

**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 THE BODY SHOP CANADA LIMITED, IN  
THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

**SECOND REPORT OF THE MONITOR  
ALVAREZ & MARSAL CANADA INC.**

**DECEMBER 9, 2024**

## **TABLE OF CONTENTS**

<b>1.0</b>	<b>INTRODUCTION.....</b>	<b>2</b>
<b>2.0</b>	<b>PURPOSE OF THIS REPORT .....</b>	<b>5</b>
<b>3.0</b>	<b>TERMS OF REFERENCE AND DISCLAIMER .....</b>	<b>7</b>
<b>4.0</b>	<b>SALE PROCESS.....</b>	<b>8</b>
<b>5.0</b>	<b>APPROVAL AND VESTING ORDER .....</b>	<b>17</b>
<b>6.0</b>	<b>DECLARATION ORDER .....</b>	<b>26</b>
<b>7.0</b>	<b>ASSIGNMENT ORDER .....</b>	<b>28</b>
<b>8.0</b>	<b>ANCILLARY ORDER.....</b>	<b>31</b>
<b>9.0</b>	<b>CASH FLOW RESULTS RELATIVE TO FORECAST .....</b>	<b>38</b>
<b>10.0</b>	<b>ACTIVITIES OF THE MONITOR.....</b>	<b>40</b>
<b>11.0</b>	<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>41</b>

## **APPENDICES**

**Appendix A – First Report of the Monitor (without appendices)**

**Confidential Appendix B – Sale Process Summary of Bids**

**Confidential Appendix C – Analysis of the Transaction**

## 1.0 INTRODUCTION

- 1.1 On March 1, 2024 (the “**Filing Date**”), The Body Shop Canada Limited (“**TBS Canada**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act (Canada)*, R.S.C. 1985, c. B-3 (the “**BIA**”) and Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed as Proposal Trustee of the Company (the “**Proposal Trustee**”).
- 1.2 On the Filing Date, TBS Canada was a subsidiary of The Body Shop International Limited (now known as TBSI Realisations Limited) (the “**UK Parent**”). Prior to the Company filing the NOI, on February 13, 2024, the UK Parent commenced administration proceedings in the United Kingdom (the “**UK Administration Proceeding**”) and individuals of the firm FRP Advisory Trading Limited were appointed as joint administrators of the UK Parent (collectively, the “**UK Administrator**”).
- 1.3 Facing a liquidity crisis and other challenges caused by the commencement of the UK Administration Proceeding, TBS Canada filed the NOI, commencing a proceeding (the “**NOI Proceeding**”) to provide the stability and flexibility necessary to evaluate its strategic alternatives and explore various going concern alternatives, while also commencing a closure of a subset of store locations.
- 1.4 On March 4, 2024, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granted an Order (the “**March 4 Order**”) which, among other things:

- (i) extended the time to file a proposal, and expanded and extended the stay of proceedings triggered under the BIA by the NOI filing, until and including April 16, 2024; and
  - (ii) approved the Administration Charge and the D&O Charge over the Property (each as defined in the March 4 Order).
- 1.5 On April 15, 2024, the Court granted an Order (the “**April 15 Order**”) which, among other things: (i) further extended the time for TBS Canada to file a proposal under the BIA to May 31, 2024; and (ii) approved the KERP and the KERP Charge (each as defined in the April 15 Order) over the Property.
- 1.6 On May 30, 2024, the Court granted an Order which, among other things, extended the time for TBS Canada to file a proposal under the BIA to July 12, 2024.
- 1.7 On July 5, 2024, the Court granted three orders:
  - (i) an order (the “**Initial Order**”) which, among other things:
    - (a) authorized the continuation of the NOI Proceeding under the *Companies’ Creditors Arrangement Act*, RSC 1985, c. C-36 (the “**CCAA**”, and such proceeding, the “**CCAA Proceeding**”) (the NOI Proceeding and CCAA Proceeding are collectively referred to herein as the “**Restructuring Proceedings**”);
    - (b) appointed A&M as the Monitor of the Company in the CCAA Proceeding (in such capacity, the “**Monitor**”);

- (c) granted a stay of proceedings up to and including October 8, 2024; and
  - (d) continued each of the Administration Charge, D&O Charge and KERP Charge (collectively, the “**Charges**”) in the CCAA Proceeding;
- (ii) an order (the “**Sale Process Order**”) which, among other things, approved a sale process for TBS Canada’s business and assets (the “**Sale Process**”), established formal procedures (the “**Procedures**”) and authorized the Company, with the assistance of the Monitor, to conduct the Sale Process; and
- (iii) an order which, among other things, terminated the NOI Proceeding, and discharged and released the Proposal Trustee.

