

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE PROPOSAL OF
EDUCATOR SUPPLIES LIMITED
(O/A SCHOLAR'S CHOICE)
OF THE CITY OF LONDON
IN THE PROVINCE OF ONTARIO**

REPORT OF TRUSTEE ON PROPOSAL

(Sections 50(10)(b) and 50(5) of the Bankruptcy and Insolvency Act)

This report provides a summary of the background and financial position of Educator Supplies Limited, operating as Scholar's Choice ("**Scholar's Choice**" or the "**Company**"), including relevant information that should be of assistance to the creditors in considering the Proposal being made by the Company.

Enclosed are the following documents:

- Notice of Proposal to Creditors
- Proposal of Scholar's Choice, filed under Part III, Division I of the *Bankruptcy and Insolvency Act* (the "**BIA**") with MNP Ltd. and with the Office of the Superintendent of Bankruptcy on September 14, 2020.
- Condensed Statement of Affairs sworn September 14, 2020
- Proof of Claim form and General Proxy
- Voting Letter

In preparing this report, MNP Ltd. ("**MNP**" or the "**Trustee**") has relied upon unaudited financial information provided by the Company's representatives, discussions with the Company's representatives and the Company's consultant. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information.

Unless otherwise stated, monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms used herein but otherwise defined shall have the meaning attributed to them in the Proposal.

Section A – Introduction and Background

Scholar’s Choice is an Ontario Corporation with its head office in London, Ontario. The Directors are Scott Webster and Cindy Webster. The Company operates as a distributor and retailer of educational toys, furniture, equipment and teaching materials to parents, teachers, early childhood educators and daycares across Canada.

The Company has three (3) lines of business: a retail business (the “**Retail Business**”), which was carried on from 16 leased retail locations in Ontario, Manitoba, New Brunswick and Alberta, a catalogue business (the “**Catalogue Business**”) and an e-commerce business (the “**Web Business**”).

Insolvency Proceedings

Scholar’s Choice filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Subsection 50.4(1) of the BIA on June 30, 2020. MNP was named as Trustee in the NOI.

On September 14, 2020 the Company’s Proposal was filed with the Trustee and the Office of the Superintendent of Bankruptcy (Canada).

Section B – Summary of Proposal

This section contains a brief summary of the Proposal, the terms of which would be effective if, among other things:

- the creditors vote for the acceptance of the Proposal by a majority in number and two thirds in value of the class of creditors present (Ordinary Creditors and Landlords), in person or by proxy, at the meeting and voting on the resolution to pass the Proposal; and
- the Proposal is approved by the Court (“**Court Approval**”), in accordance with the provisions of the BIA.

The Proposal provides for the compromise and restructuring of the Company’s liabilities through a distribution to the Proven Ordinary Creditors and the Landlords. The funds for the Proposal will consist of the funds advanced from an unrelated executive level Company employee (the “**Employee Investment**”) and insurance claim proceeds from a policy with Scholar’s Choice as named beneficiary (the “**Insurance Claim Proceeds**”). A summary of the Proposal is set out below, the capitalized terms have the same meaning as defined in the Proposal.

1. As the Proposal does not amend or affect the existing payment or security arrangements between the Company and Secured Creditors, no Secured Creditor will have a claim for all or part of its indebtedness in the Proposal.
2. On the later of i) December 15, 2020 and ii) five business days following Court Approval of the Proposal the Company will remit to the Trustee:
 - a. \$350,000 for the Landlords’ Basket Amount; and
 - b. \$650,000 for Ordinary Creditors’ Basket Amount (collectively the “**Basket Amounts**”).

