



COURT NO. B200171
B200170

ESTATE NO. 11-2626936
11-2626912

VANCOUVER REGISTRY

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY & INSOLVENCY**

**IN THE MATTER OF THE PROPOSALS OF
FHC ENTERPRISES LTD. AND FHC LEASING LTD.
(collectively, the "Companies")**

PROPOSAL TRUSTEE'S REPORT TO COURT

Introduction and Purpose

FHC Enterprises Ltd. ("**Enterprises**") and FHC Leasing Ltd. ("**Leasing**") each filed a Notice of Intention to Make a Proposal pursuant to the provisions of the *Bankruptcy and Insolvency Act* ("**Notice of Intention**") on March 6, 2020 and MNP Ltd. consented to act as Licensed Insolvency Trustee ("**Trustee**") under each Notice of Intention. Cash Flow Projections were prepared by Enterprises and Leasing which were filed with the Official Receiver on March 16, 2020.

It is our view that Enterprises and Leasing (collectively, the "**Companies**") will not be in a position to file definitive Proposals by April 6, 2020, but that an extension in each Notice of Intention proceeding will enable the Companies to collectively present a more comprehensive and definitive Proposal to their respective creditors than the Companies could at the present time.

Background

Enterprises and Leasing were both incorporated in British Columbia in March 2012. Jason McDougall is the sole Director and Officer of the Companies.

Enterprises was incorporated for the purpose of purchasing all of the assets of the FIELDS chain of department stores. The Western Canadian retail chain originally began in 1948 by Josef Segal. Currently, Enterprises operates from sixty-three (63) FIELDS

retail stores located in rural communities throughout British Columbia, Alberta, Saskatchewan, Manitoba and Northwest Territories, one (1) 'McFrugals' store located in Surrey, BC as well as a distribution warehouse and head office located in Delta, B.C. Enterprises sells general merchandise including apparel, groceries and household products from its retail locations as well as from its e-commerce website Fields.ca. However, the vast majority of Enterprises' sales are conducted from their retail stores. We understand that Enterprises currently employs approximately 400 full and part-time employees.

Leasing is the lessee with respect to all of the real property leases from which the FIELDS retail stores operate, as well as the distribution warehouse. Leasing sub-lets the various locations to Enterprises who pays the rental obligations directly to the respective landlords. Leasing does not have any employees or active operations. Financial statements prepared by Leasing's external accountant on a compilation basis for the fiscal year ending February 2, 2019 report only a nominal amount owing from a related party equivalent to the value of share capital.

Enterprises reported a substantial net loss in draft financial statements prepared by management for the fiscal year ending February 1, 2020 ("**Fiscal 2020**"). Audited financial statements for the fiscal year ending February 2, 2019 ("**Fiscal 2019**") reported minimal net income; however, revenue declined by approximately \$2.8MM in Fiscal 2020. This decline in revenue is likely as a result from the continued economic decline in many of the smaller rural communities where Enterprises operates its retail stores. In addition to the decline in revenue, administrative expenses did not decrease in 2020 which resulted in the material net loss from operations.

As a result of the recent significant operating loss, Enterprises lacked sufficient working capital to meet all of its obligations to its creditors. We are advised that Enterprises attempted to secure additional financing in February 2020, but was unsuccessful in doing so, and as a result, management sought creditor protection to permit a restructuring of Enterprises' financial affairs in order to return the business to profitability. Leasing sought creditor protection so that management could undertake an assessment of all the real property leases and enter into negotiations with landlords in respect of certain locations or disclaim leases in respect of store locations that are deemed not financially viable.

Secured Creditors

The Trustee has not obtained an independent legal review of the validity and enforceability of any claims which appear to be secured against the personal property of Enterprises.

Royal Bank of Canada

Enterprises' senior secured creditor is the Royal Bank of Canada ("**RBC**") who provides working capital to Enterprises by way of a revolving credit loan, which is provided pursuant to the terms of a Loan Agreement dated April 30, 2012, in addition to many subsequent amended and restated loan agreements. Leasing has guaranteed Enterprises' obligations to RBC pursuant to a Guarantee and Postponement of Claim dated April 30, 2012 by Leasing in favour of RBC.