1.8 On October 4, 2024, the Court granted an Order which, among other things:

- (i) extended the stay of proceedings up to and including December 13, 2024 (the “**Stay Period**”); and
- (ii) declared the UK Purchaser (as defined below) to be a critical supplier to the Company in accordance with Section 11.4 of the CCAA and granted the UK Purchaser a charge (the “**Critical Supplier Charge**”) on the Remaining DC Inventory (as defined in the First Report), ranking subordinate to the existing Charges.

1.9 In connection with the NOI Proceeding, the Proposal Trustee filed five reports with the Court. The Monitor filed a report on September 30, 2024 (the “**First Report**”, and together with the five Proposal Trustee reports, the “**Prior Reports**”). The Prior Reports and other

documents filed with the Court in the Restructuring Proceedings are available on the Monitor's case website at: [www.alvarezandmarsal.com/TheBodyShop](http://www.alvarezandmarsal.com/TheBodyShop) (the "Case Website"). A copy of the First Report (without appendices) is attached hereto as **Appendix "A"**.

## **2.0 PURPOSE OF THIS REPORT**

2.1 The purpose of this second report of the Monitor (the "**Second Report**") is to provide the Court with information and, where applicable, the Monitor's views on:

- (i) the proposed order (the "**Declaration Order**"), among other things, declaring that no party, including TBS Canada, the Monitor, the UK Purchaser and their respective directors, officers, employees and other representatives, shall have any liability or obligation, including in respect of any claims based on any statutory or common law right to rescission or damages, arising from the failure of TBS Canada, the Monitor or the UK Purchaser to provide Serruya Private Equity Inc. ("**SPE**"), the Purchaser Affiliate, the Purchaser (each as defined below), or any other party, and their respective directors, officers and shareholders, as applicable, with any disclosure that may be required under section 5 of the *Arthur Wishart Act (Franchise Disclosure)*, 2000, SO 2000, c. 3, or any similar provision in any other provincial franchise statutes or similar laws of any jurisdiction in Canada, solely in connection with the execution of the Franchise Agreement (as defined below) by the Purchaser;
- (ii) the proposed order (the "**Approval and Vesting Order**"), among other things:

- (a) approving the asset purchase agreement dated as of December 6, 2024 (the “**APA**”) between the Company and 1001072685 Ontario Inc. (the “**Purchaser**”), and the going concern transaction contemplated thereby (the “**Transaction**”);
  - (b) vesting in the Purchaser the Company’s right, title and interest in and to the assets described in the APA free and clear of any claims and encumbrances other than certain Permitted Encumbrances (as defined in the APA) as set out in the draft Approval and Vesting Order;
  - (c) sealing the unredacted APA and the Sale Process summary of bids and the Monitor’s analysis of the Transaction and comparison to liquidation scenarios at **Confidential Appendices “B”** and “**C**” attached hereto, respectively; and
  - (d) amending the title of the CCAA Proceeding upon TBS Canada’s official name change;
- (iii) the proposed order (the “**Assignment Order**”), among other things, assigning, conveying and transferring to the Purchaser the rights and obligations of the Company under the Material Agreements (as defined below);
- (iv) the proposed order (the “**Ancillary Order**”), among other things:
- (a) granting the Monitor expanded powers and certain additional protections;

- (b) declaring that the Company meets the criteria prescribed by Section 3.2 of the WEPP Regulations (as defined below) and that certain of the Company's former employees are eligible to receive payments under and in accordance with the WEPP Act (as defined below); and
- (c) extending the Stay Period to and including March 31, 2025;
- (v) the Company's cash flow results for the 10-week period ended November 29, 2024; and
- (vi) the activities of the Monitor since the date of the First Report; and
- (vii) the Monitor's conclusions and recommendations in connection with the foregoing.

### **3.0 TERMS OF REFERENCE AND DISCLAIMER**

3.1 In preparing this Second Report, A&M, in its capacity as the Monitor, has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Company and has held discussions with management of the Company and its legal counsel (collectively, the "**Information**"). Except as otherwise described in this Second Report:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CASs**") pursuant to the *Chartered Professional Accountants*



*Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

- (ii) some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

3.2 Future oriented financial information referred to in this Second Report was prepared based on the Company’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

3.3 This Second Report should be read in conjunction with the Affidavit of Jordan Searle, General Manager of the Company, sworn December 7, 2024 (the “**Seventh Searle Affidavit**”). Capitalized terms used and not defined in this Second Report have the meanings given to them in the Seventh Searle Affidavit.

