructuring and advisory firm. Among other things, Mackinac has advised companies, creditors and other stakeholders in distressed situations through an in-court or out-of-court process and acted as chief restructuring officer for companies who need experienced restructuring leadership.
3. Mackinac was retained by Schurman Fine Papers ("**SFP U.S.**") on November 12, 2019 to act as financial advisor (in such capacity, the "**Financial Advisor**") in connection with the

restructuring initiatives of SFP U.S. and its subsidiaries, including SFP Canada (collectively, the “Schurman Group”) as further described herein. I was one of the Mackinac professionals leading this engagement. Subsequently, on January 22, 2020, the Schurman Group retained Mackinac to provide my services and the services of Michael Nowlan (also a Senior Managing Director at Mackinac) as Co-Chief Restructuring Officers (in such capacity, the “CROs”) for SFP U.S. and SFP Canada.

4. In my roles as Financial Advisor and CRO, I have become and am familiar with the Applicant’s businesses, day-to-day operations, and financial affairs. As such, I have personal knowledge of the matters deposed to herein. Where I have relied on other sources for information, I have so stated and I believe them to be true. In preparing this affidavit, I have also consulted with Ms. Dominique Schurman (SFP U.S.’ and SFP Canada’s CEO), the Schurman Group’s senior management team, and the Schurman Group’s financial and legal advisors.

5. All references to monetary amounts in this affidavit are in U.S. dollars unless noted otherwise.

6. This affidavit is organized into the following sections:

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A. Introduction

7. SFP Canada operates 76 retail stores across Canada under the *Papyrus*, *Carlton Cards / Cartes Carlton*, and *Paper Destiny* brand names selling stationary, greeting cards, paper products, and gift items. SFP Canada is wholly owned by SFP U.S., the leading, privately held specialty retailer of personal expression products in North America. The Schurman Group operates 254 retail stores across the United States and Canada with approximately 1,400 employees (405 of whom are employed by SFP Canada).

8. The Schurman Group's business is highly integrated with and dependent on its relationship with American Greetings Corporation ("**American Greetings**"), the world's second largest producer of greeting cards. Among other things, the Schurman Group and American Greetings were parties to (a) a Supply Agreement dated April 17, 2009 between SFP U.S. and American Greetings (as amended, the "**Supply Agreement**") under which American Greetings agreed to supply products to the Schurman Group; and (b) an Amended and Restated Trademark License Agreement made as of April 17, 2009 (as amended, the "**Trademark Agreement**") under which American Greetings and its affiliates agreed to provide a royalty-free license to SFP U.S., SFP Franchise Corporation ("**SFP Franchise**") and SFP Canada for the trademarks (including the *Papyrus* and *Carlton Cards / Cartes Carlton* marks) under which the Schurman Group's stores operate and that are featured on most of its products (the "**Trademarks**").

9. In the past few years, the Schurman Group has faced various operational and performance challenges resulting in growing liquidity pressures. In addition to the general downturn in the brick-and-mortar retail industry, the Schurman Group has suffered a loss of profitability due to some unique factors including costs incurred in refurbishing and/or closing old and

underperforming retail stores acquired from American Greetings in 2009, pricing decisions made by American Greetings in respect of the products it sold to the Schurman Group, and unfavorable shifts in the Canada/U.S. exchange rate.

10. As a result of these and other challenges, the Schurman Group fell behind on payments owing to American Greetings under the Supply Agreement. As of the date of the swearing of this Affidavit, the Schurman Group owes American Greetings approximately \$48 million, of which, I have been advised by the Schurman Group, \$9,141,437 represents direct purchases by SFP Canada. Initially, the Schurman Group and American Greetings (under its prior ownership) worked cooperatively to address the operational and financial issues facing the Schurman Group and find a mutually beneficial path forward. However, in early 2018, following a change of control in the ownership of American Greetings, American Greetings became increasingly adamant that the Schurman Group address the arrears owing to American Greetings.

11. Over the past twelve months, the Schurman Group has taken a number of steps to attempt to address its operational and liquidity issues, including negotiating with vendors to obtain credit or more favorable terms for the supply of services, engaging in discussions with certain of its landlords to obtain various forms of rent relief, and pursuing negotiations with parties in connection with the potential sale of equity in SFP U.S. In June 2019, the Schurman Group agreed to grant a continuing lien and security interest in the property of the Schurman Group to American Greetings, pursuant to a Security Agreement, in order to secure the payment of, and performance of, the Schurman Group's Obligations to American Greetings (as defined in the Security Agreement), which security was to rank subordinate in priority to the security previously granted to the Schurman Group's senior secured lender.

12. However, before the Schurman Group was able to consummate an equity transaction or otherwise identify a viable path forward, on December 5, 2019, American Greetings notified SFP U.S. that it was immediately terminating the Supply Agreement, the Trademark Agreement, and various other agreements between the parties (collectively, the “**American Greetings Agreements**”), purportedly on the basis that the Schurman Group was in default under those agreements. American Greetings ceased supplying products to the Schurman Group at the same time.

13. After receiving notice of the purported termination of the American Greetings Agreements, the Schurman Group entered negotiations with American Greetings in an effort to agree on new terms by which the Schurman Group could continue using the Trademarks and continue purchasing products from American Greetings. However, American Greetings ultimately rejected the proposals put forward by the Schurman Group and recently advised that it is not willing to engage in further negotiations.

14. As a result of American Greetings’ purported termination of the American Greetings Agreements and unwillingness to engage in further discussion, SFP U.S. has concluded that it can no longer continue going concern operations. On January 22, 2020 SFP U.S.’ and SFP Franchise’s directors resolved to file voluntary petitions for relief under Chapter 11 of the *U.S. Bankruptcy Code* (the “**Chapter 11 Proceedings**”) in order to, among other things, pursue an orderly liquidation of the retail stores in the United States.

15. Similarly, SFP Canada can no longer operate as a going concern. As a result of the purported termination of the American Greetings Agreements, SFP Canada no longer has access to the supply of products from American Greetings (which account for over 50% of gross sales).

In addition, SFP Canada is entirely dependent on SFP U.S. for operational, management, and administrative services and cannot survive as a going concern without continued support from SFP U.S. SFP Canada has accordingly determined that it is insolvent and must cease operations in Canada.

16. It is my understanding that a Chapter 11 filing by SFP U.S. will result in events of default under certain leases to which SFP Canada is a party. These defaults would potentially result in the ability of those landlords to terminate the leases and lock out SFP Canada.

17. SFP Canada intends to use the CCAA proceedings to implement a liquidation and wind-down of its operations in a responsible, controlled and orderly manner. An orderly wind-down requires the involvement of many stakeholders and Court supervision. SFP Canada urgently requires the flexibility of the CCAA, an immediate stay of proceedings, and breathing space from the unilateral exercise of creditor remedies, as it prepares to implement its orderly wind-down through liquidating its remaining inventory with the assistance of a third-party professional liquidator and vacating its leased retail stores.

18. The Schurman Group, in consultation with its Financial Advisor and Richter Advisory Group Inc., the proposed Monitor in the CCAA proceedings (the “**Proposed Monitor**”), has recently selected a joint venture comprised of two professional third-party liquidators, Gordon Brothers Retail Partners, LLC and Hilco Merchant Resources, LLC (collectively, the “**Consultant**”). The Schurman Group believes that the Consultant will assist in maximizing the potential proceeds from the sale of its remaining inventory and furniture, fixtures, and equipment in the United States and Canada. The Consultant and its Canadian affiliates have extensive

experience in the North American retail market and have worked with Canadian landlords on numerous other engagements to conduct orderly retail liquidations.

19. If an Initial CCAA Order is granted, the Applicant intends to promptly serve a motion seeking this Court's approval of an orderly realization process (the "**Realization Process**") for SFP Canada's inventory (the "**Merchandise**") and its furniture, fixtures, and equipment (collectively, the "**FF&E**"), and of the selection of the Consultant to assist with this process. The Consultant is currently in the process of visiting store locations in Canada and the United States to start preparations for the formal Realization Process.

20. I believe that the active participation of SFP Canada in this orderly wind-down process, coupled with continued support from SFP U.S., is essential to maximizing recoveries for the benefit of the stakeholders of the Applicant, including Canadian stakeholders. It is expected that SFP Canada will engage with:

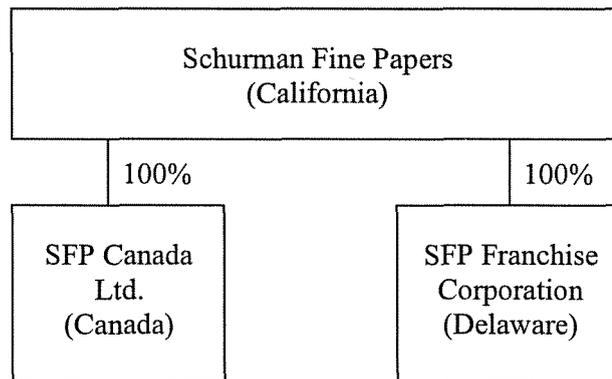
- (a) *SFP Canada's employees*, including the front-line team members, sales associates and store managers who have expertise in the operations of SFP Canada's stores, to implement the Realization Process as smoothly and efficiently as possible;
- (b) *SFP Canada's landlords*, with whom SFP Canada will need to engage during the short window of time available for the realization of assets, with a view to arriving at an efficient Realization Process that benefits all stakeholders; and
- (c) *SFP U.S.*, which provides substantially all back-office business and administrative support services. As set out above, without these services, SFP Canada could not operate and would be forced to immediately shut down, to the detriment of its

stakeholders. Thus, without SFP U.S.'s agreement to continue providing critical services during the wind-down process, the Realization Process would be impeded and chaotic.

21. In summary, SFP Canada requires a stay of proceedings and related relief under the CCAA in order to continue operating throughout the contemplated orderly wind-down and Realization Process with the continued support of SFP U.S. The stay will provide the Applicant with the flexibility to implement a responsible and orderly cessation of operations, under the supervision of the proposed Monitor and the Court, with the ultimate goal of developing a distribution plan as an efficient means of distributing the proceeds of realization to stakeholders.

B. Corporate Structure

22. SFP Canada is a New Brunswick corporation with its registered head office in Saint John, New Brunswick. As illustrated below, SFP Canada is a wholly owned subsidiary of SFP U.S., a California corporation that is controlled by the Schurman family:



23. SFP Canada's sole director is Ms. Schurman.

C. Chief Place of Business

24. The chief place of business of the Applicant is Ontario. Although the Applicant's registered head office is in New Brunswick, 35 of its 76 currently operating retail stores are located in Ontario. The Applicant therefore has more retail stores and sales in Ontario than in any of the other provinces in which it operates. Further, a plurality of the Applicant's approximately 405 employees work in Ontario.

D. The Business of the Applicant

(a) Background and Relationship between Schurman Group and American Greetings

25. The Schurman Group was founded by Marcel and Margit Schurman in 1950 as an importer and wholesaler of fine greeting cards and stationery from Europe. Between 1950 and 2009, the Schurman Group was primarily engaged in the business of distributing and selling its products in Canada and the United States through third parties, in addition to operating certain retail stores to exclusively sell the company's products. In April 2009, the Schurman Group entered into a transaction with American Greetings and its affiliates (the "**American Greetings Group**") that fundamentally transformed the Schurman Group's business.

26. More specifically, under a Purchase and Sale Agreement dated April 17, 2009 (the "**Sale Agreement**"), the Schurman Group sold its wholesale business and the *Papyrus* brand and related trademarks to the American Greetings Group. As part of the Sale Agreement, the Schurman Group acquired the retail business operated by the American Greetings Group in Canada and the United States.

