

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

SUPERIOR COURT  
(Commercial Division)  
*Companies' Creditors Arrangement Act*

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IN THE MATTER OF THE COMPROMISE OR  
ARRANGEMENT OF:

STOKES INC.

Debtor / Petitioner

-and-

RICHTER ADVISORY GROUP INC.

Monitor

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SEVENTH REPORT OF THE MONITOR  
November 23, 2020

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**INTRODUCTION**

1. On February 18, 2020, Stokes Inc. ("**Stokes**" or the "**Company**" or the "**Debtor**") filed a Notice of Intention to Make a Proposal (the "**NOI**"), pursuant to the *Bankruptcy and Insolvency Act* (the "**BIA**") and Richter Advisory Group Inc. ("**Richter**") was appointed to act as Proposal Trustee.
2. On February 20, 2020, the Company filed an *Application for an Order Approving an Administration Charge, a D&O Charge, a Consulting Agreement and Sale Guidelines and Granting Ancillary Relief* (the "**First Application**") before the Superior Court of Québec, Commercial Division (the "**Court**") and on February 24, 2020, the Court granted the First Application.
3. The initial stay period under the NOI was extended three times by the Court, with the last extension under the NOI having been granted to July 27, 2020.
4. On July 21, 2020, given that the six months stay extension period under the NOI was set to expire on August 18, 2020, the Debtor filed an *Application to Continue Proceedings Commenced Under Part III of the Bankruptcy and Insolvency Act and for a Transition Order under the Companies' Creditors Arrangement Act* (the "**CCAA Continuance Application**") in which the Debtor sought, *inter alia*, a conversion of the NOI proceedings into proceedings under the *Companies' Creditors Arrangement Act* (the "**CCAA**") in order to allow the completion of the restructuring process initiated by the Company

under the BIA, which process had been delayed by the sudden and unforeseen global COVID-19 pandemic (the “**Pandemic**”). On July 27, 2020, the Court granted the CCAA Continuance Application (the “**Transition Order**”). The Transition Order, *inter alia*:

- a) Appointed Richter to act as Monitor in the CCAA Proceedings (the “**Monitor**”);
  - b) Ordered a stay of proceedings in respect of the Company and its directors and officers until September 28, 2020 (the “**Stay Period**”); and
  - c) Approved and ratified the Consulting Agreement and the Sale Guidelines (such terms as defined in the Transition Order) which had previously been approved by the Court under the NOI.
5. On September 25, 2020, the Court granted an order extending the Stay Period until, and including, December 18, 2020 (the “**Stay Extension Order**”). In addition, at the same date, the Court granted an order establishing a claims process (the “**Claims Procedure Order**”).
6. On November 20, 2020, the Debtor filed an *Application for an Extension of the Stay of Proceedings and the Issuance of a Plan Filing and Meeting Order* (the “**Plan and Meeting Application**”). The Plan and Meeting Application is to be heard by the Court on November 25, 2020.
7. Richter, in its capacities as Proposal Trustee and Proposed Monitor, has previously provided this Court with six reports (the “**Prior Reports**”). The Prior Reports and copies of other material documents pertaining to these proceedings are available on the Monitor’s website at: <https://www.richter.ca/insolvencycase/stokes-inc>.

## **PURPOSE OF THIS REPORT**

8. The purpose of this seventh report of the Monitor (the “**Seventh Report**”) is to provide this Court with information pertaining to:
- a) An overview of the activities of the Monitor and the Company since September 21, 2020, being the date of the issuance of the Sixth Report of the Monitor (the “**Sixth Report**”);
  - b) The Company’s reported receipts and disbursements for the period from September 13, 2020 to November 14, 2020, including a comparison of reported to forecast results;
  - c) The Company’s 11-week cash flow forecast for the period from November 15, 2020 to February 13, 2021 (the “**Projections**”);
  - d) The status of the claims process conducted by the Monitor pursuant to the Claims Procedure Order (the “**Claims Process**”);
  - e) The settlement reached between the Company, as defendant, and BODUM USA, INC. (“**BODUM**”) and PI-DESIGN AG (“**PI-DESIGN**”), as plaintiffs, in the context of an intellectual property infringement action before the Federal Court, File No. T-1979-18 (the “**IP Action**”);
  - f) An overview of the “Plan of Compromise and Arrangement” under the CCAA (the “**Plan**”) proposed by the Company to its creditors;

- g) The estimated distribution to creditors under the Plan;
- h) The meeting of creditors for the purpose of voting on the Plan;
- i) The Company's request for an extension of the Stay Period to February 12, 2021; and
- j) The Monitor's recommendation.

## **TERMS OF REFERENCE**

9. Unless otherwise noted, all monetary amounts contained in this Seventh Report are expressed in Canadian dollars.
10. In preparing this Seventh Report, the Monitor has relied upon certain unaudited financial information prepared by the Company's representatives, the Company's books and records, and discussions with the Company's representatives and legal counsel (the "**Information**").
11. Except as otherwise described in this Seventh Report, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountant of Canada Handbook and, as such, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
12. This Seventh Report does not consider all future impacts of the Pandemic on the Company's projections and future oriented financial information, including statements of cash flow and other and action plans either taken or considered by Stokes as a result of the evolving sanitary crisis. Any reference made to the impact of the Pandemic on Stokes in this Seventh Report is based entirely on preliminary discussions and is not to be interpreted as a complete and/or accurate assessment of the full impact of the Pandemic. The potential future impact of the Pandemic on the Company's customers, suppliers and other stakeholders remains uncertain and cannot be fully quantified at this time.
13. Future oriented financial information relied upon in this Seventh Report is based on the Company's representatives' assumptions regarding future events; actual results achieved may vary from the Information presented even if the hypothetical assumptions occur and these variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Projections will be achieved.