Both Enterprises and Leasing executed General Security Agreements dated April 30, 2012 in favour of RBC which grant to RBC a security interest in all of the Companies' assets.

In April 2012, RBC registered notice of those security interests in various Personal Property Registries.

Enterprises continues to pay interest and costs to RBC pursuant to the terms of the loan agreements. At the date of the initial filing, it was estimated that RBC was owed approximately \$8,900,000.

*Canada Revenue Agency ("**CRA**")*

Enterprises utilizes the services of ADP Canada to administer its payroll, which is paid on a bi-weekly basis. At the time that payroll is administered, ADP Canada withdraws funds from Enterprises' account for both employees' wages and payroll withholdings. As ADP Canada remits the payroll withholdings directly to CRA, we are not aware of any unremitted payroll withholdings.

*First West Credit Union ("**First West**")*

First West registered notice of a security interest in all of the Companies' assets in July 2014, however, we understand that the debt obligations were previously paid in full other than a prepayment penalty of approximately \$30,000.

Radco Ventures Inc.

Kry Innovations Inc.

M&M Footwear Inc.

0988474 BC Ltd.

*(collectively, the "**Debenture Holders**")*

We understand that Enterprises issued a series of convertible debentures which bear interest at 10% and are secured by general security agreements. We also understand that the debentures matured between April 30, 2015 and April 30, 2016 with no subsequent date of repayment.

Radco Ventures Inc. is owed the principal amount of \$687,500 plus accrued interest and registered notice of its security interest. Kry Innovations Inc. is owed the principal amount of \$500,000 plus accrued interest and as at March 31, 2020 had not registered notice of its security interest. M&M Footwear Inc. is owed the principal amount of \$62,500 plus accrued interest and as at March 31, 2020 had not registered notice of its security interest. 0988474 BC Ltd. is owed the principal amount of \$250,000 plus accrued interest and registered notice of its security interest. 0988474 BC Ltd. is related to the Companies by way of common control.

1007070 B.C. Ltd. (BC Ltd.)

BC Ltd. is a company related to the Companies by way of common control. We are advised that BC Ltd. made a number of advances to Enterprises dating back to 2017 and that BC Ltd. is currently owed the aggregate principal amount of approximately \$1,769,000. We have been provided with a Line of Credit Agreement and General Security Agreement which are both dated February 27, 2020. BC Ltd. registered notice of its security interest.

Excel Leasing Inc.

Zeemac Vehicle Lease Ltd.

CWB National Leasing Inc., formerly National Leasing Group Inc.

Gould Leasing Ltd.

De Lage Landen Financial Services Canada Inc.

(collectively, the "Lessors")

Enterprises owns various computer and office equipment, as well as retail store and warehouse equipment and a number of vehicles which are financed by way of various financing agreements/conditional sales contracts. The Lessors have all registered notice of their specific security interests. Enterprises continues to make the monthly agreed upon payments.

Her Majesty the Queen in Right of the Province of British Columbia (the "Province")

The Province registered a financing statement in the British Columbia Personal Property Registry on March 10, 2020, which was after the filing of the Notice of Intention, with respect to unremitted provincial sales tax ("PST"). Enterprises' records indicate that approximately \$112,950 of unremitted PST was owing at the date of the initial filing.

Assets

Inventory

Enterprises' main asset is its inventory for resale which is located in the sixty-four retail stores as well as the distribution warehouse in Delta, B.C.

Enterprises reports its total inventory balance to RBC each week, which forms the basis of credit advances available to Enterprises for working capital. As at March 24, 2020, Enterprises reported inventory at cost totaling approximately \$14,750,000.

Tiger Valuation Services, LLC ("**Tiger**") conducted an appraisal of the inventory as at November 30, 2019 and issued a report on January 28, 2020 to RBC setting out, among other things, Tiger's estimate of the net orderly liquidation value of the inventory. The appraisal report was provided to the Trustee.