27. In conjunction with the Sale Agreement, the Schurman Group and the American Greetings Group entered into several ancillary agreements, including:

- (a) The Supply Agreement under which American Greetings agreed to become the predominant supplier of products sold by the Schurman Group in its retail stores, initially for a term of 7 years (subsequently extended). A copy of the Supply Agreement (with amendments) is appended to this affidavit as Confidential Appendix A. The Applicant is advised by American Greetings that, in its view, the Supply Agreement has confidential and commercially sensitive financial terms, the disclosure of which would be prejudicial to American Greetings. The Supply Agreement includes a confidentiality provision that prohibits disclosing the terms of the Supply Agreement unless both parties consent in writing or disclosure is required by law, a court or government order, or stock exchange rule. Accordingly, as part of the proposed Initial Order, the Applicant are seeking a sealing order over Confidential Appendix A.
- (b) The Trademark Agreement under which the American Greetings Group agreed to provide a royalty-free license for the Trademarks for an initial term of 10 years (subsequently extended). A copy of the Trademark Agreement (with amendments) is attached as **Exhibit A**.
- (c) The Marketing Services Agreement (as amended, the “**Marketing Agreement**”) under which the Schurman Group agreed to provide American Greetings with certain marketing services in exchange for a monthly service fee, with an initial

term of 7 years (subsequently extended). A copy of the Marketing Agreement (with amendments) is attached as **Exhibit B**.

- (d) The POS Data Services Agreement (as amended, the “**POS Agreement**”) under which the Schurman Group agreed to collect and provide point-of-sale data to American Greetings in exchange for a monthly service fee, with an initial term of 7 years (subsequently extended). A copy of the POS Agreement (with amendments) is attached as **Exhibit C**.

28. As a result of these agreements, the Schurman Group became increasingly integrated with and highly dependent on American Greetings. In particular, the Schurman Group relied on American Greetings for the majority of goods it sold and for the Trademarks required to operate its retail business under the *Papyrus* and *Carlton Cards / Cartes Carlton* names.

(b) SFP Canada’s Retail Business

29. SFP Canada operates retail stores and sells products featuring a variety of brands. *Papyrus*, a premium greeting card brand that draws inspiration from fashion, art and lifestyle trends, is the company’s flagship brand. SFP Canada also operates stores and sells products under the *Carlton Cards / Cartes Carlton* brand and one store under the *Paper Destiny* brand, and sells products featuring the American Greetings and Recycled Paper Greetings brands.

30. SFP Canada’s stores typically carry and sell the following categories of merchandise:

- (a) Greeting cards, including everyday counter cards and seasonal counter cards.

- (b) Gift packaging, including everyday and seasonal gift wrap and bags, bows, ribbons, accessories, Christmas boxes and Christmas ornaments.
- (c) Specialty products, including everyday and seasonal party accessories, desk accessories, stationary, cellophane, stickers and boxed cards.

31. SFP U.S. operates an e-commerce platform based from their website <https://www.papyrusonline.com/> which is accessible to Canadian consumers. SFP Canada does not operate an independent e-commerce website.

(c) **Leases and Retail Stores**

(i) **Store Formats and Locations**

32. SFP Canada conducts business through retail locations in Ontario, Quebec, British Columbia, Alberta, Manitoba, Nova Scotia, Newfoundland and Labrador, and Saskatchewan. The following chart sets out SFP Canada's current store locations by geographical region:

Province	Number of SFP Canada Locations
Ontario	35
Quebec	6
British Columbia	11
Alberta	12
Manitoba	3
Nova Scotia	5
Newfoundland and Labrador	1
Saskatchewan	3
Total	76

33. SFP Canada has recently announced the closure of sixteen stores across Canada. A store located in St. Johns, Newfoundland, closed effective January 18, 2020, in large part as a result of the snowstorm that recently hit that province, and is not included in the table above. Seven other stores are scheduled to close on January 31, 2020 and a further eight stores are scheduled to close on February 29, 2020.

34. The average size of SFP Canada's stores is 1,887 square feet.

35. SFP Canada does not own any real property. All of the Applicant's retail operations are conducted in leased facilities.

(ii) Landlords for Retail Premises

36. SFP Canada leases stores across Canada from third-party landlords. SFP Canada is party to a number of leases with large landlords, whose subsidiaries own malls and shopping centres across Canada, including Oxford Properties Group, Ivanhoe Cambridge, Cadillac Fairview, and Morguard.

(iii) Lease Provisions

37. Typical of retail store leases in Canada, certain of SFP Canada's leases contain provisions that impact SFP Canada store operations, including:

- (a) *Going-Out-of-Business sale restrictions* that relate to going out of business sales in one form or another, including prohibitions on "bankruptcy sales", "going out of business sales", "liquidation sales", and other similar terms; and

- (b) *Operating covenants* that require SFP Canada to continuously occupy and operate its business in the leased premises.

38. SFP U.S. has provided an indemnity to certain landlords under some of SFP Canada's leases and certain of these leases provide that it is an event of default if the indemnifier (*i.e.*, SFP U.S.) takes the benefit of any insolvency statute. Therefore, SFP U.S. commencing the Chapter 11 proceedings will result in events of default under certain leases to which SFP Canada is a party, which defaults will potentially result in the ability of certain landlords to terminate these leases.

(d) Merchandising and Sourcing

39. Products sourced from American Greetings represent approximately 53% of SFP Canada's gross sales, all of which is purchased by SFP Canada directly. SFP Canada also sells products purchased from other third-party vendors, some of which is purchased by SFP U.S. Approximately 30% of all SFP Canada merchandise is purchased by SFP U.S. and then shipped to SFP Canada's retail stores directly from the SFP U.S. distribution centre. The remaining 70% is purchased directly by SFP Canada.

40. The costs of merchandise purchased by SFP U.S. on account of SFP Canada is recorded by SFP U.S. as an intercompany receivable. SFP Canada periodically transfers funds to SFP U.S. in order to pay for the costs of the merchandise purchased by SFP U.S.

(e) Support Services Provided by SFP U.S.

41. In addition to receiving merchandise directly from SFP U.S., SFP Canada is also dependent on SFP U.S. for a wide range of administrative and business support services. These services include strategic and marketing functions (*e.g.*, development of overall marketing strategy,

performance of market research, design of marketing activities), merchandising, selection of external service providers, collection and analysis of customer feedback, logistics, and day to day operational needs such as executive, legal, accounting, finance, treasury, tax, insurance/risk management, real estate, human resources, information technology support services, and warehousing services (collectively, the “**Shared Services**”).

42. SFP Canada also uses certain business systems of SFP U.S., including merchandizing strategies, store designs, store specifications, and operations manuals.

43. SFP U.S. provides these Shared Services from its head office in Goodlettsville, Tennessee or from remote and satellite offices in the United States. SFP Canada cannot operate or function without the provision of the Shared Services from SFP U.S. as it does not have any operational head office or head office management employees in Canada. If the Shared Services were not provided, SFP Canada would be required to immediately cease operations and shut down in an uncontrolled manner.

44. In exchange for providing certain (but not all) of the Shared Services, SFP U.S. charges SFP Canada approximately \$180,000 per month. This amount does not include SFP Canada’s proportionate share of the cost of the distribution centre, merchandising, advertising, and customer service. As described in further detail below, as part of the proposed CCAA filing, SFP Canada has prepaid SFP U.S. for the provision of Shared Services for the months of January to March 2020, as well as SFP Canada’s proportionate share of the cost of the distribution centre and customer service.

(f) Intellectual Property

45. As noted above, the American Greetings Group owns the Trademarks that are necessary for the Schurman Group to carry on its business. Pursuant to the Trademark Agreement, the American Greetings Group granted SFP U.S., SFP Franchise, and SFP Canada a royalty-free license to use the Trademarks in the United States and Canada for an initial term of 10 years (subsequently amended to expire on September 30, 2020, absent the alleged termination event described above). SFP U.S. and SFP Canada had an exclusive license for operating retail stores (with certain exceptions) and an online store, and a non-exclusive license in all other respects.

(g) Employees

46. As of January 2020, SFP Canada employed approximately 82 full-time employees and 323 part-time employees. The geographic distribution of employees is as follows:

Province	Number of SFP Canada Employees
Ontario	193
Quebec	30
British Columbia	59
Alberta	60
Manitoba	13
Nova Scotia	24
Newfoundland and Labrador	10
Saskatchewan	16
Total	405

47. As noted above, SFP Canada has recently announced the closure of sixteen stores across Canada that are scheduled to close by February 29, 2020. All employees in these stores have been provided with working notice of termination based on their statutory entitlements.

48. At this time, it is expected that all other SFP Canada employees will be provided with working notice of termination on, or shortly after, the commencement of these CCAA proceedings. SFP Canada anticipates that it will continue to employ many of its employees through the wind-down and Realization Process.

49. On average, a typical SFP Canada store has five employees and is staffed by both full-time and part-time sales associates and store management. The vast majority of SFP Canada's employees are store level employees. Sales associates report to and work under the supervision of the store management. The store managers oversee and are responsible for operations in their store, and report to district managers and report to district, flagship or area managers.

50. All back-office support and overall corporate guidance functions for SFP Canada are provided by SFP U.S.

51. The vast majority of SFP Canada employees are paid on an hourly basis. Certain employees, such as the area and district managers, are salaried employees. There are no bonus or other incentive compensation plans.

52. Full-time employees are eligible for group health and dental benefits as well as life insurance through Great-West Life Assurance Company starting on the first day of the month after their employment begins. Temporary, part-time and seasonal employees are not eligible for these

benefits. SFP Canada also offers an employee assistance program to both full-time and part-time employees through Life Works at no cost to the employees.

53. SFP Canada has also established a group Registered Retirement Savings Plan (“RRSP”) for hourly employees and a registered pension plan for salaried employees. Both plans are administered by Manulife. SFP Canada does not make any matching contributions to the RRSP.

54. SFP Canada’s employees are all non-unionized and there are no applicable collective agreements.

55. SFP Canada’s payroll is administered by SFP U.S., with the payroll, Canadian withholding taxes, and benefits being processed by PAYweb. SFP Canada’s average biweekly payroll during fiscal 2019 was approximately \$0.3 million.

(h) Gift Cards

56. SFP Canada customers can purchase gift cards (“Gift Cards”) in stores. As of the date of the swearing of this Affidavit, SFP Canada had a net liability for outstanding Gift Cards of approximately \$1.15 million. It is proposed that outstanding Gift Cards will be honoured for another 30 days during the Realization Process.

(i) Logistics Suppliers

57. SFP Canada does not have any distribution centres and relies on third-party logistics services providers that ship inventory from SFP U.S.’s distribution centre to SFP Canada’ stores. Any merchandise that is shipped to SFP Canada’s stores from the SFP U.S.’s warehouse in Tennessee is transported by United Parcel Service (“UPS”). UPS also provides customs clearing

services for the products it transports. Any merchandise that SFP Canada directly purchases from a third-party vendor is shipped using UPS and other transportation service providers to Impact Logistics (“**Impact**”), a third-party logistics services provider. Impact distributes the merchandise to SFP Canada’s stores. SFP Canada uses various third-party expeditors for customs services.

58. SFP Canada relies on timely and frequent delivery of critical inventory items in conducting its business. Any interruption in this supply, however brief, would disrupt SFP Canada’s operations to the detriment of the Realization Process.

59. SFP Canada’s retail stores are also supplied with essential utilities (*e.g.*, water, fuel and electricity), at SFP Canada’s expense, which, depending on the terms of the particular lease, may be paid to the landlord at first instance. The continuous provision of these utilities is essential to operations and the orderly wind-down.

(j) Banking and Cash Management

60. SFP Canada maintains a centralized cash management system which is administered by SFP U.S. from the head office to collect, transfer, and disburse funds generated by the operations of SFP Canada (the “**Cash Management System**”). SFP Canada is dependent upon SFP U.S. for all treasury, banking and related services that are provided by SFP U.S.