## **ACTIVITIES OF THE MONITOR**

14. Since the issuance of the Sixth Report, the Monitor has:
  - a) Monitored the Company's daily receipts and disbursements and the Company's current and ongoing operations;
  - b) Reviewed weekly variances between the actual cash flow results versus the cash flow projections for the period from September 13, 2020 to November 14, 2020;

- c) Responded in a timely manner to inquiries from affected stakeholders, including creditors, employees, customers and landlords;
- d) Attended the Court hearing with respect to the CCAA proceedings;
- e) Taken the following actions in accordance with the Claims Procedure Order (terms not defined herein shall have the meaning attributed in the Claims Procedure Order):
  - i. On or about October 1, 2020, the Monitor posted on its website a copy of the Claims Procedure Order, the Creditors' List and of the French and English versions of the Notice to Creditors, the Proof of Claim Form and the Creditors Instructions;
  - ii. On October 1, 2020, the Monitor sent, by regular mail, copies of the Claims Package to the Debtor's known creditors; and
  - iii. On October 1, 2020, the Monitor published a French and English version of the Newspaper Notice in Le Devoir and the Globe & Mail newspapers.
- f) Prepared this Seventh Report to Court;
- g) Updated its website to allow stakeholders access to relevant documents in connection with these proceedings;
- h) Assisted Management:
  - i. With the CCAA process and planning of next steps;
  - ii. In the preparation of updated monthly financial projections and weekly cash flow forecasts;
  - iii. In the review of the go-forward business strategy and restructuring plan;
  - iv. In the preparation and drafting of the Plan; and
  - v. In planning for the filing of the Plan and subsequent steps.
- i) Participated in several meetings and conference calls with the Debtor, the Chief Restructuring Advisor (the "CRA") and the legal advisors in connection with the Company's restructuring efforts, the Company's go-forward strategy and the preparation of the Plan.

## **ACTIVITIES OF THE COMPANY**

- 15. The Company has implemented its restructuring measures, including the closure of 39 stores, and is currently operating its remaining stores (106) in the normal course of business. Management continues to implement measures to reduce costs and review store profitability on a regular basis.
- 16. Management advised the Monitor that, as of the date of this Seventh Report, all rent payments are current, except certain amounts as specifically agreed to between Stokes and some landlords.
- 17. The Company, with its advisors and the CRA, continued to implement its long-term business plan. In this regard, the Company finalized the preparation of the Plan on which its creditors will be called upon to vote.
- 18. The Company assisted the Monitor in the review of the Claims received.

19. Finally, the Company, with the assistance of the Monitor, has been in constant communication with its employees, customers and creditors.

## **FINANCIAL PERFORMANCE AND CASH FLOW PROJECTIONS**

### **Cash flow results for the 9-week period ended November 14, 2020**

20. Since the filing of the NOI, and continuing after the transition to the CCAA, the Company has been paying its suppliers in the ordinary course of business based on negotiated terms or on cash-on-delivery basis, apart from the rent and tax remittance deferrals discussed in the Prior Reports. Other than these deferrals, the Company has advised the Monitor that it has not incurred other significant unpaid liabilities since the filing of the NOI.
21. **Exhibit "A"** to this Seventh Report contains the comparative cash flow statement for the 9-week period ended November 14, 2020 which indicates that the Company significantly outperformed its projections. The negative net cash flow for the period was approximately \$5.1M, while the Company projected negative net cash flow of \$10.2M. The favorable variance of \$5.1M is primarily due to:
- a) Higher than projected receipts of approximately \$2.9M, attributable to the strong store and e-commerce sales which were higher than projected; and
  - b) Lower than projected merchandise disbursements of approximately \$2.2M attributable to timing differences which are projected to reverse in the coming weeks.
22. At the time of writing this report, the Company has advised the Monitor that it was in compliance with the conditions stated in the Restated Forbearance Agreement, including in respect of the borrowing base calculation.

### **Cash flow forecast for the 13-week period ending February 13, 2021**

23. The Projections are presented in **Exhibit "B"**.

24. The Projections were prepared by Management with the assistance of the Monitor, to present the estimated cash receipts, disbursements and indebtedness of Stokes from November 15, 2020 to February 13, 2021. We summarized the Projections as follows:

<b>Stokes Inc.</b>	
<b>Statement of Projected Cash Flow</b>	
<b>For the Period from Nov 15, 2020 to Feb 13, 2021</b>	
<b>(\$000's)</b>	<b>Total</b>
	<i>91 days</i>
<b>Receipts</b>	<b>\$ 31,761</b>
<b>Disbursements</b>	
Merchandise	(9,586)
Payroll	(6,048)
Rent	(3,180)
Professional Fees & Consultants	(884)
Sales Taxes	(2,567)
Others	(3,911)
	<b>(26,176)</b>
<b>Projected Cash Flow</b>	<b>\$ 5,585</b>
Projected Opening Cash/(Bank Indebtedness) <sup>(1)</sup>	\$ (4,928)
<b>Projected Ending Cash/(Bank Indebtedness)<sup>(1)</sup></b>	<b>\$ 657</b>
Projected Ending Outstanding LCs	\$ (2,487)
<b>Projected Ending Cash/(Bank Debt) net of LCs<sup>(2)</sup></b>	<b>\$ (1,830)</b>

**Note 1:** Cash excludes petty cash and outstanding store deposits. Bank Indebtedness is presented net of cash.

**Note 2:** Ending Cash and Bank Debt are presented net of outstanding LCs as LCs are secured by the Bank.

25. As the cash flow projections end on February 13, 2021, and the first distribution to creditors is projected to occur on February 28, 2021, the projected cash disbursements do not reflect the first distribution to the Affected Creditors under the Plan.

26. For additional information regarding the Projections, including Management's major assumptions and the Monitor's report on the reasonableness of the Projections, please refer to **Exhibit "B"**.