3. The Basket Amounts are to be distributed by the Trustee in accordance with the distribution scheme established in the Proposal and in full and final satisfaction of all Proven Ordinary Creditor Claims and Proven Landlord Claims, and all Unsecured Creditor Claims shall be fully compromised pursuant to the Proposal.
4. Upon receipt of the Basket Amounts and resolution of any Disputed claims the Trustee will prepare a final statement of receipts and disbursements for approval by the Inspectors and the Court, which will include a dividend sheet with proposed payments to the Unsecured Creditors. The Trustee will follow the procedure set out in section 152(1) of the BIA for approval and payment of these dividends.
5. Unsecured Creditor distributions will be subject to a levy payable to the Superintendent of Bankruptcy pursuant to the BIA.
6. In addition to the Basket Amounts the Company shall pay all Professional Fees, Post-Filing Claims, Crown Claims, Preferred Claims (which are expected to be \$nil) and Employee Claims.
7. Each Unsecured Creditor will be entitled to vote to the extent of the amount that is equal to their claim.
8. All goods and services supplied subsequent to the date of the NOI shall be paid for in full in the ordinary course of business on terms agreed to between the Company and the relevant supplier.
9. Sections 95 to 101 of the BIA and any other related laws do not apply to the Proposal.
10. The release of claims against the Directors and Officers of the Company, as set out and defined in the Proposal.
11. Within six months following Court Approval, the Company shall pay in full to Her Majesty in Right of Canada or any Province all amounts, outstanding as of the Filing Date provided for in Section 60(1.1) of the BIA, if any.
12. Upon distribution of the Basket Amounts, the Company's Proposal shall have been fully performed and the Trustee shall issue to Scholar's Choice and to the Official Receiver, the certificate referred to in section 65.3 of the BIA.
13. Upon distribution from the Proposal Fund, the Trustee shall have discharged its duties as Trustee and the Trustee shall be entitled to apply for its discharge as Trustee hereunder. For greater certainty, the Trustee will not be responsible or liable for any obligations of Scholar's Choice before, on or after the date of the NOI and will be exempt from any personal liability in fulfilling any duties or exercising any powers conferred upon it by the Proposal, except for those acts resulting from gross negligence or willful misconduct.

The description of the Proposal in this Report is a summary only and is provided to assist the creditors. In the event there is any inconsistency between this report and the Proposal, the terms of the Proposal shall govern. Creditors are advised to read the Proposal.

Section C – Financial Position and Causes of Difficulties

Causes of Insolvency

In the period leading up to the filing the NOI, the Company has been challenged by:

- i. the changing retail landscape and shift to on-line retail has hurt the Retail Business;

- ii. The Ontario teacher's dispute in early 2020 had a negative impact on sales in the 2020 fiscal year;
- iii. The Canadian rail blockade in early 2020 delayed delivery of needed inventory; and,
- iv. The Covid-19 pandemic required Scholar's Choice to temporarily shut down its retail stores and caused the closure of its primary customers (schools and childcare centers) which severely impacted revenues and cash flow.

Scholar's Choice lost almost \$1.0 million in the previous fiscal year ended December 31, 2019. As a result of the above the situation has deteriorated further in 2020. Accordingly, the Company filed the NOI.

Financial Position

Refer to Section "L" of this Report.

Operations

The Company has utilized the NOI and Proposal proceedings to restructure its business operations and balance sheet by permanently closing 13 of its 16 retail store locations, disclaiming the leases for those locations and making a compromise proposal to its Unsecured Creditors, including the Landlord Claims in respect of the disclaimed leases. If the Proposal is accepted, going forward, Scholar's Choice will focus its Retail Business operating from three (3) retail store locations in London, Winnipeg and Moncton (the locations will also function as regional distribution centers), continue to reach its customers using its Web Business and continue its Catalogue Business.

Disclaimer of Certain Agreements

Since the NOI filing the Company has issued a Notice to Lessor to Disclaim or Resiliate an Agreement (the "**Disclaimer Notices**") to 13 landlords and one party to a Pylon Sign Agreement pursuant to Section 65.11(1) of the BIA.

The Company has informed the Trustee that it has not received any objection to the Disclaimer Notices.

Section D – Interim Receiver

Not applicable since an interim receiver was not appointed.

Section E - Identification and Evaluation of Assets

A summary of assets based on recent financial information provided by the Company, as well as the Trustee's estimated liquidation values thereof at the date of the NOI includes accounts receivable, the Insurance Claim Proceeds, inventory, furniture and equipment and intangible assets. Section L includes a chart with the net book values of the assets and estimated realizations in a bankruptcy scenario.

A review of the Ontario Personal Property Security Registry shows five creditors who have registered general security against the Company's assets, as follows:

- Accord Financial Inc.;
- Business Development Bank of Canada;
- BDC Capital Inc.;
- Kegar Enterprises Ltd.; and
- Scott Webster.

This is in addition to seven registrations in favour of equipment lessors/financiers.