61. SFP Canada has store deposits accounts at each of Royal Bank of Canada (“**RBC**”), TD Canada Trust (“**TD**”), Canadian Imperial Bank of Commerce (“**CIBC**”), Bank of Montreal (“**BMO**”), and Bank of Nova Scotia (“**BNS**”). The cash generated at each SFP Canada store is deposited daily at an account at the closest of these banks. In addition, debit and credit card receipts are deposited in an account maintained at BNS.

62. The funds from the store deposit accounts are transferred into a restricted account (the “**Restricted Account**”) maintained by SFP Canada with Wells Fargo Foothill Canada ULC (“**Wells Fargo Canada**”). Wells Fargo Canada in turn has an account with TD to facilitate transfers to and from the Restricted Account. Funds deposited into the BNS and BMO store deposit accounts are transferred to the Restricted Account automatically on a daily basis, whereas funds deposited into the RBC, TD and CIBC accounts are transferred to the Restricted Account manually once they hit a certain threshold (typically \$20,000).

63. SFP Canada maintains three disbursement accounts with Wells Fargo Canada. Two of these accounts are used to pay payroll, rent, Canadian cheques, taxes and vendors. Wells Fargo maintains two accounts at RBC to facilitate transfers from the two active disbursement accounts. The third disbursement account is currently inactive.

64. Cash is not automatically transferred from SFP Canada to SFP U.S. as part of the Cash Management System. Historically, SFP Canada would allow funds to accumulate in the Restricted Account and then would periodically make payments from the Restricted Account to pay amounts owing by SFP Canada to SFP U.S.

65. On January 17, 2020, SFP Canada transferred \$3 million to SFP U.S. as (i) payment for certain costs and expenses that have been paid by SFP U.S. on behalf of SFP Canada prior to these CCAA proceedings; and (ii) prepayment of costs and expenses that will be paid by SFP U.S. during these CCAA proceedings for the benefit of SFP Canada. More specifically, this includes:

- (a) reimbursement of SFP U.S. for SFP Canada’s proportionate share of certain professional fees incurred in preparation of the Chapter 11 filings and the CCAA proceedings;

- (b) reimbursement of SFP U.S. for SFP Canada's proportionate share of certain prepetition costs paid by SFP U.S., including Shared Services for the month of December and January, distribution centre charges, customer service charges, merchandising charges, advertising charges, and the escrow established for the Consultant;
- (c) prepayment of \$700,000 worth of inventory that will be sent by SFP U.S. to SFP Canada during the Realization Process. In the reasonable business judgment of the CROs and the Consultant, this additional inventory will enhance sales during the Realization Process, which will be to the benefit of SFP Canada's estate;
- (d) prepayment of the expected costs of the Shared Services, distribution centre charges, and customer service charges during the Realization Process; and
- (e) replenishment of retainers of the Consultant and professionals in connection with the CCAA proceedings.

66. The proposed Initial Order provides that SFP Canada will not make any payments to or on account of any related party until further Order of the Court.

E. The Financial Position of SFP Canada

67. SFP U.S. prepares unaudited financial reporting packages, including stand-alone balance sheets, for SFP Canada's operations. A copy of the balance sheet for SFP Canada as at November 30, 2019 is attached as **Exhibit D**. This balance sheet reflects the financial position of SFP Canada in U.S. dollars and has not been audited. Certain information contained in this unaudited balance sheet is summarized below.

(a) Assets

68. As at November 30, 2019, the assets of SFP Canada had a book value of approximately \$9.6 million and consisted of the following:

Current Assets: \$8,294,000	
Cash	\$1,930,000
Total Receivables	\$270,000
Inventory, Net	\$5,236,000
Prepaid Assets	\$858,000
Non-Current Assets: \$1,296,000	
Fixed Assets, Net	\$972,000
Other Assets	\$323,000
Intangibles	\$0
Total Assets	\$9,589,000

(b) Liabilities

69. As at November 30, 2019, the liabilities of SFP Canada had a book value of approximately \$11.8 million and consisted of the following:

Current Liabilities: \$11,274,000	
Trade Payables ¹	\$10,416,000
Income Taxes Payable	\$121,000
Sales and Use Tax Payable	\$152,000
Accrued Liabilities	\$585,000
Non-Current Liabilities: \$482,000	
Deferred Rent Long Term	\$306,000
Tenant Improvement Allowance Long Term	\$176,000
Total Liabilities	\$11,757,000

¹ The vast majority consists of amounts owing from SFP Canada to American Greetings.

(c) Stockholder's Equity

70. As at November 30, 2019, the stockholders' equity in respect of SFP Canada was (\$2,168,000) consisting of Retained Earnings of \$85,000, Accumulated Other Comprehensive Income of \$458,000 and an intercompany loss of \$2,711,000.

(d) Earnings

71. For the period from February to November 2019, SFP Canada's net loss was \$2,375,000 and its EBITDA was negative \$1,672,000.28.

(e) Secured Debt of SFP U.S. and SFP Canada

72. The Schurman Group has secured indebtedness as follows: (i) amounts owing under the Wells Fargo Credit Agreement (defined below); and (ii) security granted to the American Greetings Group.

(i) Wells Fargo Credit Agreement

73. SFP U.S., SFP Franchise (with SFP U.S., the "**US Borrowers**") and SFP Canada are parties to an Amended and Restated Loan Agreement with Wells Fargo Bank, National Association ("**Wells Fargo**") as Administrative Agent, Collateral Agent, and a Revolving Credit Lender and with Wells Fargo Canada as a Revolving Credit Lender and Canadian Lender (as amended, the "**Wells Fargo Credit Agreement**"). The Wells Fargo Credit Agreement was originally entered into as of April 17, 2009. A copy of the Amended and Restated Wells Fargo Credit Agreement and amendments are attached as **Exhibit E**.

74. Pursuant to the Wells Fargo Credit Agreement, the U.S. Borrowers may borrow funds in U.S. dollars (the “**U.S. Revolving Facility**”) and SFP Canada may borrow funds under Canadian dollars (the “**Canadian Revolving Facility**”) up to a collective potential maximum of \$35 million on a revolving basis. As at January 20, 2020, the U.S. Borrowers had drawn down approximately \$6.3 million under the U.S. Revolving Facility. SFP Canada has no current outstanding balance under the Canadian Revolving Facility.

75. The Wells Fargo Credit Agreement also provides that Wells Fargo will endeavor to cause the U.S. Issuing Bank to issue letters of credit denominated in U.S. dollars for the account of the U.S. Borrowers and SFP Canada, or to undertake to purchase participations or execute indemnities or reimbursement obligations with respect to letters of credit denominated in U.S. dollars subject to certain conditions. The U.S. Borrowers are applicants for one outstanding letter of credit for \$50,000. There are no outstanding letters of credit for which SFP Canada is an applicant.

76. In addition, the Wells Fargo Credit Agreement provides that Wells Fargo will assist SFP Canada in establishing or opening letters of credit denominated in Canadian dollars or in causing a Canadian issuing bank to purchase participations or execute indemnities or Reimbursement Obligations by joining in the applications for and/or guaranteeing payment or performance of any Canadian letters of credit. There are currently no outstanding letters of credit guaranteed by Wells Fargo in Canada or for which Wells Fargo was a joint applicant.

77. Under the Wells Fargo Credit Agreement, each borrower has granted a security interest in their present and after acquired property to secure all the obligations under the Wells Fargo Credit Agreement. In addition, the assets of SFP Canada also secure any obligations under the Wells

Fargo Credit Agreement pursuant to a Canadian Pledge and Security Agreement dated April 17, 2009. A copy of the Canadian Pledge and Security Agreement is attached as **Exhibit F**.

78. The U.S. Borrowers are jointly and severally liable for all of the obligations under the Wells Fargo Credit Agreement. However, SFP Canada is not jointly and severally liable for the obligations owed by the U.S. Borrowers.

79. American Greetings has provided a limited guarantee dated as of April 17, 2009 (as amended, the “**American Greetings Guarantee**”) guaranteeing the obligations owing by the Schurman Group under the Wells Fargo Credit Agreement up to \$10 million. A copy of the American Greetings Guarantee (with amendments) is attached as **Exhibit G**.

80. The Schurman Group’s defaults under the American Greetings Agreements and the purported termination of those agreements constitute events of default under the Wells Fargo Credit Agreement. As a result, Wells Fargo has the right to cease making any advances and to cease issuing any additional letters of credit to the Schurman Group, to demand immediate payment of all outstanding obligations under the Wells Fargo Credit Agreement, and to exercise the rights and remedies available to Wells Fargo, including foreclosure upon any collateral securing the outstanding obligations. While Wells Fargo has not chosen to exercise any of these rights or remedies at this time, it has expressly reserved all rights and remedies under the Wells Fargo Credit Agreement.

(ii) American Greetings Security Agreement

81. On June 25, 2019, SFP U.S., SFP Franchise, SFP Canada and American Greetings entered into a Security Agreement (the “**American Greetings Security Agreement**”) pursuant to which

SFP U.S., SFP Franchise and SFP Canada granted to American Greetings a continuing lien and security interest over their present and after-acquired property to secure the payment of, and performance of, the Obligations (as defined therein) owing under the Supply Agreement, the Trademark License Agreement, the POS Data Services Agreement, the Marketing Services Agreement, the American Greetings Guarantee, and any other documents, purchase orders, or other agreements between the Schurman Group and American Greetings Group. A copy of the American Greetings Security Agreement is attached as **Exhibit H**.

82. Prior to the execution of the American Greetings Security Agreement, American Greetings provided goods and services under the American Greetings Agreements to the Schurman Group on credit on an unsecured basis. The parties entered into the American Greetings Security Agreements to, among other things, secure the receivable owing by the Schurman Group under those agreements.

83. I am advised by Mr. Erik Kortman, Controller at the Schurman Group, and believe that, as of the date of the swearing of this Affidavit, SFP U.S. owed \$38,706,673 and SFP Canada owed \$9,141,437 to American Greetings. In some cases, the amounts owing by SFP Canada to American Greetings are over 180 days old.

84. The relative priorities of Wells Fargo and American Greetings are governed by a Subordination and Intercreditor Agreement made as of June 25, 2019 which provides that Wells Fargo has first priority over the Collateral (as defined in the agreement). A copy of the Subordination and Intercreditor Agreement is attached as **Exhibit I**.

F. Restructuring Efforts to Date

85. In addition to the general downturn in the brick-and-mortar retail industry, the Schurman Group has suffered an erosion in its profitability due to unique operational and performance issues including (a) the capital costs incurred in refurbishing or closing a large number of old and underperforming retail stores acquired from American Greetings in 2009; (b) the renegotiation of the Marketing Agreement and POS Agreement which significantly reduced the fees payable to the Schurman Group under those agreements; (c) the decline in value of the Canadian dollar since the Schurman Group acquired the Canadian retail stores from American Greetings in 2009, which has compromised the profitability of the Schurman Group's Canadian operations; and (d) various pricing decisions made by American Greetings, including a significant price increase in their products and imposing a uniform price for products in both the United States and Canada that resulted in a decline in revenues earned in Canada.

86. The financial challenges faced by the Schurman Group caused it to fall behind on amounts owing to American Greetings for products sold and provided to the Schurman Group. I am advised by Ms. Schurman (SFP U.S.' and SFP Canada's CEO) and believe that over the past 24 months, the Schurman Group has taken a number of steps to address the operational and liquidity issues it was facing, including negotiating rent relief and rent holidays with certain landlords and negotiating with vendors to obtain credit on more favorable terms for the supply of services. In addition, the Schurman Group aggressively pursued negotiations with a party that had expressed interest in acquiring equity in the Schurman Group which, if consummated, would have provided additional liquidity to the Schurman Group. However, despite significant efforts, the Schurman Group was unable to find a viable option for addressing the financial pressures it faced before American Greetings sent the notice of termination.

87. In the days following the purported termination of the American Greetings Agreements, the Schurman Group, with the assistance of its financial and legal advisors, engaged in discussions with American Greetings in an attempt to address the concerns raised by American Greetings and cure the defaults under the American Greetings Agreements. At the request of American Greetings management, a term sheet was presented by the Schurman Group to American Greetings. However, the term sheet was rejected by the American Greetings board of directors. Ultimately, American Greetings indicated that it was not willing to engage in further negotiations within the parameters being proposed by the Schurman Group.