#### **STATUS OF THE CLAIMS PROCESS**

27. The following section provides a summary of the Claims Process conducted by the Monitor as required by the Claims Procedure Order. Terms not defined herein shall have the same meaning as in the Claims Procedure Order.

28. As per the Claims Procedure Order, the Claims Bar Date was defined as 5:00 p.m. on November 9, 2020 in respect of provable claims arising prior to February 18, 2020 (the “**Determination Date**”), or 30 days after the date on which the Monitor sent a Claims Package with respect to a claim arising from the termination of any contract, lease or employment agreement after the Determination Date (the “**Restructuring Claims**”).

29. On October 1, 2020, the Monitor published a French and English version of the Newspaper Notice in Le Devoir and the Globe & Mail newspapers to advise any potential creditors of the Claims Bar Date and of the Instructions for filing a Proof of Claim.

30. As at November 9, 2020 the Monitor received 342 Claims totaling \$27,284,392 summarized as follows:

<b>Stokes Inc.</b>		
<b>Claims Summary</b>	<b>Number of</b>	<b>Claims \$</b>
<b>As at November 9, 2020</b>	<b>Claims</b>	<b>(in 000's)</b>
Unsecured Claims	293	\$ 10,674
Restructuring Claims	42	6,433
Litigation Claims	7	10,178
	<b>342</b>	<b>\$ 27,284</b>

31. We note that the Monitor received four (4) Claims after the Bar Date totaling \$319,996 that are not included in the above table. The Monitor understands, however, that a motion may be presented to the Court to allow these late claims to be admitted for the purposes of allowing the Monitor to review and analyze these claims pursuant to the Claims Procedure Order.

32. The Monitor, in conjunction with its legal counsel, the Debtor and its legal counsel and the CRA, have been reviewing the Claims received. It is important to note that this review of the proofs of claims has yet to be completed.

33. Although the review is on-going, the Monitor has identified multiple claims which will likely be rejected or amended, as follows:

- \$1.4M of landlord claims relating to leases that were amended or replaced with new contractual agreements, and which should not give rise to any claims for damages or otherwise;
- \$3.8M of Restructuring Claims from landlords relating to damages arising from the disclaimer of leases and which the Monitor believes to be excessive; and
- \$10M of Litigation Claims which:
  - are considered, as per the Plan, to be Unaffected Claims given that they are covered by the Company’s insurance policy should the claim prove to be successful; and
  - were withdrawn after the filing of a Proof of Claim in the Claims Process, as a result of a settlement being reached between the Company and the relevant claimant.

34. In addition, the Monitor has requested additional information in respect of other Claims (other than Restructuring and Litigation Claims), which may give rise to the issuance of additional Notices of Revision or Disallowance.
35. In view of the above comments, on the basis of the information available as of the date of this Seventh Report, the Monitor estimates the amount of the allowable Claims as follows:

Stokes Inc. Preliminary Estimate of Admitted Claims (\$000's)	Unsecured Claims	Restructuring Claims	Litigation Claims	Total Claims
Total Claims filed with the Monitor	\$ 10,674	\$ 6,433	\$ 10,178	\$ 27,284
Claims Withdrawn (IP Action)	-	-	(3,000)	(3,000)
Potential Notices of Revision or Disallowance	(250)	(5,293)	(7,000)	(12,543)
<b>Preliminary Estimate of Admitted Claims</b>	<b>\$ 10,424</b>	<b>\$ 1,139</b>	<b>\$ 178</b>	<b>\$ 11,741</b>

36. It should be noted, however, that the Monitor has yet to issue the Notices of Revision or Disallowance reflecting the numbers in the foregoing table. In addition, in accordance with the Claims Procedure Order, any Creditor who receives a Notice of Revision or Disallowance may file an appeal motion with the Court within 20 days of receipt thereof.
37. The Creditors' Meeting is scheduled for December 22, 2020, at 9:30 a.m., by videoconference, at which time certain Notices of Revision or Disallowance may still be subject to appeal. In calculating the votes on the Plan, the Monitor intends to record the votes of all Disputed Claims and calculate any effect of the Disputed Claims on the approval or rejection of the Plan.
38. **As of the date of this Seventh Report, the Monitor is in the process of reviewing the Proofs of Claim filed by creditors in accordance with the Claims Procedure Order. The Monitor will continue this review and the final quantification of Proven Claims will impact the dividend to be paid to unsecured creditors pursuant to the Plan.**

#### SETTLEMENT OF THE IP ACTION

39. Prior to the filing of the NOI, BODUM and PI-DESIGN (collectively, the "**Plaintiffs**") had instituted the IP Action against the Company in which the Plaintiffs sought damages and injunctive remedies in connection with the sale of coffee makers and drinking glasses that allegedly infringed the intellectual property rights of the Plaintiffs. Stokes contested the IP Action and instituted a counterclaim.
40. Prior to the Claims Bar Date, each Plaintiff also filed a separate Proof of Claim in the Claims Process in which it claimed monetary damages totaling \$3 million allegedly arising from the facts alleged in the IP Action. On November 20, 2020, the Plaintiffs and Stokes reached a confidential settlement agreement (the "**Settlement Agreement**") which fully and finally settled the IP Action. The Monitor was provided with an opportunity to review the Settlement Agreement, the terms of which have been approved by the Monitor.

41. Although the exact terms of the Settlement Agreement must remain confidential and cannot be publicly disclosed, in the Monitor's view, the settlement is advantageous for Stokes and its stakeholders, given that there is no monetary component involved, it will result in avoiding litigation and the uncertainty and costs associated therewith, as well as in the Plaintiffs withdrawing their proofs of claim, thereby streamlining the Claims Process.

## **OVERVIEW OF THE PLAN**

42. The Plan and Meeting Application includes a request by the Debtor for authorization to file the Plan. Capitalized terms not otherwise defined in this section are as defined in the Plan.