Accounts Receivable

Accounts receivable at the date of the NOI amounted to approximately \$373,000. The majority of this amount related to the Catalogue Business and was deemed collectible by management of the Company due to recent actual collections and nature of the accounts.

Insurance Claim

The Company has initiated a \$500,000 insurance claim. Although the timing and likelihood of success are not certain, management is confident the viability of the claim and has considered alternate funding arrangements to meet Proposal terms.

Inventory and Store Fixtures

As of the NOI filing, Inventory had a cost value of \$4.4 million. The Company entered into a consulting agreement with Tiger Asset Solutions Canada, ULC (“**Liquidation Consultant**”) to manage the liquidation of the inventory at the 13 retail locations to be closed, including removable store fixtures. The agreement with the Liquidation Consultant and the liquidation plan were approved by the Court. The liquidation commenced July 10, 2020 and the net proceeds have been used to pay down the Accord secured operating line. The inventory at the remaining 3 retail locations and the warehouse are being maintained in the ordinary course of operations.

Furniture and Equipment

Furniture and Equipment had a net book value of approximately \$272,000 at the date of the NOI. This generally includes retail store leasehold improvements, office furniture, computer equipment and warehouse equipment. Management estimates the liquidation value of these assets to be approximately \$100,000. Certain of the leasehold improvements have been liquidated during the NOI proceedings.

Intangible Assets

The Company’s Intangible Assets relate to trademarks and the website. The Trustee has not attempted to value these trademarks but it is assumed the value is within the Company only and the realizations would be minimal, if any, if marketed for sale.

Section F – Conduct of the Debtor

To date, Scholar’s Choice has provided the Trustee with its full co-operation and unrestricted access to its premises, books and records.

The Trustee has not, as at the date of this report, conducted a review of the Company's bank statements to determine whether there were any payments to related and unrelated parties in the twelve months and three months, respectively, prior to the date of the NOI which may be considered to be preferences and subject to review.

Section G – Creditors' Claims

According to the Company's records and valuation of Landlord Claims for disclaimed leases, pursuant to Section 65.2(4) of the BIA, the Company's creditors consist of the following:

Secured Creditors (as at date of NOI)

Accord Financial	\$ 2,518,099
BDC	562,500
Kegar Enterprises	1,252,594
Scott Webster	842,198
	<hr/>
	\$ 5,175,391

Preferred Creditors nil

Unsecured Creditors

Estimated Ordinary Creditor Claims	2,993,033
Estimated Landlord Claims	3,478,486
	<hr/>
	6,471,519
	<hr/>
Total	\$ 11,646,910

Claims in US dollars have been converted to CAD at the Bank of Canada exchange rate as June 30, 2020 (the NOI Date) of 1.36.

In addition to the above claims there are customer credits and outstanding gift card balances amounting to approximately \$1.0 million as of the NOI date. These balances are not compromised under the Proposal, which is consistent with industry practice and other restructuring proceedings.

Section H – Previous Business Dealings with the Debtor

Not applicable.

Section I – Informal Meetings with Major Creditors

Not applicable.

Section J – Remuneration of Trustee

The Trustee has received a retainer from the Company in the amount of \$20,000.

The terms of the Proposal provide for payment of Professional Fees by the Company as they become due. This is in addition to the Basket Amounts to be funded for the benefit of unsecured creditors pursuant to the terms of the Proposal.

Section K – Other

Not applicable.

Section L – Statement of Estimated Realizations

Proposal Accepted

If the Proposal is accepted the \$650,000 the Ordinary Creditors' Basket Amount will be distributed as follows:

- i. the lesser of (i) 100% of Proven Ordinary Claims, without interest, and (ii) \$750; and
- ii. a pro rata share of the balance of the Proven Ordinary Claims out of the balance of the Proven Ordinary Creditors' Basket Amount after payment of the amounts provided (i) above.

Based on the estimated Ordinary Creditor Claims of \$2,993,033 this would generate an average **distribution of 21.7% to creditors with Proven Ordinary Creditor Claims**. It is estimated that the largest Ordinary Creditors will receive approximately 15.5% and based on the terms above Ordinary Creditors with claims less than \$750.00 will receive the full value of their claims.