G. The Urgent Need for Relief Under the CCAA

88. SFP Canada cannot continue going concern operations without the continued supply of products under the Supply Agreement and use of the licenses granted under the Trademark Agreement. Moreover, given its operational dependence on SFP U.S., SFP Canada cannot continue operations without the full support of SFP U.S. Given the purported termination of the American Greetings Agreements, the resulting default under the Wells Fargo Credit Agreement and the pending wind down of SFP U.S., SFP Canada is insolvent and has no option other than to cease operations in Canada and to conduct an immediate controlled and orderly wind-down of operations for the benefit of its stakeholders.

89. The continued support, assistance and co-operation of SFP U.S. is required to conduct a responsible and orderly liquidation of SFP Canada's operations. The continued provision of Shared Services by SFP U.S. is essential for SFP Canada to operate. I understand that SFP U.S. will only agree to continue supporting SFP Canada through the provision of Shared Services if (a) it is for

the limited purpose of an orderly wind-down with SFP Canada remaining in control of its assets and property; and (b) the wind-down is supervised by this Court in accordance with the CCAA.

90. As set out above, an insolvency filing by SFP U.S. will result in events of default under certain leases to which SFP Canada is a party. These defaults will potentially result in the ability of certain landlords to terminate these leases. As such, SFP Canada's urgent need for the protections offered by the CCAA has accelerated.

91. As such, the board of directors of SFP Canada has resolved to commence these CCAA proceedings. Without further financial and operational support from SFP U.S. and product from American Greetings, SFP Canada is unable to meet its liabilities as they become due and is therefore insolvent.

H. Relief Sought

(a) Stay of Proceedings

92. The Applicant urgently requires a stay of proceedings and other protections as provided by the CCAA so that it will have the breathing space to conduct a controlled and orderly wind-down of its operations.

93. Having regard to the circumstances, I believe that the granting of a stay is in the best interests of the Applicant and its stakeholders. The stay will provide the Applicant with the time required to develop and oversee an orderly wind-down process, which in turn will help to protect the interests of the Applicant's stakeholders, including employees, suppliers, landlords, and customers, all with the eventual goal of developing and implementing a distribution plan to efficiently distribute the proceeds of realization to creditors.

(b) Proposed Monitor

94. The Proposed Monitor has consented to act as the monitor of the Applicant under the CCAA. A copy of the Proposed Monitor's consent to act as monitor is attached as **Exhibit J**.

(c) Chief Restructuring Officer

95. As noted above, the Schurman Group has retained Mackinac to provide my and Mr. Nowlan's services as CROs. A copy of the final form of the engagement letter (the "**CRO Engagement Letter**") is attached as **Exhibit K**.

96. Mr. Nowlan and I have over 25- and 20-years' experience, respectively, in strategic, financial and turnaround and restructuring advisory work in a variety of industries, including the retail industry. In addition, we have both previously served as lead restructuring advisors and chief restructuring officers for companies undergoing Chapter 11 proceedings. Therefore, our appointment as CROs places the management of the proposed Realization Process in the hands of experienced professionals familiar with retail insolvencies and will enhance the likelihood that SFP Canada will maximize value under the Realization Process.

97. The proposed Initial Order provides for the approval of the CRO Engagement Letter and my and Mr. Nowlan's appointment as CROs. The CRO Engagement Letter sets out the applicable fees and disbursements.

98. I am advised by Mr. Marc Wasserman of Osler, Hoskin & Harcourt LLP, counsel for the Applicant, and believe that many of the CROs-related provisions in the proposed Order are similar to protections afforded to chief restructuring officers in other CCAA proceedings. These protections include that:

- (a) the CROs shall not be deemed to be a director, *de facto* director or employee of the Applicant;
- (b) Nothing in the proposed Initial Order shall be construed as resulting in either CRO being an employer, successor employer, a responsible person, operator or person with apparent authority within the meaning of any statute, regulation or rule of law, or equity for any purpose whatsoever;
- (c) the CROs shall not have any liability with respect to any losses, claims, damages or liabilities, of any nature or kind, to any person from and after the date of the Initial Order except to the extent such losses, claims, damages or liabilities result from the gross negligence or willful misconduct on the part of the CROs; and
- (d) no action or other proceeding shall be commenced directly, or by way of counterclaim, third-party claim or otherwise, against or in respect of either of the CROs and all rights and remedies of any Person against or in respect of each of the CROs are hereby stayed and suspended, except with the written consent of the applicable CRO or with leave of this Court on notice to the Applicant, the Monitor and the applicable CRO to be obtained through a motion served upon the Applicant, the Monitor and the applicable CRO at least seven days' before its return date.

99. I believe that the appointment of the CROs is in the best interests of SFP Canada and its stakeholders. I also understand that the Monitor supports the appointment of the CROs.

(d) Administration Charge

100. The proposed Initial Order provides that the Proposed Monitor, along with its counsel, the Applicant's counsel and the CROs, will be granted a Court-ordered charge on the present and future assets, property and undertakings of SFP Canada ("**Property**"), as security for their respective fees and disbursements relating to services rendered in respect of SFP Canada up to a maximum of CAD \$400,000 (the "**Administration Charge**"). The Administration Charge is proposed to have first priority over all other charges.

(e) Directors' and Officers' Protection

101. I am advised by Mr. Wasserman and believe that, in certain circumstances, directors can be held liable for certain obligations of a company owing to employees and government entities, which may include unpaid accrued wages and unpaid accrued vacation pay, together with unremitted sales, goods and services, and harmonized sales taxes.

102. It is my understanding that the Applicant's director and its past and former officers who are or were employed are potential beneficiaries of director and officer liability insurance (the "**D&O Insurance**") with a \$5 million aggregate limit. These coverage limits are shared with directors and officers of SFP U.S. and SFP Franchise. In light of the insolvency of the Schurman Group, it is unclear whether this insurance policy provides sufficient coverage against the potential liability that the director and officers could incur in relation to these CCAA proceedings.

103. In light of the potential liabilities and the insufficiency of available insurance, the continued service and involvement of the director and officers in this proceeding is conditional upon the granting of an Order under the CCAA which grants a charge in favour of Applicant's director and

officers in the amount of CAD \$1 million on the Property of SFP Canada (the “**Directors’ Charge**”). The Directors’ Charge would be subordinate to the proposed Administration Charge. The Directors’ Charge would act as security for the indemnification obligations for directors’ potential liabilities, as set out above. The Directors’ Charge is necessary so that SFP Canada may benefit from the director’s and officers’ experience with the business as they guide the realization and wind-down efforts. The charge would only be relied upon to the extent of the insufficiency of the existing insurance.

(f) Cash Flow Forecast

104. The Applicant, with the assistance of the Proposed Monitor (if appointed, in such capacity, the “**Monitor**”), has prepared 13-week cash flow projections as required by the CCAA. A copy of the cash flow projections is attached as **Exhibit L**. The cash flow projections demonstrate that SFP Canada has sufficient liquidity to continue going concern operations during the proposed stay period should the stay of proceedings be granted and the Realization Process commence as forecast. It is not contemplated that SFP Canada will require debtor-in-possession financing during these CCAA proceedings or in the Chapter 11 proceeding.

105. The Applicant anticipates that the Monitor will provide oversight and assistance and will report to the Court in respect of SFP Canada’s actual results relative to cash flow forecast during this proceeding. Existing accounting procedures will provide the Monitor with the ability to track the flow of funds and assist with any issues that may arise.

(g) Payments During CCAA Proceedings

106. During the course of these CCAA proceedings, SFP Canada intends to make payments for goods and services supplied to it post-filing in the ordinary course, as set out in the cash flow projections described above and as permitted by the draft Initial Order.

107. SFP Canada is proposing in the draft Initial Order that it be authorized, with the consent of the Monitor, but not required to make payments for goods or services actually supplied to SFP prior to the date of the Initial Order by third-party suppliers or service providers up to a maximum aggregate amount of \$100,000 if, in the opinion of SFP Canada, the supplier or service provider is critical to the orderly wind-down of SFP Canada's business.

(h) Liquidation Consultant and Realization Process

108. As part of the overall wind-down process for the Canadian business, SFP Canada intends to file an urgent motion immediately after the granting of the Initial Order seeking an Order (the "**Proposed Sale Approval Order**") approving:

- (a) the Consulting Agreement (the "**Consulting Agreement**") between the Consultant and the Schurman Group dated January 17, 2020 regarding the liquidation of the Merchandise and the FF&E; and
- (b) proposed sale guidelines for the orderly liquidation of the Merchandise and FF&E (the "**Sale Guidelines**").

109. The proposed Realization Process will take place over a short period of time and is currently contemplated to run till the end of February. It must be commenced as soon as possible to maximize recoveries and limit costs for the following reasons:

- (a) The current schedule will minimize costs by allowing the Schurman Group to exit its retail stores by the end of February.
- (b) If the Proposed Sale Approval Order is granted immediately after the Initial Order, it will add an additional weekend on which sales can take place, which will likely result in greater recoveries.
- (c) Valentine's Day, a significant holiday for the sale of the Schurman Group's products, will be occurring during the proposed Realization Process. The Consultant must begin advertising in connection with the Realization Process as soon as possible in order to maximize sales in the run up to that holiday.

110. In the circumstances, any delay in commencing the formal Realization Process may compromise the net recoveries generated from the sale of SFP Canada's Merchandise and FF&E.

111. The realization process set out in the Consulting Agreement and the Sale Guidelines was designed by SFP Canada and the Consultant in consultation with the Proposed Monitor and the Financial Advisor. I expect that this realization process will maximize the value realized from the sale of SFP Canada's Merchandise and FF&E for the benefit of stakeholders.

(i) Solicitation and Selection of the Proposed Consultant

112. In anticipation of potential Chapter 11 and CCAA filings, on November 12, 2019, the Schurman Group retained the Financial Advisor to, among other things, assist in developing and implementing a bid solicitation process for liquidating the Merchandise and FF&E.

113. Before filing for creditor protection in the United States and Canada, the Schurman Group solicited bids from four leading liquidation firms and asked each of them to execute a non-disclosure agreement (“NDA”). All four liquidators signed NDAs and were given access to a virtual data room containing financial and other information concerning the Merchandise and FF&E and were given approximately 2 days to review the data in advance of the bid deadline.

114. The Consultant and one other liquidator submitted proposals. After reviewing the two proposals, and in consultation with the Financial Advisor, the Schurman Group selected the Consultant’s proposal. The Schurman Group believes that the Consultant’s proposal will provide for the best recovery for stakeholders as it provided an estimated recovery consistent with a recent appraisal while concluding the Realization Process in a shorter timeframe. In addition, the Consultant had carried out the recent appraisal and therefore is already familiar with the Schurman Group’s stores and inventory.

115. The Consultant is a joint venture between two liquidators:

- (a) Gordon Brothers Retail Partners, LLC, which has extensive experience in conducting retail liquidations. Gordon Brothers’ recent experience in Canada includes Sears Canada, Ben Moss, Target Canada, MINISO Canada, and Forever 21.

- (b) Hilco Merchant Resources, LLC, which also has extensive experience in conducting retail liquidations. Hilco's recent experience in Canada includes Target Canada, Sears Canada, American Apparel Canada, BCBG Canada, Express Fashion Apparel, Danier Leather, and Forever 21.

116. Gordon Brothers and Hilco have acted together as joint ventures on a number of past retail liquidations in both Canada and the United States.

(ii) Consulting Agreement and Sale Guidelines

117. On January 17, 2020, the Consultant and the Schurman Group entered into the Consulting Agreement, a copy of which is attached (without the budget appended to the Consulting Agreement) as **Exhibit M** to this affidavit.