3.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

#### **4.0 SALE PROCESS**

4.1 An overview of the Sale Process is set out below. It is recommended that readers also review the First Report (attached hereto without appendices as Appendix “A”) which includes additional information on certain events leading up to the formal commencement

of the Sale Process, including in respect of a consortium bidder lead by the Aurea Group, now known as The Body Shop International Limited (the “**UK Purchaser**”) being announced as the successful bidder in the UK Sale Process (as defined in the First Report).

4.2 On July 5, 2024, TBS Canada obtained the Sale Process Order, which formalized the Sale Process, established the Procedures, and authorized TBS Canada, with the assistance of the Monitor, to continue the Sale Process.

4.3 As described in the First Report, at the completion of the UK Sale Process the Company and the Monitor were advised that, consistent with the UK Purchaser’s global strategy for The Body Shop, the UK Purchaser’s intention was to transition the Canadian business from a corporate operated subsidiary into a “franchise market”.

4.4 Accordingly, the Sale Process in respect of TBS Canada’s assets and business was specifically designed having this franchise structure in mind and that potentially interested parties would be required to address certain unique factors and potential business risks when evaluating a transaction, including, among others things, that the purchaser would be required to:

- (i) enter into a franchise agreement (or similar arrangement) with the UK Purchaser, such that it could continue to operate as “The Body Shop”, sell “The Body Shop” branded goods, and utilize other intellectual property, all of which is now owned by the UK Purchaser;
- (ii) negotiate a new pricing and/or royalty structure and related payment terms for the purchase of branded inventory from the UK Purchaser, which will change the future

profitability of the business as compared to historical results when TBS Canada (as a corporate subsidiary) was able to purchase inventory at original cost value; and

- (iii) establish an entirely new operating platform for the business to replace the critical shared services previously provided by the UK Parent, including IT, accounting, finance, logistics and other key services.

4.5 On September 6, 2024, upon receiving confirmation that the UK Purchaser had closed its transaction with the UK Parent, the Monitor distributed a process letter (the “**Process Letter**”)<sup>1</sup> to each of the parties who were active in the Sale Process and additional parties that were identified as potential purchasers. The Monitor also posted the Process Letter to the Case Website and served the Process Letter on the Service List.

4.6 Among other things, the Process Letter: (i) established key milestones, including setting the Bid Deadline of October 8, 2024; (ii) set-out the process for submitting a Bid; (iii) invited parties, with the assistance of the Monitor, to advance a potential franchise arrangement with the UK Purchaser; and (iv) advised parties of a November 15, 2024 outside date for the Sale Process (the “**Outside Date**”).

4.7 The Company, with the assistance of the Monitor, conducted the Sale Process in accordance with the Sale Process Order and the Procedures. As detailed further below, certain of the milestones set out in the Process Letter were extended to allow further time for Interested Parties (as defined below) and the UK Purchaser to formalize the required

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<sup>1</sup> A copy of the Process Letter was attached as Appendix “B” to the First Report

franchise agreement and implement other required steps, including negotiating certain transition services arrangements.

#### Sale Process Results

- 4.8 During the Sale Process, the Monitor contacted 55 parties regarding the opportunity (the “**Interested Parties**”) and provided a teaser document setting out a summary of the “The Body Shop” business, an outline of the Procedures, and additional information regarding the unique franchise component of the process (the “**Teaser**”). The Monitor also posted the Teaser to the Case Website and published a notice of the Sale Process with *Insolvency Insider*.
- 4.9 The Interested Parties included Canadian, U.S., and international investors, private equity firms and retail operators, and parties who had previously contacted either the Monitor, the UK Parent and/or the UK Purchaser to express an interest in the opportunity to acquire TBS Canada.
- 4.10 Of the 55 Interested Parties contacted, 21 executed a non-disclosure agreement (“**NDA**”). Beginning in mid June 2024, upon executing the NDA, parties (including SPE) were provided with access to an electronic data room containing, among other things:
- (i) historical and projected financial and operational information, employee information, material contracts and agreements, and other detailed diligence information;
  - (ii) a template form of asset purchase agreement to be marked up and submitted as part of a Bid in accordance with the Procedures; and

- (iii) certain franchise related information provided by the franchise representatives of the UK Parent (whose employment was subsequently assumed and continued by the UK Purchaser) (the “**UK Franchise Group**”), including the standard form of franchise agreement and certain pricing information (i.e., an inventory pricing list for franchise partners) that pertained to the go-forward pricing arrangements that the UK Purchaser was willing to offer.

4.11 During the Sale Process, the Company and the Monitor worked diligently with the Interested Parties to respond to all questions and inquiries received in respect of the business to ensure that the Interested Parties had the information necessary to submit a Bid.