43. We have summarized below the significant aspects of the Plan. **Please note that the following is only a summary of the terms of the Plan and we strongly recommend to all creditors that they read the Plan in its entirety.**

### **Plan Implementation**

44. The implementation of the Plan is subject to (i) the approval of the Plan by the Required Majority of Affected Creditors, meaning a majority in number of the Affected Creditors representing not less than 66-2/3% in value of the Voting Claims of such Affected Creditors who actually vote (in person or by proxy) at the Creditors' Meeting in accordance with the Plan and the Meeting Order; and (ii) the subsequent sanction of the Plan by the Court.

### **Affected Creditors**

45. Pursuant to the Plan, all of Stokes' unsecured creditors are included in - and will vote as - one class of Affected Creditors.

46. Except as otherwise set out in the Plan, the Plan does not affect the Unaffected Creditors with respect to and to the extent of their Unaffected Claims, subject to the express provisions therein providing for the treatment of Insured Claims. The following claims are "Unaffected Claims" under the Plan:

- Employee Priority Claims, which include the following Claims of Employees of the Company:
  - Claims equal to the amounts that such Employees would have been qualified to receive under paragraph 136(1)(d) of the BIA if the Company had become bankrupt on the Filing Date; and
  - Claims for unpaid wages, salaries, commissions or compensation for services rendered by such Employees after the Filing Date and on or before the Plan Implementation Date together with, in the case of travelling salespersons, disbursements properly incurred by them in and about the business during the same period;

- Excluded Claims, which are defined under the Plan as any right or claim that would otherwise be a Claim that is:
  - a Claim enumerated in sections 5.1(2) and 19(2) of the CCAA; and
  - a Claim secured by the Administration Charge and any indemnity claims of Directors that are secured by the Directors' Charge;
- Gift Card Claims, which are defined under the Plan as any claim with respect to gift-cards, gift certificates, lay-away deposits and other customer certificates;
- Insured Claims, which are defined under the Plan as all or that portion of a Claim arising from a cause of action for which the applicable insurer or a court of competent jurisdiction has definitively and unconditionally confirmed that the Applicant or any Director or Officer is insured under an Insurance Policy, to the extent that such Claim, or portion thereof, is so insured;
- Post-Filing Trade Payables, which are defined under the Plan as trade payables that were incurred by the Company (a) in respect of goods or services provided to the Company after the Filing Date and before the Plan Implementation Date; (b) in the ordinary course of business; and (c) in compliance with the Initial Order and other Orders issued in connection with the CCAA Proceedings;
- Crown Priority Claims, which are defined under the Plan as any Claims of Her Majesty the Queen in right of Canada or in right of any province as described in Section 6(3) or Section 38(2) of the CCAA; and
- Secured Claims, which are defined under the Plan as the Claim of a Secured Creditor, to the extent of the value of such Secured Creditor's security, including such claims of The Bank of Nova Scotia ("**Scotia**").

## **Distribution**

47. The Debtor shall remit to the Monitor each of the following amounts by no later than each of the following dates, aggregating \$2.3 million, for distribution to the Affected Creditors (the "**Aggregate Distribution**"):

- By no later than February 28, 2021, \$1 million (the "**Initial Distribution**");
- By no later than February 28, 2022, \$750K (the "**Second Distribution**");
- By no later than February 28, 2023, \$550K (the "**Final Distribution**").

48. The Monitor shall distribute the Initial Distribution to the Affected Creditors as follows:

- An amount equal to the lesser of the amount of the Proven Claim of each Affected Creditor or \$2,000 (the “**First Level Distribution**”);
- An amount equal to the difference between the Initial Distribution and the aggregate of the First Level Distribution, on a *pro rata* basis, according to the amounts of the Affected Creditors’ Proven Claims, less any amounts received under the First Level Distribution.

49. The Monitor shall distribute the Second Distribution to the Affected Creditors on a *pro rata* basis, according to the amounts of their respective Proven Claims, less any amounts received under the Initial Distribution.

50. The Monitor shall distribute the Final Distribution to the Affected Creditors on a *pro rata* basis, according to the amounts of their Proven Claims, less amounts received under the Initial Distribution and the Second Distribution.

#### **Release and Discharge**

51. The Plan provides for the customary release and discharge of the Debtor and its directors, officers and employees to the extent permitted under the CCAA.

#### **Other**

52. The Plan provides that Sections 38 and 95 to 101 of the BIA, and any other federal and provincial law relating to preferences, fraudulent conveyances, transfers at undervalue or paulian action shall not apply to the Plan or to any payments or distributions made in connection with transactions entered into by or on behalf of the Debtor, whether before or after the Filing Date. Notwithstanding that fact, the Monitor is performing a customary review of the transactions entered into by the Company in the months leading to the filing of the NOI, with a view to reporting to the creditors in due course.

53. Overall, following its review of the Plan, the Monitor concludes that the Plan and the provisions therein are customary in the circumstances.

#### **ESTIMATED DISTRIBUTION TO CREDITORS UNDER THE PLAN**

54. In order to arrive at a recommendation to the Company’s creditors on the adoption of the Plan, the Monitor has performed an analysis of the estimated distribution to Affected Creditors under the Plan in comparison to an estimated distribution under a forced liquidation scenario or bankruptcy. The results of the Monitor’s analysis are detailed below.

55. The Monitor’s conclusion is that the Plan represents a more advantageous outcome for all stakeholders, including creditors, as compared to a bankruptcy liquidation. The Monitor will therefore recommend to all Affected Creditors that they vote in favour of the Plan.