118. The Consulting Agreement is expressly subject to, among other things, approval of this Court.

119. The Consulting Agreement provides that the Consultant will serve as the exclusive consultant for the purpose of conducting a sale of the Merchandise and FF&E at all of the Schurman Group's stores, including all SFP Canada stores (collectively, the "**Stores**").

120. Under the Consulting Agreement, the Consultant would earn a Merchandise Fee comprised of a percentage of the gross proceeds from all sales of Merchandise net of applicable HST/GST (the "**Gross Proceeds**"). The applicable percentage will be determined based upon one of the following thresholds of Gross Recovery Percentages (as defined in the Consulting Agreement):

<u>Gross Recovery Percentage</u>	<u>Merchandise Fee</u>
Below 190%	1.75% of Gross Proceeds

Above 190%	2% of Gross Proceeds
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121. In addition, the Consultant would be entitled to a commission of 15% of the gross sales of the FF&E, net only of applicable sales taxes.

122. Some of the key terms of the Consulting Agreement include:

- (a) The sale of the Merchandise (the “**Sale**”) shall commence on or about January 16, 2020 (the “**Sale Commencement Date**”) and conclude no later than February 29, 2020 (the “**Sale Termination Date**”). However, the Consultant and SFP Canada may, in consultation with the Monitor, agree to vary the Sale Commence Date or the Sale Termination Date with respect of any one or more of the Stores.
- (b) At the conclusion of the Sale at each Store, the Consultant will leave such Store in broom clean condition, subject to the Consultant’s right to abandon unsold FF&E.
- (c) The Consultant shall, among other things, (i) provide qualified supervisors to oversee the conduct of the Sale; (ii) recommend appropriate discounts of Merchandise, staffing levels for the Stores, and appropriate bonus and incentive programs (if any) for employees; (iii) establish and monitor accounting functions for the Sale, including evaluation of the sale of goods located at the Stores by category, sales reporting and expense monitoring; (iv) maintain focused and constant communication with Store-level employees and managers to keep them abreast of strategy and timing and to properly effect Store-level communication by the Schurman Group’s employees to customers and others about the Sale; and (v) recommend loss prevention strategies.

- (d) The Schurman Group shall, among other things, (i) have control over the personnel in the Stores; (ii) shall handle the cash, debit and charge card payments for all Merchandise in accordance with its normal cash management procedures (as may be modified by the Court); and (iii) shall be solely responsible for the computing, collecting, holding, reporting, and paying all sales taxes associated with the sale of Merchandise during the Sale.
- (e) From and after the issuance of any Approval Order (as defined in the Consulting Agreement), the Sale shall be conducted in accordance with the terms thereof.
- (f) The Schurman Group shall be responsible for all expenses incident to the conduct of the Sale and the operation of the Stores during the Sale. To manage costs, however, the Schurman Group and the Consultant have established a budget (attached to the Consulting Agreement as Exhibit "B"). The Schurman Group will reimburse the Consultant's costs up to the aggregate amount of the budget and the Consultant's reasonable and documented legal fees and expenses incurred in connection with the Consulting Agreement. The parties may amend the budget by mutual consent in writing, with it being acknowledged that (i) the Schurman Group may require the consent of the Monitor to increase the amount of expenses reimbursable by SFP Canada, and (ii) that the Schurman Group will obtain such consent in advance of the occurrence of any such expense by Consultant.
- (g) The Consultant will also sell the "**Offered FF&E**", which is all FF&E other than any FF&E that the Schurman Group identifies as not to be sold. The Schurman Group shall be responsible for all reasonable and documented costs and expenses

incurred by the Consultant in connection with the sale of the Offered FF&E, which costs and expenses shall be incurred pursuant to a written budget or budgets to be established.

- (h) The parties will meet on each Wednesday during the Sale to review any Sale matters reasonably requested by either party, and all amounts payable or reimbursable to Consultant for the prior week (or the partial week in the case of the first and last weeks) shall be reconciled, in consultation with the Monitor, and paid immediately thereafter. Within 20 days following the end of the Sale, the parties, in consultation with the Monitor, will complete a final reconciliation of all amounts contemplated by the Consulting Agreement.
- (i) The Schurman Group shall be responsible for maintaining insurance with respect to the Merchandise in amounts and on such terms and conditions as are consistent with its ordinary course operations. In addition, both parties shall maintain comprehensive liability insurance covering injuries to persons and property in or in connection with the Stores, in such amounts as are reasonable and consistent with its ordinary practices, for bodily injury, personal injury and/or property damage. Each party shall be added as an additional insured on all such insurance of the other party, all such insurance shall provide that it shall be non-cancelable and non-changeable except after 30 days' prior written notice to the other party, and each party shall provide the other with certificates of all such insurance prior to the commencement of the Sale.
- (j) All sales of Merchandise shall be "final" with no returns allowed.

- (k) The Consulting Agreement provides that the Consultant shall sell Non-Merchandise Goods (defined as (i) goods that belong to sublessees, licensees, or concessionaires of the Schurman Group; (ii) damaged or defective merchandise that cannot be sold; or (iii) goods held by Schurman Group on memo, on consignment, or as bailee) during the Sale at the Stores, subject to the consent of the owners of the Non-Merchandise Goods. The Consultant shall earn a fee equal to the definitive Merchandise Fee percentage earned by Consultant on sales of Merchandise as set out above multiplied by the aggregate gross proceeds, net only of sales taxes, from the sale of Non- Merchandise Goods at the Stores (the “**Non-Merchandise Fee**”).

- (l) Subject to compliance with applicable law and the Approval Order, the Consultant shall have the right, at its sole cost and expense, to supplement the Merchandise in the Sale with additional goods procured that are of like kind, and no lesser quality to the Merchandise in the Sale (the “**Additional Consultant Goods**”). The Consultant will pay to the Schurman Group an amount equal to 7.5% of the gross proceeds (excluding sales taxes) from the sale of the Additional Consultant Goods (the “**Additional Consultant Goods Fee**”).

123. The proposed Sale Approval Order also approves certain Sale Guidelines. A copy of the form of Sales Guidelines is attached as **Exhibit N** to this Affidavit. SFP Canada and the Consultant prepared the Sale Guidelines in consultation with the Financial Advisor and the Proposed Monitor. The Sale Guidelines provide, among other things:

- (a) The Sale shall be conducted in accordance with the terms of the applicable lease, except as otherwise set out in any Court order, the Sale Guidelines, or in any

subsequent written agreements between SFP Canada and the applicable landlord (as approved by the Consultant).

- (b) The Sale shall be conducted so that each of the Stores remains open, before it is vacated, during its normal hours of operation provided for in the applicable lease.
- (c) All display and hanging signs used by the Consultant in connection with the Sale shall be professionally produced and hung in a professional manner. No sign shall advertise the sale as a “bankruptcy”, “liquidation” or “going out of business” sale. However, notwithstanding anything in the applicable leases, the Consultant may advertise an “everything on sale”, “everything must go”, “store closing”, or similar themed sale.
- (d) The purchasers of FF&E shall only be permitted to remove the FF&E either through the back shipping areas designated by the applicable landlord or through other areas after regular Store business hours or, if the FF&E can fit in a shopping bag, through the front door of the Store during Store business hours. FF&E may only be removed with the landlord’s supervision, if required by the landlord.
- (e) The Consultant shall not conduct any auctions of Merchandise or FF&E at any of the Stores.
- (f) Signs must be posted in the cash register areas of each Store informing customers that all sales are “final”.
- (g) At the conclusion of the Sale in each Store, the Consultant and SFP Canada will arrange for the premises to be cleaned.

125. In accordance with the Consulting Agreement, an advance payment of costs and expenses was made by SFP U.S. to the Consultant in the amount of \$500,000.

126. I believe that the Consulting Agreement and Sale Guidelines would benefit all of SFP Canada's stakeholders and that engaging the Consultant to assist with the sale of the Merchandise and FF&E will produce better results than attempting to liquidate without professional assistance. SFP Canada believes that it is crucial to begin the realization process immediately to implement the orderly wind down of the business and to maximize the value realized for all stakeholders.

I. Conclusion

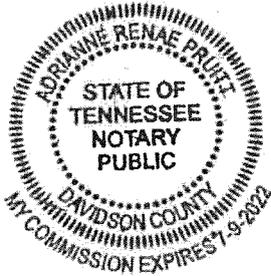
127. I am confident that granting the Initial Order sought by the Applicant is in the best interests of SFP Canada and its stakeholders, generally. Without the stay of proceedings, the Applicant faces an immediate and uncontrolled cessation of operations rather than a responsible, controlled, and orderly wind-down. I believe that a CCAA proceeding is the only viable method to effect a controlled and orderly wind-down process for the benefit of all stakeholders.

SWORN BEFORE ME at the City of
Goodlettsville, in the State of Tennessee, on
January 23, 2020

Adrienne Renae Price

Notary Public in and for the State of
Tennessee

Craig M. Boucher



**IN THE MATTER OF the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C. C-36, as amended
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SFP CANADA LTD.**

Court File No:

Applicant

Ontario
**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

AFFIDAVIT OF CRAIG M. BOUCHER

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Lawyers for the Applicant

APPENDIX B



Gordon Brothers

January 17, 2020

To: Schurman Retail Group, LLC
300 Oak Bluff Lane
Goodlettsville, TN 37072

From: Gordon Brothers Retail Partners, LLC
800 Boylston Street
27th Floor
Boston, MA 02199

-and-

Hilco Merchant Resources, LLC
5 Revere Drive, Suite 206
Northbrook, Illinois 60062

Re: Store Closing Program – Consulting Agreement

Ladies and Gentlemen:

This letter shall serve as the agreement between a contractual joint venture comprised of Gordon Brothers Retail Partners, LLC and Hilco Merchant Resources, LLC (together, the “Consultant”) and Schurman Retail Group, LLC and its subsidiaries (including SFP Canada Ltd. (“CanCo”) d/b/a Papyrus and American Greetings (collectively, the “Merchant” and together with Consultant, the “Parties”) pursuant to which Consultant shall serve (i) as the exclusive consultant to Merchant to conduct a “store closing,” “everything must go,” “sale on everything,” and other mutually agreed upon themed sale (“Sale”) at Merchant’s retail stores identified on Exhibit A attached hereto (each a “Store” and collectively the “Stores”), and (ii) prior to commencement of the Sale, assist merchant with promotions and merchandising for the Stores and other matters in preparation for the Sale, all subject to the terms and conditions set forth herein.

1. RETENTION

(A) Merchant hereby retains Consultant as its exclusive, independent consultant to conduct the Sale at the Stores during the Sale Term, and in connection therewith, Consultant shall, throughout the Sale Term:

- (i) Recommend appropriate discounting to effectively sell all of the goods located at the Stores as of the Sale Commencement Date or thereafter delivered to the

Stores (whether from Merchant's existing orders or warehouse goods) by mutual agreement of the Parties, in accordance with a "store closing," "everything must go," "sale on everything" and other mutually agreed upon themed sale (but subject to section 5(I) below), and recommend appropriate point-of-purchase, point-of-sale, and other internal and external advertising in connection therewith.