4.12 Over the course of the Sale Process, seven Interested Parties participated in various diligence meetings with TBS Canada, the UK Franchise Group and the UK Purchaser. The Monitor attended each of these initial meetings to ensure that they were properly supervised during the Sale Process. These meetings included certain of the Interested Parties meeting with:

- (i) TBS Canada’s management team to advance their understanding of the business and market in Canada;
- (ii) representatives from the UK Franchise Group to advance their understanding of the intended franchise arrangements, pricing structure and go-forward business strategy; and

- (iii) representatives from the UK Purchaser to advance their understanding of the new owners of the business and their strategic plans and vision of the Canadian and global “The Body Shop” business going forward.

4.13 On or prior to the Bid Deadline of October 8, 2024, the Monitor received four Bids. A summary of the Bids is set out in **Confidential Appendix “B”**, and can be summarized as follows:

- (i) two Bids were delivered in accordance with the requirements set out in the Procedures and the Process Letter, each of which contemplated purchasing the assets and business of TBS Canada and entering into a franchise agreement with the UK Purchaser (the “**Qualified Bids**”)<sup>2</sup>;
- (ii) one Bid contemplated establishing a joint venture arrangement, whereby the Interested Party would partner with the UK Purchaser to continue the business and operations of TBS Canada on a going-concern basis; and
- (iii) one Bid was in the form of a preliminary expression of interest but did not otherwise comply with the key requirements set out in the Procedures for “Qualified Bids”, did not provide for any meaningful consideration and was contingent on further diligence.

4.14 Following the Bid Deadline, the Company and the Monitor continued to hold discussions with the UK Purchaser to advance the Sale Process, and in particular to determine whether

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<sup>2</sup> As of the Bid Deadline, only one Qualified Bid included a deposit as required by the Process Letter, but the Company, in consultation with the Monitor, determined it was appropriate to waive this requirement.

either of the two parties who submitted the Qualified Bids could complete a franchise arrangement with the UK Purchaser (the “**Qualified Bidders**”).

4.15 The Monitor understands that, in the weeks following the Bid Deadline, each of the Qualified Bidders continued to engage in discussions with the UK Purchaser and negotiate various terms of a potential franchise arrangement, including but not limited to:

- (i) establishing certain guidelines in respect of operations, marketing, merchandising and intellectual property under the franchise arrangement;
- (ii) the pricing and payment terms of go-forward inventory purchases; and
- (iii) the terms of a transition services agreement that would be required to ensure that certain critical services would continue to be provided by the UK Purchaser for an interim period following the closing of a transaction.

4.16 The negotiations between the Qualified Bidders and the UK Purchaser continued into November. As the Outside Date of November 15, 2024 was approaching and it was not clear that either of the Qualified Bidders would eventually succeed in entering into a franchise agreement, the Company and the Monitor re-engaged with certain of the Interested Parties who had expressed an interest in the opportunity to determine if an alternative transaction would be more beneficial to the Company.

4.17 On or around the week of November 11, 2024, TBS Canada and the Monitor held discussions with a small group of Interested Parties and a small group of new participants to explore if any of these parties could offer a more attractive transaction when considering, among other things, valuation, certainty of closing and continuity of employment for the

employees. The Monitor also understands that during this time, the UK Purchaser held discussions with certain parties about a potential franchise agreement. During this time, the Monitor did not receive any further Bids that were actionable within the Stay Period or that offered certainty of closing.

4.18 Ultimately, on or around November 18, 2024, the UK Purchaser advised the Company and the Monitor that they had agreed to the key terms of a franchise arrangement with one of the Qualified Bidders, being an affiliate of the Purchaser (the “**Purchaser Affiliate**”). At the same time, the Monitor understands that the UK Purchaser continued to have open dialogue with the other Qualified Bidder and with certain other parties regarding a potential alternative transaction.

4.19 With this information, the Company and the Monitor further engaged with the Purchaser Affiliate on its proposal, including expediting a revised term sheet with the Purchaser Affiliate setting the principal terms and conditions of a transaction (the “**Term Sheet**”). On November 20, 2024, the Purchaser Affiliate and TBS Canada, in consultation with the Monitor, executed the Term Sheet. Compared to the original Bid submitted by the Purchaser Affiliate, the Term Sheet was adjusted to account for: (i) the new anticipated closing date and the lower inventory position forecast on close (which arose as a result of TBS Canada having had the benefit of selling inventory and retaining the applicable proceeds during this additional period); and (ii) additional diligence completed by the Purchaser following delivery of its initial Bid.