If the Proposal is accepted the \$350,000 Landlord Basket Amount will be distributed on a pro rata basis to all Landlords who have Proven Landlord Claims. Based on the estimated total Landlord Claims of \$3,478,486 this would generate a **distribution of approximately \$10.1% for landlords with Proven Landlord Claims**.

Proposal Not Accepted

If the Proposal is not accepted Scholar's Choice would become bankrupt on October 14, 2020 and the Company's assets would vest with the Trustee in Bankruptcy. All assets of the Company would remain subject to claims of the Secured Creditors, and it is estimated there would be a shortfall on these claims. **Therefore, all Unsecured Creditors will receive \$nil on their proven claims in a bankruptcy.**

The estimated realizable value of the Company's assets in a liquidation scenario is summarized as follows:

Educator Supplies Limited - Bankruptcy Liquidation Analysis

Assets	Net Book Value (NOI Date)	Estimated Realizations		Notes
		Low	High	
Accounts Receivable	\$ 373,000	\$ 298,400	\$ 373,000	1
Insurance Claim Proceeds	500,000	500,000	500,000	2
Inventory	4,417,000	1,870,000	2,337,000	3
Furniture and equipment	272,000	68,000	136,000	4
Intangible assets	-	-	-	5
Estimated gross realizations	5,562,000	2,736,400	3,346,000	
Secured creditor claims	5,175,391	5,175,391	5,175,391	
Shortfall to Secured Creditors		(\$ 2,438,991)	(\$ 1,829,391)	
Amount available for distribution in bankrupt		\$NIL	\$NIL	

Notes:

- 1 - It is estimated that 80% to 100% of accounts receivable would be collected. The discount in the low end scenario reflects normal collection risks in any bankruptcy proceeding.
- 2 - The full Insurance Claim proceeds are expected to be collectible in both scenarios.
- 3 - Inventory proceeds are based on Tiger Asset Solutions net estimated recoveries in the high end scenario less operating costs (payroll, rent, utilities, insurance, freight, etc) for an 8 week liquidation period, discounted by 20% in the low end scenario.
- 4 - Realizations for furniture and equipment have been arbitrarily estimated at 25% to 50% of net book value.
- 5 - No value has been ascribed to the intangible assets in either scenario.

As demonstrated above, we do not anticipate there would be any funds available for the unsecured creditors in a bankruptcy scenario.

For greater clarity, the Secured Creditors' charge does cover the Insurance Claim Proceeds; however, they have agreed to allow the proceeds to be used to fund the Proposal if it is accepted. The Employee Investment will only be made if and when the Proposal is accepted.

Section M – Recommendation

Based on financial information provided by the Company as set out herein, the Trustee believes that the amount available for distribution to the Company's Unsecured Creditors would be significantly higher if the Proposal is accepted by the Company's creditors, and approved by the Court, than in a bankruptcy scenario where there would be no anticipated funds available to the Unsecured Creditors.

Accordingly, the Trustee recommends that the Proposal be accepted by the Company's creditors in order to allow them to attempt to maximize their return from the Company's indebtedness to them.

Section N – Procedures for Dealing with Proposal and Completing a Proof of Claim

In completing the proof of claim form submitted herewith, creditors should only include all amounts outstanding as at June 30, 2020.

It is expressly noted and should be clearly understood that MNP Ltd., in its capacity as Trustee, assumes no personal liability for any claims against the Company before, on or after the filing of the NOI.

Creditors may attend, in person or by proxy, the meeting to consider the Proposal which will be held via webinar, on the 14th day of October, 2020 at 2:00 p.m. (EDT). Access coordinates to the meeting will be sent upon request following receipt of your Proof of Claim in order for the Trustee to maintain the attendance list for the meeting.

Please note that in order for your vote to count in connection with the Proposal, it is necessary that you complete and submit the enclosed documents at this time, including the Voting Letter and/or Proxy.

Creditors who do not wish to attend or to be represented at the meeting but who wish to vote, may forward their proofs of claim and voting letters to the Trustee so as to be received prior to the meeting.

Dated at London, Ontario this 14th day of September 2020.

MNP Ltd.

Solely in its capacity as Trustee

In the Proposal of Educator Supplies Limited

And not in its personal capacity

Per:

A handwritten signature in black ink, appearing to read 'Rob Smith', with a long, sweeping horizontal stroke at the end.

Rob Smith CPA, CA, CIRP, LIT

Senior Vice-President