56. From an economic standpoint, the Plan is expected to yield an average dividend representing approximately 20% of the amount of Proven Claims, as opposed to 17% in a bankruptcy liquidation. The latter does not take into consideration the risks and uncertainty associated with a bankruptcy liquidation scenario during the Pandemic, which could further significantly reduce the dividend payable to unsecured creditors in a bankruptcy scenario.
57. The Monitor is also of the view that the Plan represents a more preferable outcome for the stakeholders of the Company as a whole. The implementation of the Plan, in addition to preserving 850 jobs across Canada, will preserve the Company's goodwill, a head office in the Montreal area and the economic benefits derived from the furtherance of Stokes' existing relationships with its landlords and suppliers, both domestic and foreign.

### Distribution Under the Plan

58. The Plan provides for a \$2.3 million distribution to Affected Creditors to be paid in three (3) installments over three (3) years. The following table illustrates the estimated recovery under the Plan which may be realized by the Affected Creditors based on the Monitor's best estimate of allowable claims and the information available as of the date of this Seventh Report:

<b>Stokes Inc.</b>		
<b>Estimated Distribution</b>		
<b>(in 000's)</b>		
Preliminary estimate of Affected Claims <b>(Note 1)</b>	<b>A</b>	<b><u>\$ 11,741</u></b>
Aggregate Distribution	<b>B</b>	<b><u>\$ 2,300</u></b>
<b>Estimated distribution %</b>	<b>B/A</b>	<b><u>20%</u></b>

**Note 1:** Represents the Monitor's best estimate of the Affected Claims as of the date of this report

59. As shown in the above table, the recovery under the Plan is projected to represent an average of 20% of the total amount of each estimated Proven Claim.
60. **The estimated realization to the Affected Creditors is based on the Monitor's best estimate of the Proven Claims. The final distribution under the Plan will vary depending on the final results of the Claims Process.**

**Forced Liquidation – Estimated Net Realization**

61. To help creditors understand the financial impact of a liquidation of the Company’s assets in a bankruptcy scenario, the Monitor has prepared the following analysis of the estimated realization in the context of a forced liquidation:

Stokes Inc. Estimated Net Realization in a Forced Liquidation Reported Book Value as at November 14, 2020 (000's)	Book Value	Median Estimated Realization Value
<b>PROJECTED NET REALIZATION</b>		
<b>Gross Realization</b>		
Inventory	\$ 23,028	\$ 18,120 <b>79%</b>
Other Assets	8,585	2,550 <b>30%</b>
	<u>31,613</u>	<u>20,670</u>
<b>Estimated Realization Expenses</b>		
Overhead Expenses		(2,420)
Freight and transport (goods in transit)		(710)
Estimated Professional Fees		(1,250)
Other Contingency (10%)		(500)
		<u>(4,880)</u>
<b>Projected Net Realization</b>	<b>A</b>	<u><u>\$ 15,790</u></u>
<b>ESTIMATED FUNDS AVAILABLE FOR UNSECURED CREDITORS</b>		
<b>Priority Claims (Salaries and Vacations)</b>	<b>B</b>	\$ (1,200)
<b>Secured Creditors</b>	<b>C</b>	(7,612)
	<b>A+B+C= D</b>	<u>6,978</u>
<b>Estimated Preferred Creditors</b>		
Preferred Rent and Levy	<b>E</b>	(2,260)
<b>Estimated Funds Av. for Unsecured Creditors</b>	<b>D+E=F</b>	<u><u>\$ 4,718</u></u>
<b>ESTIMATED RECOVERY FOR UNSECURED CREDITORS</b>		
Estimated Unsecured Claims in a Bankruptcy	<b>G</b>	\$ 27,168
<b>Estimated Unsecured Creditors Recovery (%)</b>	<b>F/G=H</b>	<u><u>17%</u></u>

62. The table above shows that the estimated recovery for unsecured creditors in the context of a forced liquidation would be approximately 17% of the total amount of each estimated Proven Claim.

63. It is important to note that the estimated net realization value of the Debtor’s assets is not necessarily representative of actual values which could be recovered by unsecured creditors. In its analysis, the Monitor used multiple assumptions which will vary and could negatively impact the liquidation results estimated by the Monitor.

## **Forced Liquidation - Key Assumptions**

64. The above estimate was prepared by the Monitor, with the assistance of the Debtor, and is based on several key assumptions which include:

### **Gross Realization**

- The estimated inventory realization was calculated using the average net orderly liquidation value (“**NOLV**”) reflected in the appraisal report dated January 2020 prepared for Stokes by Gordon Brothers Canada, ULC (“**Gordon**”). Gordon has estimated that a liquidation would take approximately 17 weeks. As the appraisal was performed prior the current COVID-19 Pandemic, the Monitor has discounted the NOLV by 20% to take into account the impact of the Pandemic on the economy, more particularly, on the retail sector. The Monitor is of the opinion that the current liquidation value of the inventory may be significantly impaired as a result of the current Pandemic;
- Assets other than inventory are mostly comprised of cash, credit card and shareholder receivables, leasehold improvements, software, and other fixed assets. The Monitor assumed 100% value for the cash on hand and approximately 90% recovery for credit card and shareholder receivables. The realization value assumed for the other assets is nominal.

### **Estimated Realization Expenses**

- The estimated realization expenses reflected above include head office and warehouse expenses, estimated professional fees and other expenses to execute the realization. These realization expenses were estimated by the Monitor using the Debtor’s historical trending and based on our past experiences for liquidations of this size and duration.

65. The unsecured claims under a bankruptcy scenario are estimated based on the information obtained from the Debtor and the results of the Claims Process as at the date of this report. It is important to note that the quantum of unsecured claims could increase substantially in the event of a bankruptcy as compared to a Plan scenario, given the impact of expected variations in the quantification, in a bankruptcy, of post-filing claims (unpaid expenses as of the date of this report incurred after the Determination Date), landlords’ damage claims, employees’ claims and trade suppliers damage claims.