- 4.20 During the week of November 25, 2024, the UK Purchaser and the Purchaser finalized the terms of a franchise agreement that would allow the “The Body Shop” business to continue to operate in Canada (the “**Franchise Agreement**”)
- 4.21 As described in further detail in the Seventh Searle Affidavit, notwithstanding the execution of the Term Sheet and that the UK Purchaser and Purchaser had settled the terms of a franchise agreement, the UK Purchaser informed the Monitor and the Company on November 26, 2024 that it was not prepared to execute the Franchise Agreement as: (i) it was not in a position to provide the necessary franchise disclosure document (“**FDD**”) to the Purchaser, as may be required under certain provincial franchise legislation, and (ii) the FDD would likely take several weeks to several months to prepare and deliver to the Purchaser. The Monitor understands that, under Canadian franchise laws, a franchisor is statutorily obligated to provide a potential franchisee with a FDD containing all material facts, including any prescribed information and documents in one or more of the applicable provincial franchise statute, at least 14 days prior to the earlier of the franchisee signing the franchise agreement or the payment of consideration on behalf of the prospective franchisee. The Monitor further understands that the provincial franchise legislation may invalidate a prospective waiver of the obligation to deliver the FDD, but there are circumstances in which the FDD is not required, including circumstances where the total investment made by the franchisee exceeds a monetary threshold or when the franchise is sold by a bankruptcy trustee or similar party, but that the exemption framework is inconsistent between provinces and carries some risk for the parties.
- 4.22 As described in further detail below, to address the potential franchise disclosure issues in a manner that permitted the Transaction to be advanced and close in a timely manner, the

Company, the Monitor, the Purchaser, and the UK Purchaser worked collaboratively to determine a path forward. The result of those discussions is reflected in the relief sought in the Declaration Order, specifically providing assurance that each of the parties will be insulated from any rescission or damage claims, including any claims advanced on the basis that any of the parties were acting as a “broker” or a “franchisor’s associate”, arising from non-compliance with franchise disclosure obligations. As described below, the relief requested in the Declaration Order is supported by all of the parties, including the Purchaser, who has agreed to provide a release which will become effective concurrent with the execution of the Franchise Agreement.

- 4.23 With the granting of the Declaration Order included as a condition precedent to the closing of the Transaction, the Purchaser and TBS Canada, in consultation with the Monitor, executed the APA on December 6, 2024 with a prospective closing date of December 16, 2024. The Monitor believes that if the relief sought in the Declaration Order is granted it will preserve the numerous benefits to TBS Canada’s stakeholders that are anticipated to arise as a result of the Transaction.

## **5.0 APPROVAL AND VESTING ORDER**

### The APA

- 5.1 The APA is described in detail in the Seventh Searle Affidavit, to which a redacted copy of the APA is attached as Exhibit D. Certain key terms of the APA are summarized in the following table:

APA <sup>3</sup>	
<b>Parties</b>	<ul style="list-style-type: none"> <li>• The Body Shop Canada Limited (as “<b>Seller</b>”).</li> <li>• 1001072685 Ontario Inc. (as “<b>Purchaser</b>”). The Purchaser is an affiliate of Serruya Private Equity.</li> </ul>
<b>Purchase Price</b>	<ul style="list-style-type: none"> <li>• An analysis of the Purchase Price is included in <b>Confidential Appendix “C”</b>.</li> <li>• The Purchase Price is confidential and has been redacted from the APA attached to the Seventh Searle Affidavit.</li> <li>• The Monitor notes that the Purchase Price is comprised of (i) cash consideration for the purchase of inventory and other assets; and (ii) the assumption of the Assumed Liabilities.</li> </ul>
<b>Purchased Assets</b>	<ul style="list-style-type: none"> <li>• A minimum number of store locations to be retained by the Purchaser (“<b>Purchased Locations</b>”) and the assumption of the real property leases for each such location. The minimum number of Purchased Locations is confidential and has been redacted from the APA attached to the Seventh Searle Affidavit.</li> <li>• The property and assets including: <ul style="list-style-type: none"> <li>(i) inventory;</li> <li>(ii) equipment, fixtures furniture, furnishings, accessories and other fixed assets;</li> <li>(iii) rights under leases for motor vehicles and real property leases;</li> <li>(iv) petty cash, deposits and prepaid expenses;</li> <li>(v) Assumed Contracts;</li> <li>(vi) express consents under privacy and anti-spam law; and</li> <li>(vii) all books and records apart from those required by law to be retained by Seller.</li> </ul> </li> </ul>
<b>Assumed Liabilities</b>	<ul style="list-style-type: none"> <li>• The Purchaser will assume the following liabilities: <ul style="list-style-type: none"> <li>(i) all liabilities under the Assumed Contracts accrued from and after the Time of Closing;</li> <li>(ii) all Cure Costs, other than Cure Costs in respect of the Leases for the Purchased Locations;</li> <li>(iii) all Priority Payables relating to Transferred Employees, including accrued vacation amounts and all amounts related to Transferred Employees accruing after the Closing; and</li> <li>(iv) all liabilities with respect to the Purchased Assets from and after the Time of Closing.</li> </ul> </li> </ul>
<b>Excluded Assets</b>	<ul style="list-style-type: none"> <li>• The Purchased Assets do not include the following: <ul style="list-style-type: none"> <li>(i) all cash and cash equivalents of the Seller (other than petty cash);</li> <li>(ii) all securities of Seller, whether held by Seller or in the equity of Seller;</li> <li>(iii) the rights of Seller as lessee of real property for the Excluded Locations and all Leases and leasehold improvements related thereto;</li> <li>(iv) all Accounts Receivable accruing up to the Closing Date;</li> <li>(v) any intercompany Accounts Receivable owing to Seller by any of its current or previous Affiliates at any time;</li> <li>(vi) the rights of Seller under the APA;</li> <li>(vii) the rights of Seller as against (1) the UK Parent or its current or former Affiliates, directors or officers, including any claim against the UK Parent in</li> </ul> </li> </ul>