- (ii) Provide qualified supervision to oversee the conduct of the Sale.
- (iii) Maintain focused and constant communication with Store-level employees and managers to keep them abreast of strategy and timing and to properly effect Store-level communication by Merchant's employees to customers and others about the Sale.
- (iv) Establish and monitor accounting functions for the Sale, including evaluation of sales of Merchant's goods located at the Stores by category, sales reporting and expense monitoring, all of which shall be shared with Merchant's advisors during the Sale.
- (v) Recommend loss prevention strategies.
- (vi) Coordinate with Merchant so that the operation of the Stores is being properly maintained including ongoing customer service and housekeeping activities.
- (vii) Recommend appropriate staffing levels for the Stores and appropriate bonus and/or incentive programs (to be funded by Merchant) for Store employees.
- (viii) Assist Merchant to conduct the Sale as a "store closing" or other mutually agreed upon theme, including by advising Merchant with respect to the permitting requirements of affecting such a Sale in compliance with applicable state and local "going out of business" laws, and/or in the event that Merchant becomes subject to any Insolvency Proceeding, in compliance with any Approval Order (as defined below). In connection with such obligation, to the extent applicable and requested by Merchant prior to any Insolvency Proceeding, Consultant will (i) advise Merchant of the applicable waiting period under such permitting requirements, and/or (ii) prepare (in Merchant's name and for Merchant's signature) all permitting paperwork as may be necessary under such provisions, deliver all such paperwork to Merchant, and file, on behalf of Merchant, all such paperwork where necessary, and/or (iii) advise where permitting paperwork and/or waiting periods do not apply.
- (ix) Meet with Merchant and its advisors, on at least a weekly basis, to review sales, sales reporting and expenses in an effort to minimize expenses and maximize overall net recovery of the Sale.

2. SALE TERM; VACATING STORES

(A) The term "Sale Term" with respect to each respective Store shall commence on or about the date specified on Exhibit B attached hereto (the "Sale Commencement Date") and shall end no later than the date specified on Exhibit B attached hereto ("Sale Termination Date"); provided however, that Consultant and Merchant (in the case of Canadian Stores, in consultation with the court officer appointed in any Canadian Insolvency Proceeding (the "Canadian Court Officer")) may mutually agree in writing upon an earlier or later "Sale Commencement Date" or "Sale Termination Date" with respect to any one or more Stores (on a Store-by-Store basis).

(B) Upon the conclusion of the Sale Term at each Store, Consultant shall leave such Store in broom clean condition, subject to Consultant's right pursuant to Section 6 below to abandon in a neat and orderly manner all unsold Offered FF&E and all Retained FF&E.

3. EXPENSES

(A) All expenses incident to the conduct of the Sale and the operation of the Stores during the Sale Term (including without limitation all Consultant Controlled Expenses and all other store-level and corporate expenses associated with the Sale) shall be borne by Merchant; except solely for any of the specifically enumerated "Consultant Controlled Expenses" that exceed the aggregate budgeted amount (as provided in Section 3(B) below) for such Consultant Controlled Expenses.

(B) Attached hereto as Exhibit B is an expense budget for the "Consultant Controlled Expenses." Consultant will advance funds for the Consultant's Controlled Expenses, and Merchant shall reimburse Consultant therefor (up to the aggregate budgeted amount) in connection with each weekly reconciliation contemplated by Section 5(B) upon presentation of reasonable documentation for such actually-incurred expenses. In addition to, and not as part of, reimbursement of any Consultant Controlled Expenses, Merchant shall also reimburse Consultant for its reasonable and documented legal fees and expenses incurred in connection with this Agreement, including without limitation in the event of any Insolvency Proceeding, with respect to obtaining entry of the Approval Order and/or negotiating any "side letters" with landlords of the Stores.

(D) The Parties may from time to time mutually agree in writing to increase the budget of Consultant Controlled Expenses based upon circumstances of the Sale, it being acknowledged and agreed that (i) Merchant may require the consent of Canadian Court Officer to increase the amount of expenses reimbursable by CanCo, and (ii) Merchant will obtain such consent in advance of the occurrence of any such expense by Consultant.

4. CONSULTANT COMPENSATION

(A) **Definitions.** As used herein, the following terms shall have the following meanings:

- (i) "Cost Value" with respect to each item of Merchandise sold, shall be determined by reference to the lower of (1) the lowest per unit vendor cost in the File or in

Merchant's books and records, maintained in the ordinary course consistent with historic practices; or (2) the Retail Price.

- (ii) "File" shall mean 3.3 693 - Warehouse Inventory Allocation - 01.04.20, InvBal - By Store By Sku - 20200109 (1), SKUDUMPALL200109 (1).
- (iii) "Gross Proceeds" shall mean the sum of the gross proceeds of all sales of Merchandise (including as a result of the redemption of any gift card, gift certificate, or merchandise credit) during the Sale Term, net only of sales taxes.
- (iv) "Gross Recovery Percentage" shall mean the Gross Proceeds divided by the sum of the aggregate Cost Value of all of the Merchandise.
- (v) "Merchandise" shall mean all goods actually sold in the Stores during the Sale Term, the aggregate amount of which shall be determined using the gross rings inventory taking method.
- (vi) "Non-Merchandise Goods" shall mean (1) goods that belong to sublessees, licensees, or concessionaires of Merchant; (2) damaged or defective merchandise that cannot be sold; or (3) goods held by Merchant on memo, on consignment, or as bailee.

(B) **Merchandise Fee.** In consideration of its services hereunder, Merchant shall pay Consultant a "Merchandise Fee" based upon one of the following thresholds of Gross Recovery Percentage (e.g., back to first dollar):

<u>Gross Recovery Percentage</u>	<u>Merchandise Fee</u>
Below 190.00%	1.75% of Gross Proceeds
Above 190.00%	2.00% of Gross Proceeds

(C) **Non-Merchandise Fee.** Subject to the consent of the owners of the Non-Merchandise Goods, Consultant shall sell Non-Merchandise Goods during the Sale at the Stores, and in consideration of such services, Consultant shall earn a fee equal to the definitive Merchandise Fee percentage earned by Consultant on sales of Merchandise as set forth in Section 4(B) above multiplied by the aggregate gross proceeds, net only of sales taxes, from the sale of Non-Merchandise Goods at the Stores (the "Non-Merchandise Fee").

(D) **Gross Rings.** For purposes of calculating Gross Proceeds, Gross Recovery Percentage and the Consultant's Merchandise Fee and Non-Merchandise Fee, the parties shall use the "Gross Rings" method, wherein Consultant and Merchant shall jointly keep (i) a strict count of gross register receipts less applicable sales taxes, and (ii) cash reports of sales within each Store. Register receipts shall show for each item sold the Cost Value and Retail Price (as reflected on Merchant's books and records) for such item, and the markdown or other discount granted in

connection with such sale. All such records and reports shall be made available to Consultant and Merchant during regular business hours upon reasonable notice.

(E) **Weekly Payments**. On a weekly basis in connection with each weekly reconciliation contemplated by Section 5(B) below, Merchant shall pay Consultant an amount equal to 1.75% of Gross Proceeds on account of the prior week's sales as an advance on account of the Merchandise Fee payable hereunder; and (2) any Non-Merchandise Fee and FF&E Commission (as defined below) earned during the prior week. The parties shall determine the definitive Gross Recovery Percentage, Merchandise Fee, Non-Merchandise Fee, and FF&E Commission (and in the case of Merchant, any Additional Consultant Goods Fee, if any,) in connection with the Final Reconciliation. Immediately thereafter (and as part of the Final Reconciliation), Merchant or Consultant, as the case may be, shall pay any additional amount owed on account of such fees.

5. CONDUCT OF SALE; OTHER SALE MATTERS

(A) Merchant shall have control over the personnel in the Stores and shall handle the cash, debit and charge card payments for all Merchandise in accordance with Merchant's normal cash management procedures (as may be modified by the Court), subject to Consultant's right to audit any such items in the event of a good faith dispute as to the amount thereof. Merchant (and not Consultant) shall be responsible for ensuring that the Sale, and the operation of the Stores (before, during, and after the Sale Term) shall be conducted in compliance with all applicable laws and regulations. From and after the issuance of any Approval Order, the Sale shall be conducted in accordance with the terms thereof.

(B) The parties will meet on each Wednesday during the Sale Term to review any Sale matters reasonably requested by either party; and all amounts payable or reimbursable to Consultant for the prior week (or the partial week in the case of the first and last weeks) shall be reconciled, in consultation with the Canadian Court Officer, and paid immediately thereafter. No later than twenty (20) days following the end of the Sale, the parties shall, in consultation with the Canadian Court Officer, complete a final reconciliation and settlement of all amounts contemplated by this Agreement ("Final Reconciliation"). From time to time upon request, each party shall prepare and deliver to the other party such other reports as either party may reasonably request. Each party to this Agreement shall, at all times during the Sale Term and during the one (1) year period thereafter, provide the other with access to all information, books and records relating to the Sale and to this Agreement. All records and reports shall be made available to Consultant and Merchant during regular business hours upon reasonable notice.

(C) Merchant shall be solely responsible for the computing, collecting, holding, reporting, and paying all sales taxes associated with the sale of Merchandise during the Sale Term, and Consultant shall have absolutely no responsibilities or liabilities therefor.

(D) Although Consultant shall undertake its obligations under this Agreement in a manner designed to achieve the desired results of the Sale and to maximize the recovery to the Merchant, Merchant expressly acknowledges that Consultant is not guaranteeing the results of the Sale.

(E) Merchant acknowledges that (i) the parties are not conducting an inventory of Merchant's goods located at the Stores; (ii) Consultant has made no independent assessment of the beginning levels of such goods; and (iii) Consultant shall not bear any liability for shrink or other loss to Merchant's goods located at the Stores (including without limitation Merchandise).

Merchant may, at its election, conduct an inventory at some or all of the Stores and Consultant agrees to cooperate with such inventory taking if and when done.

(F) All sales of Merchandise in the Stores during the Sale shall be made in the name, and on behalf, of Merchant.

(G) All sales of Merchandise in the Stores during the Sale Term shall be "final sales" and "as is," and all advertisements and sales receipts will reflect the same.

(H) Consultant shall, during the Sale Term at the Stores, cooperate with Merchant in respect of Merchant's procedures governing returns of goods otherwise sold by Merchant (e.g., not in the Stores during the Sale Term).

(I) Subject to compliance with applicable laws, Merchant hereby permits the Sale to be, and shall ensure that the Sale otherwise may be, advertised as a "store closing," "everything must go," "sale on everything" and such other mutually agreed upon themed sale throughout the term of the Sale, as provided for by Section 1(a)(viii) above; provided that the Sale at the Canadian Stores shall not be advertised as a "going out of business" sale unless and until the Canadian Approval Order is entered by the Canadian Court.

(J) Concurrently with the execution of, and as a condition to Consultant's obligations under, this Agreement, Merchant shall fund to Consultant \$500,000 (the "Special Purpose Payment") which shall be held by Consultant as security for the obligations of Merchant under this Agreement until the Final Reconciliation (and Merchant shall not apply the Special Purpose Payment to, or otherwise offset any portion of the Special Purpose Payment against, any weekly reimbursement, payment of fees, or other amount owing to Consultant under this Agreement prior to the Final Reconciliation). Without limiting any of Consultant's other rights, Consultant may apply the Special Purpose Payment to any unpaid obligation owing by Merchant to Consultant under this Agreement. Any portion of the Special Purpose Payment not used to pay amounts explicitly contemplated by this Agreement shall be returned to Merchant within three days following the Final Reconciliation.

6. FF&E

(A) Promptly following the Sale Commencement Date, Merchant shall inform Consultant of those items of owned furnishings, trade fixtures, equipment, machinery, office supplies, conveyer systems, racking, rolling stock, any vehicles or other modes of transportation, and other personal property (collectively, "FF&E") located at the Stores, distribution centers and corporate offices and printing facilities, which are not to be sold (because Merchant does not have the right to sell such items, because Merchant wishes to retain such items for itself, or otherwise) (collectively, "Retained FF&E").

(B) With respect to all FF&E located at the Stores, distribution centers, corporate offices and printing facilities as of the Sale Commencement Date which is not Retained FF&E (collectively, the "Offered FF&E"), Consultant shall have the right to sell such Offered FF&E during the Sale Term on a commission basis equal to fifteen percent 15.0% of the gross sales of Offered FF&E, net only of sales tax ("FF&E Commission").

(C) Merchant shall reimburse Consultant for its reasonable sale expenses associated with the sale of the Offered FF&E, not to exceed the amount shown on an FF&E expense budget (which shall be in addition to the Consultant Controlled Expenses budget), to be mutually and reasonably agreed to by the parties promptly after Merchant identifies/designates/distinguishes between the Offered FF&E and Retained FF&E ("FF&E Expenses").