## **Forced Liquidation – Risks Factors**

66. In the context of a forced liquidation or bankruptcy, in addition to the impact of the Pandemic, below are other factors to be considered by the unsecured creditors which may negatively impact the realization values estimated by the Monitor:

- The risk that the landlords do not allow a liquidation to take place in the existing store premises;

- The substantial liquidation of stock over a short period of time could negatively impact the pricing of the inventory;
- The loss or shortage of store personnel; and
- The potential additional professional fees incurred as a result of a liquidation.

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

### **CREDITORS' MEETING**

68. The Plan and Meeting Application includes a request by the Debtor for an order allowing it to hold a Creditors' Meeting to consider and vote on the Plan. We have summarized below the salient terms of the proposed Creditors' Meeting. Capitalized terms not defined in this section are as defined in the Plan and Meeting Application.

69. The Creditors' Meeting is proposed to be held on December 22, 2020, by videoconference.

70. Any creditor who wishes to appoint a Proxy shall do so prior to the Creditors' Meeting.

71. The Affected Creditors will receive notice of the Meeting by the following means:

- the Monitor will send the relevant notice and Meeting materials in English and in French to the Affected Creditors by regular mail, courier or email on or before November 27, 2020; and
- via the Monitor's website.

72. The Monitor is of the view that the proposed Creditors' Meeting should allow for the Debtor's creditors to fairly express their intention in terms of whether or not to accept the Plan.

73. Should the Plan be approved by the Required Majority of Affected Creditors, Stokes intends to seek the issuance of a Sanction Order by the Court early in the month of January 2021.

74. The Monitor will report the results of the Creditors' Meeting to the Court at the time of the hearing for the rendering of a Sanction Order.

### **STAY EXTENSION**

75. The current Stay Period expires on December 18, 2020. The Debtor is seeking an extension of the Stay Period to February 12, 2021.

76. The Monitor supports the Company's request for an extension of the Stay Period for the following reasons:

- a) The Company is acting in good faith and with due diligence;
- b) The extension will allow the opportunity to:
  - complete the Claims Process;
  - hold and conduct the Creditors' Meeting;
  - assuming the Plan is approved by the Affected Creditors, seek an order of the Court sanctioning the Plan; and
  - assuming the Plan is sanctioned by the Court, begin its implementation and the distributions contemplated therein.
- c) The granting of the extension will not materially prejudice any creditor of the Company as the Projections reflect that the Company will have sufficient funding to continue to operate in the normal course through the proposed extension period; and
- d) The secured lender supports the Stay Period extension.

#### **CONCLUSION AND RECOMMENDATION**

77. The Debtor has continued to diligently pursue its restructuring efforts since the issuance of the Stay Extension Order and continues to operate its business in the ordinary course with the benefit of the Stay Period, which has provided stability to the business.

78. The Monitor believes that the terms of the Plan are fair and reasonable and provide the most advantageous recovery to the Affected Creditors in the circumstances. The Plan has been developed by Stokes in a continuing effort to provide greater value to its creditors than would be achieved in a forced liquidation while offering a continuing source of revenue to most of the suppliers, landlords and employees.

79. For the reasons set out in this Seventh Report, the Monitor recommends that the Court grant the *Application for an Extension of the Stay of Proceedings and the Issuance of a Plan Filing and Meeting Order*, which will allow the Company to continue its restructuring process, file the Plan and hold the Creditors' Meeting in the best interest of Stokes' stakeholders.

Respectfully submitted at Montréal, this 23<sup>rd</sup> day of November 2020.

**Richter Advisory Group Inc.**  
Monitor



Olivier Benchaya, CPA, CA, CIRP, LIT

## EXHIBIT A

Stokes Inc.				
Statement of Cash Flow				
For the Period from Sep 13 to Nov 14, 2020				
(\$000's)				
	Actual	Forecast	Variance	
	63 days	63 days	\$	%
<b>Receipts</b>	<b>\$ 15,287</b>	<b>\$ 12,373</b>	<b>\$ 2,914</b>	<b>24%</b>
Merchandise	(10,425)	(13,063)	2,638	20%
Payroll	(3,061)	(3,127)	66	2%
Rent	(2,071)	(2,412)	341	14%
Inventory Liquidation Expenses	(142)	-	(142)	N/A
Professional Fees & Consultants	(461)	(473)	12	3%
Others	(4,202)	(3,455)	(747)	(22%)
<b>Disbursements</b>	<b>(20,362)</b>	<b>(22,530)</b>	<b>2,168</b>	<b>10%</b>
<b>Cash Flow</b>	<b>\$ (5,075)</b>	<b>\$ (10,157)</b>	<b>\$ 5,082</b>	<b>50%</b>
Projected Opening Cash /(Bank Indebtedness) <sup>(1)</sup>	\$ 147	\$ 147	\$ -	0%
<b>Projected Ending Cash/(Bank Indebtedness)<sup>(1)</sup></b>	<b>\$ (4,928)</b>	<b>\$ (10,010)</b>	<b>\$ (5,082)</b>	<b>(51%)</b>

**Note 1:** Cash excludes petty cash and outstanding store deposits. Bank Indebtness is presented net of cash. Ending Bank indebtedness excludes approximately \$2.4M of outstandings LCs (\$1.8M USD) which have not yet been drawn upon.

## EXHIBIT B

Stokes Inc.