<sup>3</sup>

Capitalized terms used in this table and not otherwise defined herein have the meanings given to such terms in the APA. This chart is provided as a summary only and parties should refer to the APA for further details regarding the Transaction.

APA <sup>3</sup>	
	<p>the UK Administration; and (2) Aurelius Investment Lux One SARL, Aurelius IV UK Acquico Seven Limited, Aurelius IV UK Acquico Eight Ltd., or any of their affiliates;</p> <p>(viii) any bank accounts of Seller;</p> <p>(ix) the Payment Terminals located at the Excluded Locations unless otherwise designated under the APA;</p> <p>(x) books and records required to be retained at Law;</p> <p>(xi) income tax installments and the right to any refund of income tax; and</p> <p>(xii) the property and assets of Seller described in Schedule 2.2(o) of the APA.</p>
<b>Employees</b>	<ul style="list-style-type: none"><li>• The Transaction will preserve continued employment for employees working at Purchased Locations and certain of the employees located at the Company's head office.</li><li>• In aggregate, the Monitor estimates that in excess of 400 employees plus approximately 100 seasonal workers will continue to be employed by the Purchaser.</li></ul>
<b>Closing Date</b>	<ul style="list-style-type: none"><li>• Anticipated to be December 16, 2024.</li></ul>
<b>Outside Date</b>	<ul style="list-style-type: none"><li>• Subject to section 9.1 of the APA, the agreement may be terminated by written notice from the Seller or the Purchaser if closing has not occurred on or before December 17, 2024 (or such later date as the Parties may agree).</li></ul>

5.2 The Monitor notes the following with respect to the APA and the Transaction:

- (i) the proposed APA and the Transaction are the result of: (a) an extensive Sale Process that was conducted by TBS Canada and the Monitor, in consultation at relevant times with the UK Purchaser, which canvassed a broad group of potential purchasers; (b) significant negotiations among TBS Canada, the Purchaser, the Monitor and their respective counsel; and (c) extensive engagement between the Purchaser and the UK Purchaser;
- (ii) as described above, the Transaction: (a) contemplates that the Purchaser will acquire TBS Canada's right, title and interest in and to certain agreements, including leases for at least a minimum number of Purchased Locations; (b) provides for the preservation of the "The Body Shop" business in Canada as a going concern; and (c) will maintain the continued employment for a substantial

number of the Company's store level and head office employees, which the Monitor estimates will be in excess of 400 of the Company's employees, plus approximately 100 seasonal workers;

- (iii) the Transaction proceeds, together with the Company's cash on hand at the time of closing, will be delivered to the Monitor on or subsequent to closing (the "**Proceeds**"). The Proceeds will be held by the Monitor, subject to the costs associated with administering the CCAA Proceeding, for the benefit of the TBS Canada estate. Provided that the proposed Declaration Order, Approval and Vesting Order, Assignment Order and Ancillary Order are granted, the Monitor intends to seek the Court's approval to commence and conduct a process for the solicitation, determination and resolution of claims against TBS Canada and their present and former directors and officers (the "**Anticipated Claims Process**"). The Anticipated Claims Process will inform any future distribution of the Proceeds to TBS Canada's creditors;
- (iv) in addition to the Proceeds noted above, TBS Canada's creditors may also benefit from any recovery received in connection with TBS Canada's claim against the UK Parent in the UK Administration Proceeding. The Monitor has been advised by the UK Administrator that the potential quantum and timing of any dividend to creditors of the UK Parent (TBSI Realisations Limited (in administration)) is currently unknown, but any distributions may take in excess of 18 months because:
  - (a) a component of the consideration paid by the UK Purchaser is deferred and not due until August 2025; and
  - (b) certain additional costs continue to be incurred by the UK Parent, and certain additional steps are required to be performed by the UK

Parent before it can enter into a liquidation process to facilitate distributions to creditors;

- (v) the Transaction represents the sole going concern transaction identified in the Sale Process that is capable of being consummated in the circumstances; and
- (vi) in light of each of the foregoing, the Monitor is of the view that the Transaction, including the consideration being provided by the Purchaser, is fair and reasonable in the circumstances.