(D) Consultant shall have the right to abandon any unsold Offered FF&E (and all Retained FF&E) at the Stores at the conclusion of the Sale Term without liability to Merchant or any third party.

7. ADDITIONAL CONSULTANT GOODS

(A) In connection with the Sale, and subject to compliance with applicable law (or if and when applicable, the Approval Order), Consultant shall have the right, at Consultant's sole cost and expense, to supplement the Merchandise in the Sale with additional goods procured by Consultant which are of like kind, and no lesser quality to the Merchandise in the Sale ("Additional Consultant Goods"). The Additional Consultant Goods shall be purchased by Consultant as part of the Sale, and delivered to the Stores at Consultant's sole expense (including labor, freight and insurance relative to shipping such Additional Consultant Goods to the Stores). Sales of Additional Consultant Goods shall be run through Merchant's cash register systems; provided, however, that Consultant shall mark the Additional Consultant Goods using either a "dummy" SKU or department number, or in such other manner so as to distinguish the sale of Additional Consultant Goods from the sale of Merchandise. Consultant and Merchant shall also cooperate so as to ensure that the Additional Consultant Goods are marked in such a way that a reasonable consumer could identify the Additional Consultant Goods as non-Merchant goods. Additionally, Consultant shall provide signage in the Stores notifying customers that the Additional Consultant Goods have been included in the Sale. Absent Merchant's written consent, and Consultant's agreement to reimburse Merchant for any associated expenses, Consultant shall not use Merchant's distribution centers for any Additional Consultant Goods.

(B) Consultant shall pay to Merchant an amount equal to seven and one-half percent 7.5% of the gross proceeds (excluding sales taxes) from the sale of the Additional Consultant Goods (the "Additional Consultant Goods Fee"), and Consultant shall retain all remaining amounts from the sale of the Additional Consultant Goods. Consultant shall pay Merchant its Additional Consultant Goods Fee in connection with each weekly sale reconciliation with respect to sales of Additional Consultant Goods sold by Consultant during each then prior week (or at such other mutually agreed upon time).

(C) Consultant and Merchant intend that the transactions relating to the Additional Consultant Goods are, and shall be construed as, a true consignment from Consultant to Merchant in all respects and not a consignment for security purposes. Subject solely to

Consultant's obligations to pay to Merchant the Additional Consultant Goods Fee, at all times and for all purposes the Additional Consultant Goods and their proceeds shall be the exclusive property of Consultant, and no other person or entity shall have any claim against any of the Additional Consultant Goods or their proceeds. The Additional Consultant Goods shall at all times remain subject to the exclusive control of Consultant.

(D) Merchant shall, at Consultant's sole cost and expense, insure the Additional Consultant Goods and, if required, promptly file any proofs of loss with regard to same with Merchant's insurers. Consultant shall be responsible for payment of any deductible (but only in relation to the Additional Consultant Goods) under any such insurance in the event of any casualty affecting the Additional Consultant Goods.

(E) Merchant acknowledges that the Additional Consultant Goods shall be consigned to Merchant as a true consignment (or equivalent in the province of Québec) under Article 9 of the Uniform Commercial Code (the "UCC") and the provisions of the *Personal Property Security Act* (Ontario) and equivalent legislation in other Canadian jurisdictions ("PPSAs") and applicable law. Consultant is hereby granted a first priority security interest in and lien upon (i) the Additional Consultant Goods and (ii) the Additional Consultant Goods proceeds less the Additional Consultant Goods Fee, and Consultant is hereby authorized to file financing statements under the UCC and applicable PPSAs and provide notifications to any prior secured parties.

8. INSURANCE; RISK OF LOSS

(A) During the Sale Term: (a) Merchant shall maintain (at its expense) insurance with respect to the Merchandise in amounts and on such terms and conditions as are consistent with Merchant's ordinary course operations, and (b) each of Merchant and Consultant shall maintain (at each party's respective expense) comprehensive liability insurance covering injuries to persons and property in or in connection with the Stores, in such amounts as are reasonable and consistent with its ordinary practices, for bodily injury, personal injury and/or property damage. Each party shall be added as an additional insured on all such insurance of the other party, all such insurance shall provide that it shall be non-cancelable and non-changeable except after 30 days' prior written notice to the other party, and each party shall provide the other with certificates of all such insurance prior to the commencement of the Sale.

(B) Notwithstanding any other provision of this Agreement, Merchant and Consultant agree that Consultant shall not be deemed to be in possession or control of the Stores, or the Merchandise or other assets located therein or associated therewith, or of Merchant's employees located at the Stores; and Consultant does not assume any of Merchant's obligations or liabilities with respect thereto.

(C) Notwithstanding any other provision of this Agreement, and except as set forth in Section 9 below, Merchant and Consultant agree that Merchant shall bear all responsibility for liability claims (product liability and otherwise) of customers, employees and other persons arising from events occurring at the Stores, and Merchandise sold in the Stores, before, during and after the Sale Term.

9. INDEMNIFICATION

(A) Consultant shall indemnify and hold Merchant and its affiliates, and their respective officers, directors, managers, employees, consultants, and independent contractors (collectively, "Merchant Indemnified Parties") harmless from and against all claims, demands, penalties, losses, liability or damage, including, without limitation, reasonable attorneys' fees and expenses, directly or indirectly asserted against, resulting from or related to:

- (i) Consultant's material breach of or failure to comply with any of its agreements, covenants, representations or warranties contained herein or in any written agreement entered into in connection herewith;
- (ii) any harassment or any other unlawful, tortious or otherwise actionable treatment of any employees or agents of Merchant by Consultant, its affiliates or their respective officers, directors, employees, agents, independent contractors or representatives (including without limitation any supervisors);
- (iii) any claims by any party engaged by Consultant as an employee or independent contractor (including without limitation any non-Merchant employee supervisor) arising out of such employment or engagement;
- (iv) any consumer warranty or products liability claims relating to any Additional Consultant Goods; and/or
- (v) the negligence, willful misconduct or unlawful acts of Consultant, its affiliates or their respective officers, directors, employees, Consultants, independent contractors or representatives,

provided that Consultant shall not be obligated to indemnify any Merchant Indemnified Party from or against any claims, demands, penalties, losses, liabilities or damages arising primarily from any Merchant Indemnified Party's gross negligence, willful misconduct, or unlawful act.

(B) Merchant shall indemnify and hold Consultant, its affiliates and their respective officers, directors, employees, consultants, and independent contractors (collectively, "Consultant Indemnified Parties") harmless from and against all claims, demands, penalties, losses, liability or damage, including, without limitation, reasonable attorneys' fees and expenses, directly or indirectly asserted against, resulting from or related to:

- (i) Merchant's material breach of or failure to comply with any of its agreements, covenants, representations or warranties contained herein or in any written agreement entered into in connection herewith;
- (ii) if applicable, any proceedings before the Court or any other court of competent jurisdiction regarding this Agreement, including obtaining the Approval Order and/or defending against any objection thereto;
- (iii) any claims by any party engaged by Merchant as an employee or independent contractor arising out of or in relation to such engagement or the termination thereof;
- (iv) any consumer warranty or products liability claims relating to any Merchandise;
- (v) any claims in respect of rent or other occupancy costs or charges relating to any Store or other premises;

- (vi) any claims resulting from the failure of Merchant to report, collect, remit or pay in accordance with applicable law any sales or other taxes relating to the Sale; and/or
- (vii) the negligence, willful misconduct or unlawful acts of Merchant, its affiliates or their respective officers, directors, employees, agents, independent contractors or representatives,

provided that Merchant shall not be obligated to indemnify any Consultant Indemnified Party from or against any claims, demands, penalties, losses, liabilities or damages arising primarily from any Consultant Indemnified Party's gross negligence, willful misconduct, or unlawful act.

10. MISCELLANEOUS

(A) In the event that Merchant becomes subject to any chapter 11 proceeding (a "Bankruptcy Case") before any United States Bankruptcy Court (the "Bankruptcy Court"), this Agreement, including retention of Consultant and conduct of the Sale set forth herein as it applies to the Conduct of the Sale outside of Canada and Stores and other premises locate outside of Canada, shall be subject to the approval of the Bankruptcy Court. Merchant shall promptly seek to have this Agreement, and the transactions contemplated by this Agreement approved by the Bankruptcy Court pursuant to sections 363 and 365 of the United States Bankruptcy Code (and not pursuant to sections 327, 328, 330, or 331 thereof) and an order (the "US Approval Order") with terms acceptable to both Merchant and Consultant that includes, among other things, those provisions set out in paragraph (C) below.

(B) In the event that Merchant becomes subject to any proceeding under the *Companies' Creditors Arrangement Act* (Canada) or the *Bankruptcy and Insolvency Act* (Canada) (a "Canadian Insolvency Proceeding") this Agreement, including retention of Consultant and conduct of the Sale set forth herein as it applies to the conduct of the Sale in Canada and Stores and other premises located in Canada ("Canadian Stores"), shall be subject to the approval of the Ontario Superior Court of Justice (Commercial List) (the "Canadian Court"). Merchant shall promptly seek to have this Agreement, and the transactions contemplated by this Agreement approved by the Canadian Court and an order (the "Canadian Approval Order") with terms acceptable to both Merchant and Consultant that includes, among other things, those provisions set out in paragraph (C) below.

(C) The US Approval Order and the Canadian Approval Order shall each provide, among other things, as follows: (i) the payment of all fees and reimbursement of expenses hereunder to Consultant is approved without further order of the Court and shall be free and clear of all liens, claims and encumbrances; (ii) all such payments of fees and reimbursement of expenses shall be made on a weekly basis without further order of the Court and otherwise in accordance with this Agreement; (iii) approval of the transaction contemplated hereby; (iv) in the case of the US Approval Order, authorizing the conduct of the Sale without the necessity of complying with state and local rules, laws, ordinances and regulations, including, without limitation, permitting and licensing requirements, that could otherwise govern the Sale; (v) authorizing the Sale notwithstanding restrictions in leases, reciprocal easement agreements or other contracts that purport to restrict the Sale or the necessity of obtaining any third party consents; (vi) authorizing the sale of Additional Consultant

Goods, confirming the consignment contemplated in Section 7 hereof, and granting Consultant a first priority senior security interest and lien upon the Additional Agent Goods and proceeds thereof as provided herein; (vii) take all further actions as are necessary or appropriate to carry out the terms and conditions of this Agreement; (viii) this Agreement shall not be disclaimed or resiliated in any Insolvency Proceeding involving Merchant and the obligations of Merchant hereunder shall not be compromised in any proposal or plan of compromise or arrangement involving Merchant (a "Plan"), and Consultant shall be an "unaffected creditor" in any such Plan, and (viii) including protection of Consultant's fees and expenses as part of any "carve-out" in any financing order entered by the Court, which protection shall provide that all such fees and expenses shall be paid to Consultant from Gross Proceeds and without adherence to any DIP or cash collateral budget associated therewith, and further including additional protections with respect to proceeds of Additional Consultant Goods; it being acknowledged that, in the context of any Canadian Insolvency Proceeding, certain of the foregoing provisions may be included in sale guidelines, which shall be in form and substance acceptable to Merchant and Consultant and approved by the Canadian Court in the Canadian Approval Order (the "Sale Guidelines").