Statement of Projected Cash Flow

For the Period from Nov 15, 2020 to Feb 13, 2021

	Nov 21	Nov 28	Dec 05	Dec 12	Dec 19	Dec 26	Jan 02	Jan 09	Jan 16	Jan 23	Jan 30	Feb 06	Feb 13	Total
(\$000's)	7 days	7 days	7 days	7 days	7 days	7 days	7 days	7 days	7 days	91 days				
<b>Receipts</b>	\$ 3,288	\$ 2,994	\$ 2,847	\$ 3,622	\$ 5,255	\$ 4,655	\$ 2,580	\$ 1,503	\$ 1,133	\$ 995	\$ 881	\$ 973	\$ 1,035	\$ 31,761
<b>Disbursements</b>														
Merchandise	(912)	(743)	(605)	(441)	(443)	(443)	(418)	(848)	(848)	(834)	(1,005)	(1,005)	(1,041)	(9,586)
Payroll	(870)	-	(966)	-	(1,062)	-	(1,062)	-	(692)	-	(692)	-	(704)	(6,048)
Rent	(564)	-	(184)	-	(1,116)	-	(143)	-	(1,050)	-	(123)	-	-	(3,180)
Professional Fees & Consultants	(150)	(150)	(52)	(52)	(52)	(150)	(52)	(52)	(52)	(52)	(52)	(9)	(9)	(884)
Sales Taxes	-	-	(256)	-	-	-	(569)	-	-	-	(1,742)	-	-	(2,567)
Others	(311)	(351)	(433)	(360)	(435)	(467)	(403)	(198)	(192)	(207)	(210)	(147)	(197)	(3,911)
	(2,807)	(1,244)	(2,496)	(853)	(3,108)	(1,060)	(2,647)	(1,098)	(2,834)	(1,093)	(3,824)	(1,161)	(1,951)	(26,176)
<b>Projected Net Cash Flow</b>	\$ 481	\$ 1,750	\$ 351	\$ 2,769	\$ 2,147	\$ 3,595	\$ (67)	\$ 405	\$ (1,701)	\$ (98)	\$ (2,943)	\$ (188)	\$ (916)	\$ 5,585
Projected Opening Cash/(Bank Indebtedness) <sup>(1)</sup>	\$ (4,928)	\$ (4,447)	\$ (2,697)	\$ (2,346)	\$ 423	\$ 2,570	\$ 6,165	\$ 6,098	\$ 6,503	\$ 4,802	\$ 4,704	\$ 1,761	\$ 1,573	\$ (4,928)
<b>Projected Ending Cash/(Bank Indebtedness)<sup>(1)</sup></b>	<b>\$ (4,447)</b>	<b>\$ (2,697)</b>	<b>\$ (2,346)</b>	<b>\$ 423</b>	<b>\$ 2,570</b>	<b>\$ 6,165</b>	<b>\$ 6,098</b>	<b>\$ 6,503</b>	<b>\$ 4,802</b>	<b>\$ 4,704</b>	<b>\$ 1,761</b>	<b>\$ 1,573</b>	<b>\$ 657</b>	<b>\$ 657</b>
Projected Ending Outstanding LCs	\$ (1,922)	\$ (3,054)	\$ (4,186)	\$ (5,712)	\$ (5,605)	\$ (5,348)	\$ (5,090)	\$ (4,465)	\$ (3,840)	\$ (3,216)	\$ (3,246)	\$ (2,881)	\$ (2,487)	\$ (2,487)
<b>Projected Ending Cash/(Bank Debt) net of LCs<sup>(2)</sup></b>	<b>\$ (6,369)</b>	<b>\$ (5,751)</b>	<b>\$ (6,532)</b>	<b>\$ (5,289)</b>	<b>\$ (3,035)</b>	<b>\$ 817</b>	<b>\$ 1,007</b>	<b>\$ 2,037</b>	<b>\$ 961</b>	<b>\$ 1,488</b>	<b>\$ (1,485)</b>	<b>\$ (1,309)</b>	<b>\$ (1,830)</b>	<b>\$ (1,830)</b>

**Note 1:** Cash excludes petty cash and outstanding store deposits. Bank Indebtedness is presented net of cash.

**Note 2:** Ending Cash and Bank Debt are presented net of outstanding LCs as LCs are secured by the Bank.



Mohammad Rahaman, CFO



Olivier Benchaya, CPA, CA, CIRP, LIT

CANADA  
Province of Quebec  
District of: Montreal  
Court No.: 500-11-057985-208  
Estate No.: 0000499-2020-QC

SUPERIOR COURT  
(Commercial Division)  
*Companies' Creditors Arrangement Act*  
RSC 1985, c. C-36, as amended

Report on Cash-Flow Statement by the Debtor Company  
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the Matter of a Plan of Compromise or Arrangement of  
Stokes Inc.  
of the City of Mont-Royal  
in the Province of Quebec

The management of Stokes Inc. has developed the assumptions and prepared the attached statement of projected cash flow of the debtor company, as of November 23, 2020, consisting of the period from November 15, 2020 to February 13, 2021.

The hypothetical assumptions are reasonable and consistent with the purpose of the projections described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the debtor company and provide a reasonable basis for the projections. All such assumptions are disclosed in the notes attached.

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

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

Dated at the City of Montréal, in the Province of Québec, this 23<sup>rd</sup> day of November 2020.



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Stokes Inc., Debtor company

Mohammad Rahaman, CFO

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Name and title of authorized representative

CANADA  
Province of Quebec  
District of: Montreal  
Court No.: 500-11-057985-208  
Estate No.: 0000499-2020-QC

SUPERIOR COURT  
(Commercial Division)  
*Companies' Creditors Arrangement Act*  
RSC 1985, c. C-36, as amended

Report on Cash-Flow Statement by the Debtor Company (Annex)  
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the Matter of a Plan of Compromise or Arrangement of  
Stokes Inc.  
of the City of Mont-Royal  
in the Province of Quebec

Purpose:

On July 27, 2020, the Quebec Superior Court (sitting as Tribunal designated under the *Companies' Creditors Arrangement Act* ("CCAA")) issued an order granting the above-mentioned Company protection under the CCAA. Richter Advisory Group Inc. is the Court-Appointed Monitor during the period the Order is in force.