5.3 The Monitor further notes that, in order to avoid significant harms to TBS Canada's business and stakeholders, it is imperative that the proposed Transaction be capable of closing upon the timeline sought as, among other things: (i) closing of the Transaction will preserve the employment of a significant majority of TBS Canada's employees and permit the terminated employees to access relief under the WEPP Act; (ii) TBS Canada's current access to certain of the shared services historically provided by the UK Parent expires at the end of the 2024 calendar year; (iii) TBS Canada does not currently have sufficient inventory on hand for the 2025 calendar year and would be required to incur further costs to continue to replenish inventory; (iv) several of the leases in respect of TBS Canada's stores are either currently expired or will expire in the beginning months of 2025 and such landlords may look to replace TBS Canada as the tenant in these locations; and (v) due to the seasonal nature of TBS Canada's business, the Monitor expects significant difficulty in identifying a going concern transaction following close of the winter holiday season. Alternatively, if the Transaction is not capable of closing on the timeline sought, it may

result in the TBS Canada being required to commence a liquidation process, to the detriment of several of its stakeholder groups.

- 5.4 The Monitor understands that the Purchaser and the UK Purchaser have now settled the terms of a franchise agreement for the Purchaser to continue the operations of the business of TBS Canada as a franchise in Canada. While the Monitor and TBS Canada have been kept apprised of the high-level terms and status of these negotiations, they are not parties to the Franchise Agreement and have no involvement in the granting of the franchise rights, nor made any representations in respect of the business operated, pursuant to the Franchise Agreement.
- 5.5 The Monitor further understands that, due to timing constraints, the parties are unable to meet certain disclosure obligations that may be applicable under Canadian franchise law, and that failure to comply with these disclosure obligations could potentially result in liability for the Monitor, TBS Canada, and the UK Purchaser. Accordingly, it is a condition to closing of the Transaction that TBS Canada obtain the Declaration Order, among other things, protecting these parties from any personal liability they may incur in relation to the non-disclosure.

#### Approval and Vesting Order

- 5.6 Pursuant to the proposed Approval and Vesting Order, TBS Canada is seeking the approval of the APA and the Transaction, and the vesting of all of the property and assets described in section 2.1 of the APA (collectively, the “**Purchased Assets**”) in and to the Purchaser free and clear of all claims and encumbrances other than the Permitted Encumbrances. Such vesting shall be effective upon the delivery by the Monitor to TBS Canada and the

Purchaser, or their respective counsel, of a certificate (the “**Monitor’s Certificate**”) confirming that the Monitor has received written confirmation from the Purchaser and TBS Canada, and the Monitor is satisfied, that all closing conditions have been satisfied or waived by the applicable parties.

- 5.7 In addition, issuance of the Monitor’s Certificate is conditional on repayment of all amounts owing under the Critical Supplier Charge secured upon the Remaining DC Inventory. Concurrently and upon closing, TBS Canada will remit payment to the UK Purchaser of approximately \$1.2 million, being the remaining amounts owing for the Remaining DC Inventory, and the UK Purchaser will discharge and release any claim it may have against TBS Canada or the Purchaser in respect of the Remaining DC Inventory and the Critical Supplier Charge will be discharged.

KERP Payment and Discharge of the KERP Charge

- 5.8 As set out above, pursuant to the April 15 Order, the KERP was approved and the KERP Charge was granted on TBS Canada’s present and future assets. The KERP and KERP Charge were continued in the CCAA Proceeding pursuant to the Initial Order.
- 5.9 The KERP contemplated that it would be paid in multiple installments, with the final installment being payable upon closing of a transaction that resulted in the continued operation of all or substantially all of the stores operated by the Company. The Transaction satisfies this criterion and, accordingly, the final installment under the KERP will become payable upon closing of the Transaction.



- 5.10 The Approval and Vesting Order provides that, upon payment by TBS Canada of the final installment under the KERP, the KERP Charge shall be discharged and released as against the Property. The Monitor anticipates that the Company will have sufficient funds on hand at the time of closing of the Transaction to satisfy the remaining amounts due under the KERP and that the Company will make such payment in connection with the final payroll.