(D) In the event that Merchant becomes subject to a Insolvency Proceeding, any legal action, suit or proceeding arising in connection with this Agreement shall be submitted to the exclusive jurisdiction of the Bankruptcy Court or the Canadian Court, as applicable, having jurisdiction over Merchant, and each Party hereby waives any defenses or objections based on lack of jurisdiction, improper venue, and/or forum non-conveniens. From and after entry of the Approval Order, Merchant and Consultant shall conduct the Sale in accordance with the terms of this Agreement and the Approval Order (including the Sale Guidelines) in all material respects. In the event the Approval Order is not entered by the Bankruptcy Court or the Canadian Court upon Merchant becoming subject to a Bankruptcy Case or a Canadian Insolvency Proceeding, as applicable, or does not include the terms and conditions contained herein, (i) Merchant shall reimburse Consultant for any Consultant Controlled Expenses incurred in connection with the Sale through and including the day immediately after denial of such motion by the Bankruptcy Court or the Canadian Court, as applicable; and (ii) Consultant may, in its sole discretion, elect to terminate this Agreement. The Bankruptcy Court shall have exclusive jurisdiction to resolve any issues arising under this Agreement, except matters solely relating to CanCo, the conduct of the Sale in Canada and the Canadian Stores, which shall be the exclusive jurisdiction of the Canadian Court.

(E) As used in this Agreement, (i) the term "Approval Order" shall mean the US Approval Order and/or the Canadian Approval Order, as applicable, (ii) the term "Court" shall mean the Bankruptcy Court and/or the Canadian Court, as applicable, and (iii) the term "Insolvency Proceeding" shall mean the Bankruptcy Case and/or the Canadian Insolvency Proceeding, as applicable.

(F) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflict of laws provisions. This Agreement constitutes the entire agreement between the parties with respect to the matters contemplated hereby and supersedes and cancels all prior agreements, including, but not limited to, all proposals, letters of intent or representations, written or oral, with respect thereto.

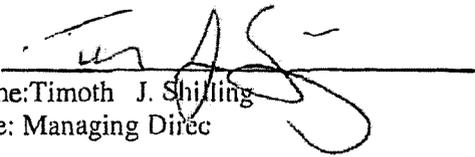
(G) **Amendments.** This Agreement may not be modified except in a written instrument executed by each of the parties hereto.

(H) **No Waiver.** No consent or waiver by any party, express or implied, to or of any breach or default by the other in the performance of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party of the same or any other obligation of such party. The failure on the part of any party to complain of any act or failure to act by the other party or to declare the other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder. Nothing contained in this Agreement shall be deemed to create any relationship between Merchant and Consultant other than that of Consultant as an independent contractor of Merchant, and it is stipulated that the parties are not partners or joint venturers in any way. Unless expressly set forth herein to the contrary, to the extent that either party's consent is required/requested hereunder, such consent shall not be unreasonably withheld or delayed.

(I) **Successors and Assigns.** This Agreement shall inure to the benefit of and be binding upon the parties and their respective successors and assigns; provided however, that this Agreement may not be assigned by either party without the prior written consent of the other (except that Gordon Brothers Retail Partners, LLC and Hilco Merchant Resources, LLC shall each be permitted to assign this agreement, in whole or in part, to one or more of their respective affiliates without consent of Merchant). Written notices contemplated by this Agreement shall be sent by email (i) if to Merchant c/o the person indicated below at the address specified above and Matthew B. McGuire at mcguire@lrclaw.com; and (ii) if to Consultant c/o Mackenzie Shea at m Shea@gordonbrothers.com, Ian Fredericks at ifredericks@hilcoglobal.com and Sarah Baker at sbaker@hilcoglobal.com.

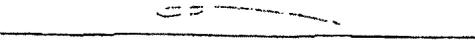
[Signature Page to Follow]

Ve l ours,

By: 

Name: Timothy J. Shilling
Title: Managing Direc

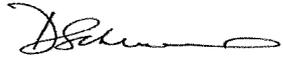
-and-

By: 

Name: Sarah Baker
Title: VP & AGC, Managing Membe

Agreed and Accepted:

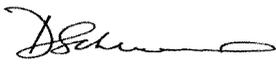
subsidiary (other than SFP Canada Ltd.)

By: 

Title: Dominique Schuman CEO
Address: 300 Oak Bluff Lane

TN 37072

SFP Canada Ltd.

By: 

Title: Dominiqu Schurman
Address: CEO

Exhibits:

Budge ultan

APPENDIX C

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
SFP CANADA LTD.**

**MANAGEMENT'S REPORT ON CASH FLOW STATEMENT
(paragraph 10(2)(b) of the CCAA)**

The management of SFP Canada Ltd. ("**SFP Canada**" or the "**Applicant**") have developed the assumptions and prepared the attached statement of projected cash flow as of January 22, 2020 for the period from January 18, 2020 to April 17, 2020 (the "**Cash Flow Forecast**").

The hypothetical assumptions are reasonable and consistent with the purpose of the Cash Flow Forecast described in the notes therein, and the probable assumptions are suitably supported and consistent with the plans of the Applicant and provide a reasonable basis for the Cash Flow Forecast. All such assumptions are disclosed in the notes therein.

Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes therein, using the probable and hypothetical assumptions set out therein. Consequently, readers are cautioned that the Cash Flow Forecast may not be appropriate for other purposes.

Dated at the City of Goodlettsville, in the State of Tennessee on January 23, 2020.



Craig M. Boucher
Co-Chief Restructuring Officer

SFP Canada LTD.
CAN Cash Flow
(in \$CAD 000's)

Week #	Filing													13 Week Total
	Fcst 1	Fcst 2	Fcst 3	Fcst 4	Fcst 5	Fcst 6	Fcst 7	Fcst 8	Fcst 9	Fcst 10	Fcst 11	Fcst 12	Fcst 13	
Week Ending	1/24/20	1/31/20	2/7/20	2/14/20	2/21/20	2/28/20	3/6/20	3/13/20	3/20/20	3/27/20	4/3/20	4/10/20	4/17/20	Total
Receipts														
1 CAN Retail Receipts	1,362	1,552	1,915	2,210	1,433	902	500	0	0	0	0	0	0	9,875
Total Receipts	1,362	1,552	1,915	2,210	1,433	902	500	0	0	0	0	0	0	9,875
Operating Disbursements														
2 Freight	0	(59)	0	(66)	0	(74)	(37)	0	0	0	0	0	0	(236)
3 Rent & Utilities	(223)	0	(499)	0	(499)	0	0	(25)	0	0	0	0	0	(1,247)
4 Store Expenses and Other	(29)	(29)	(29)	(19)	(19)	(19)	(14)	(119)	0	0	0	0	0	(277)
5 Payroll & Benefits	0	(446)	0	(435)	0	(424)	(66)	(178)	0	0	0	0	0	(1,548)
6 Liquidation Fee & Expenses	0	(239)	(105)	(114)	(119)	(97)	208	0	0	0	0	0	0	(465)
7 Sales Tax Remittances	0	(744)	0	0	0	(412)	0	0	0	(902)	0	0	0	(2,057)
8 Professional Fees	0	(472)	(402)	(242)	(136)	(136)	(149)	(149)	(149)	(149)	(121)	(121)	(121)	(2,348)
9 Miscellaneous / Other	0	0	0	0	0	0	0	0	0	(50)	(50)	(50)	(50)	(199)
10 Total Operating Disbursements	(252)	(1,990)	(1,035)	(876)	(773)	(1,161)	(58)	(471)	(148)	(1,100)	(171)	(171)	(171)	(8,378)
11 Net Cash Flow	1,110	(437)	879	1,334	661	(258)	442	(471)	(148)	(1,100)	(171)	(171)	(171)	1,497
12 Opening Cash Balance	4,144	5,254	4,817	5,696	7,030	7,690	7,432	7,874	7,403	7,255	6,155	5,983	5,812	4,144
13 Net Cash Flow	1,110	(437)	879	1,334	661	(258)	442	(471)	(148)	(1,100)	(171)	(171)	(171)	1,497
14 Ending Cash Balance	5,254	4,817	5,696	7,030	7,690	7,432	7,874	7,403	7,255	6,155	5,983	5,812	5,641	5,641

SFP Canada Ltd.
13-Week Cash Flow Forecast
Notes and Summary of Assumptions

In the Matter of the Companies' Creditors Arrangement Act ("CCAA") Proceedings of SFP Canada Ltd. ("SFP Canada" or the "Company").

Disclaimer

The purpose of the Cash Flow Forecast is to present the estimated cash receipts and disbursements of SFP Canada for the period from January 18, 2020 to April 17, 2020 in respect of its proceedings under the CCAA. The Cash Flow Forecast has been prepared by the Company based on available financial information at the date of Company's application for the Initial Order in accordance with Section 10(2)(b) of the CCAA. Readers are cautioned that this information may not be appropriate for other purposes.

The Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Forecast period will vary from the Cash Flow Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

The Cash Flow Forecast is presented in thousands of Canadian dollars. Receipts and disbursements denominated in U.S. currency have been converted to Canadian dollars at an exchange rate of USD/CAD = \$1.33.

Note 1 Retail Receipts

Receipts from the sale of the Company's merchandise sold in its retail locations as part of the proposed liquidation sale. The liquidation sale was assumed to commence on or about January 24, 2020 and occur over a 6-week period. Inventory will be liquidated through the 76 retail locations. Stores are assumed to be closed on or before February 29, 2020. Retail receipts include applicable sales taxes.

Note 2 Freight

Includes costs for logistics and supply chain providers to ship merchandise to and among the Company's retail locations.

Note 3 Rent and Utilities

Rent includes minimum rent, common area maintenance and property taxes for each of the Company's 76 leased retail locations. Post-filing rent for January is assumed to be paid on or about January 24, 2020, otherwise rent is assumed to be pre-paid on the 1st and 15th of each month thereafter. Utilities are forecast to be paid monthly.

Note 4 Store Expenses and Other

Includes store expenses such as supplies, equipment rentals, bank fees, credit card processing fees, but excludes the Consultant controlled expenses for advertising and supervision (see Note 6).

Note 5 Payroll and Benefits

Includes wages, bonuses and incentives, deductions, taxes, health insurance and benefits for the Company's full-time and part-time employees. Payroll and Benefits are estimated based on the Company's historical run-rates, pro-rated for the estimated number of sale days at each location. The forecast includes payment of any accrued pre-filing wages and vacation pay, as well as payment of vacation earned by employees for the post-filing period.

Note 6 Liquidation Fee and Expenses

Includes the Consultant's fee and the Consultant controlled expenses to be incurred as part of the liquidation sale. The Consultant's fee was estimated at approximately 1.75% of gross sale proceeds (net of sales tax) and the expenses based on the budget appended to the Consulting Agreement.

Note 7 Sales Tax Remittances

Assumes the Company remits sales taxes (GST/HST, QST, PST) during the last week of each month, for the prior month. Forecast assumes sales taxes payable for December 2019 are paid during the week of January 31, 2020.

Note 8 Professional Fees

Includes payments to (i) the Company's legal counsel, (ii) the Chief Restructuring Officers of the Company, and (iii) the Monitor and its legal counsel.

Note 9 Miscellaneous / Other

Miscellaneous expenses related to the wind-down of the Company.

APPENDIX D

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
SFP CANADA LTD.**

**MONITOR'S REPORT ON CASH FLOW STATEMENT
(paragraph 23(1)(b) of the CCAA)**

The attached statement of projected cash flow of SFP Canada Ltd. ("**SFP Canada**" or the "**Company**"), prepared as of January 22, 2020, consisting of the period from January 18, 2020 to April 17, 2020 (the "**Cash Flow Forecast**"), has been prepared by management of the Company using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied by management and employees of the Company. 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 Cash Flow Forecast. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow Forecast.

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 Cash Flow Forecast;
- (b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Forecast, given the hypothetical assumptions; or
- (c) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

Since the Cash Flow Forecast 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 Cash Flow Forecast will be achieved.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, in the Province of Ontario, this 23rd day of January, 2020.

**RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS MONITOR OF
SFP CANADA LTD.
AND NOT IN ITS PERSONAL CAPACITY**

Per:



**Pritesh Patel, MBA, CFA, CIRP, LIT
Senior Vice President**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

Court File No: CV-20-634980-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF SFP CANADA LTD.**

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**REPORT OF RICHTER ADVISORY GROUP INC.,
IN ITS CAPACITY AS MONITOR**

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Capacity as Monitor