The purpose of the Statement of Projected Cash-Flow is to present an estimate of the receipts and disbursements of Stokes Inc. for the period from November 15, 2020 to February 13, 2021. This Statement of Projected Cash Flow has been prepared by the management based on available financial information at that date in accordance with Section 11.02 of the CCAA. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:

The Statement of Projected Cash-Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period November 15, 2020 to February 13, 2021, considering the economic conditions that are considered the most probable by Management. As the cash-flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Assumptions:

- (a) COVID-19
  - These projections do not consider all future impacts of the global COVID-19 pandemic. The potential future impact of the pandemic on the Company's customers, suppliers and other stakeholders remains uncertain and cannot be fully quantified at this time.
- (b) Projected Cash Receipts
  - Receipts include projected receipts from stores and e-commerce platform including applicable sales taxes. Receipts are projected based on historical sales, recent trending and collection patterns.
- (c) Projected Cash Disbursements
  - As the cash flow projections end on February 13, 2021 and the first distribution to creditors is projected to occur on February 28, 2021, the projected cash disbursements do not reflect the first distribution to the Affected Creditors under the Plan of Arrangement;
  - Merchandise disbursements are projected based on current domestic and foreign open purchase orders and projected inventory requirements. Amounts include sales taxes when applicable;

- Payroll is based on current headcount levels;
- Rent is based on the current rental agreements with lessors that have been adjusted to reflect bi-monthly payments. Amounts include sales taxes;
- Other expenses are primarily comprised of warehouse and head office costs as well as capital lease payments and interest. These expenses are based on historical data adjusted to reflect the current level of activity, current agreements and current interest rates. Amounts include sales taxes where applicable;
- Professional fees and consulting disbursements reflects management's best estimate to implement the Company's restructuring plan. Amounts include sales taxes;
- The government remittances for source deductions and sales taxes are based on the projected sales volume and payroll estimates;
- The cash disbursements do not provide for the payment of any arrears to unsecured creditors.

Dated at the City of Montréal, in the Province of Québec, this 23<sup>rd</sup> day of November 2020.



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Stokes Inc., Debtor company

Mohammad Rahaman, CFO

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Name and title of authorized representative

CANADA  
Province of Québec  
District of: Montreal  
Court No.: 500-11-057985-208  
File No.: 0000499-2020-QC

SUPERIOR COURT  
(Commercial Division)  
*Companies' Creditors Arrangement Act*  
RSC 1985, c C-36, as amended

**Monitor's Report on Cash-Flow Statement**  
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the Matter of a Plan of Compromise or Arrangement of  
Stokes Inc.  
of the City of Mont-Royal  
in the Province of Quebec

The attached statement of projected cash flow of Stokes Inc. as of the 23<sup>rd</sup> day of November 2020, consisting of the period from November 15, 2020 to February 13, 2021, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the debtor 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 projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Montréal, in the Province of Québec, this 23<sup>rd</sup> day of November 2020.

Richter Advisory Group Inc.  
Court-appointed Monitor



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C A N A D A  
Province of Québec  
District of: Montreal  
Court No.: 500-11-057985-208  
File No.: 0000499-2020-QC

S U P E R I O R C O U R T  
(Commercial Division)  
*Companies' Creditors Arrangement Act*  
RSC 1985, c C-36, as amended

**Monitor's Report on Cash-Flow Statement (Annex)**  
(Sections 4, 5 and 11 of the *Companies' Creditors Arrangement Act*)

In the Matter of a Plan of Compromise or Arrangement of  
Stokes Inc.

**Purpose:**

On July 27, 2020, the Québec Superior Court (sitting as Tribunal designated under the *Companies' Creditors Arrangement Act* ("CCAA")) issued an order granting the above-mentioned Company protection under the CCAA. Richter Advisory Group Inc. is the Court-Appointed Monitor during the period the Order is in force.

The purpose of the Statement of Projected Cash-Flow is to present an estimate of the receipts and disbursements of Stokes Inc. for the period from November 15, 2020 to February 13, 2021. This statement of projected cash-flow has been prepared by Management based on the financial information available at that date, in accordance with Section 11.02 of the CCAA. Readers are cautioned that this information may not be appropriate for other purposes.

**Projection Notes:**

The Statement of Projected Cash-Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period November 15, 2020 to February 13, 2021, considering the economic conditions that are considered the most probable by Management.

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

**Assumptions:**

(a) COVID-19

- These projections do not consider all future impacts of the global COVID-19 pandemic. The potential future impact of the pandemic on the Company's customers, suppliers and other stakeholders remains uncertain and cannot be fully quantified at this time.

(b) Projected Cash Receipts

- Receipts include projected receipts from stores and e-commerce platform including applicable sales taxes. Receipts are projected based on historical sales, recent trending and collection patterns.

(c) Projected Cash Disbursements

- As the cash flow projections end on February 13, 2021 and the first distribution to creditors is projected to occur on February 28, 2021, the projected cash disbursements do not reflect the first distribution to the Affected Creditors under the Plan of Arrangement;
- Merchandise disbursements are projected based on current domestic and foreign open purchase orders and projected inventory requirements. Amounts include sales taxes when applicable;
- Payroll is based on current headcount levels;
- Rent is based on the current rental agreements with lessors that have been adjusted to reflect bi-monthly payments. Amounts include sales taxes;
- Other expenses are primarily comprised of warehouse and head office costs as well as capital lease payments and interest. These expenses are based on historical data adjusted to reflect

- the current level of activity, current agreements and current interest rates. Amounts include sales taxes where applicable;
- Professional fees and consulting disbursements reflects management's best estimate to implement the Company's restructuring plan. Amounts include sales taxes;
  - The government remittances for source deductions and sales taxes are based on the projected sales volume and payroll estimates;
  - The cash disbursements do not provide for the payment of any arrears to unsecured creditors.

Dated at the City of Montréal, in the Province of Québec, this 23<sup>rd</sup> day of November 2020.

Richter Advisory Group Inc.  
Court-appointed Monitor



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