Equipment

As reported above, Enterprises owns various computer and office equipment, as well as retail store and warehouse equipment and a number of vehicles.

Audited financial statements for Fiscal 2019 report total net book value of equipment and capitalized leasehold improvements of approximately \$1,520,000.

Post-Filing Operations

Enterprises has continued operations subsequent to filing the Notice of Intention on March 6, 2020.

The various retail stores continue to operate in the normal course although with reduced hours in certain cases due to COVID-19. Enterprises has also continued to carry on business with its suppliers on terms which are acceptable to Enterprises and its suppliers. Primarily, Enterprises is paying for goods and services on a cash basis.

Enterprises' payroll is processed on a bi-weekly basis and employees were paid on March 13, 2020 and March 27, 2020 in accordance with the payroll schedule. As reported earlier, payroll withholdings are remitted to CRA directly by ADP Canada.

At the date of filing, all landlords had been paid rent for the month of March 2020. We are advised by management that a number of landlords have agreed in principle to varying rent concessions with respect to April 2020, but discussions continue.

The Trustee has reviewed the levels of revenue as well as Enterprises' cash flow since the filing of the NOI and compared actual results to estimates set out in the statement of projected cash flow filed on March 16, 2020. The Trustee has noted that revenue was consistent with projected results for the period of March 10 to 16, 2020, however revenue dropped to approximately 25% below projections for the period of March 17 to 23, 2020. Further, and based on daily sales reporting provided to the Trustee, it appears revenue levels are approximately 25% - 30% below projected estimates for the period of March 24 to March 30, 2020.

Enterprises also made lower than expected cash payments during the first two weeks of reporting which may be a result of timing differences. We understand that Enterprises has begun to initiate employee lay-offs at its distribution center in response to reduced sales at the retail stores. We expect that the reduction in revenue is attributable to the significant level of public safety concern and economic uncertainty surrounding the COVID-19 pandemic.

In order to adapt to the current situation and to maximize revenue, management has focused on sourcing additional products currently in high demand by consumers as a result of COVID-19, and we are advised that inventory shipments are currently in transit.

Payments to the Trustee in the Notice of Intention Proceedings

The Trustee currently holds a balance of \$71,100 in the Proposal trust account in respect of Enterprises, and \$5,100 in the Proposal trust account in respect of Leasing.

Restructuring Plan

Management initiated and continues discussions and negotiations with various landlords in order to make final determinations concerning the viability of certain locations. This will permit management to either reduce overhead costs at those locations or come to a determination that certain retail stores should be closed. Further, management will continue its assessment of various operating costs with a view to maximizing Enterprises' overall profitability. The Companies are seeking an extension of time of forty-five (45) days to file their respective Proposals to creditors, and we are advised by the Companies' legal counsel that RBC is also in agreement to an extension of time to May 21, 2020.

An extension of time will permit the negotiations with the various landlords to continue, and related assessment of the viability of various retail locations. It is our opinion that once this has been completed, the Companies will be in a better position to present a more comprehensive and definitive Proposal to the creditors than the Companies could at the present time. Further, an extension of time may allow for greater certainty with respect to the current COVID-19 crisis.

It is our opinion that:

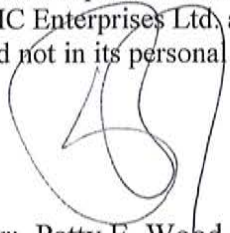
- a) The Companies have and continue to act in good faith and with due diligence in formulating a Proposal,
- b) The Companies will likely be able to make a viable Proposal if the extension applied for is granted, and

c) No creditor will be materially prejudiced if an extension is granted.

DATED this 2nd day of April, 2020.

MNP Ltd.

In its capacity as Licensed Insolvency Trustee
In the Proposal Proceedings of
FHC Enterprises Ltd. and FHC Leasing Ltd.
and not in its personal or corporate capacity

A handwritten signature in black ink, appearing to read 'P. Wood', is written over the text of the signature block.

Per: Patty E. Wood CPA, CGA, CIRP, LIT
Senior Vice President