Impact on Unsecured Creditors

- 5.11 Certain pre-filing amounts owing to vendors and other amounts that may become owing to unsecured creditors (such vendors and unsecured creditors, the “**Affected Creditor Group**”) are excluded from the Transaction and will not be assumed by the Purchaser.
- 5.12 As of the date of this Second Report, based on the information available to the Monitor, the aggregate amount owing to the Affected Creditor Group is anticipated to be in the range of approximately \$11.5 million to \$12.5 million. Such indebtedness is comprised of: (i) amounts owing to pre-filing trade vendors (approximately \$4 million); (ii) existing lease termination claims and employee termination and severance claims relating to the March 2024 closure of 33 store locations; (iii) potential lease termination claims and employee termination and severance claims relating to locations that are not Purchased Locations; and (iv) other potential unsecured claims.
- 5.13 To evaluate the proposed Transaction and compare the expected monetary result on the Affected Creditor Group under the proposed Transaction to a bankruptcy, the Monitor prepared an illustrative wind-down and liquidation analysis using available information. A copy of this illustrative wind-down and liquidation scenario and comparative analysis is set out in the Confidential Appendix “C” attached hereto.

- 5.14 The Monitor is of the view that the proposed Transaction is superior to a bankruptcy as:
- (i) the Transaction is estimated to provide a similar or higher economic recovery to the Affected Creditor Group as they would otherwise receive in a bankruptcy liquidation scenario, as outlined in Confidential Appendix “C”; and
  - (ii) the Transaction also provides incremental going concern benefit to the majority of TBS Canada’s stakeholders, including in excess of 400 employees plus additional seasonal workers which will be offered terms of continued employment, landlords in respect of the Purchased Locations, counterparties to the Assumed Contracts, and other third-party stakeholders who will have the opportunity to continue to transact with the Purchaser in the future.

Sealing of the Unredacted APA and Confidential Appendices “B” and “C”

- 5.15 The Monitor has been advised by counsel to the Purchaser that the Purchaser considers the purchase price contemplated by the APA to be highly confidential and commercially sensitive information. Further, in the event that the Transaction does not close, the Company and the Monitor believe that disclosure of the purchase price and the liquidation analysis may materially impair their ability to negotiate an alternative transaction.
- 5.16 On that basis the Monitor supports the relief sought in the Approval and Vesting Order, sealing the unredacted APA and Confidential Appendices “B” and “C” attached hereto until closing of the Transaction. Following closing of the Transaction, the Monitor intends to make available copies of the unredacted APA and Confidential Appendices on the Case Website.

Name Change

5.17 To avoid confusion with the Purchaser, TBS Canada has agreed to, among other things:

- (i) use commercially reasonable efforts to, effective after closing of the Transaction, change its name to a name which does not include the words “The Body Shop” or any part thereof or any similar words; and
- (ii) seek an order in the CCAA Proceeding to change the style of cause in the CCAA Proceeding to reflect the change of TBS Canada’s name.

5.18 TBS Canada has determined that the Company’s name will be changed to “Old TBS Canada Limited” upon the filing of the Monitor’s Certificate.

5.19 In accordance with the terms of the APA, TBS Canada seeks to amend the style of cause in the CCAA Proceeding, pursuant to the proposed Approval and Vesting Order and effective upon delivery of the Monitor’s Certificate. Such amendment will reflect the Company’s name change.

5.20 Given the likelihood for confusion following closing of the Transaction, the Monitor is supportive of the Company’s request that the style of cause in the CCAA Proceeding be amended upon the official change of its legal name to Old TBS Canada Limited.

**6.0 DECLARATION ORDER**

6.1 As a condition to the Transaction, TBS Canada is seeking the Declaration Order for a declaration that no party, including TBS Canada, the Monitor and the UK Purchaser, or any of their affiliates, shall have any liability in connection with the failure to provide SPE,

the Purchaser, the Purchaser Affiliate or any other party entitled to disclosure with any disclosure that may be required by applicable Canadian franchise laws.

6.2 The Monitor is supportive of the proposed relief sought in the Declaration Order as, among other reasons:

- (i) granting of the relief is the sole means available to provide for an expedited closing of the Transaction, necessary to obtain the benefits and avoid the harms previously noted in section 5.2 and 5.3 herein, including principally the preservation of employment for in excess of 400 employees plus seasonal workers and the continued operation of a material number of retail locations;
- (ii) the relief, if granted, is not expected to adversely impact any of TBS Canada's stakeholders;
- (iii) the UK Purchaser has identified the Purchaser as its preferred franchisee for the "The Body Shop" business in Canada following significant negotiations and is unwilling to enter into the Franchise Agreement on the timeline requested without the Declaration Order;
- (iv) the Purchaser, as the beneficiary of the disclosure obligations under Canadian franchise laws, is affiliated with SPE, a sophisticated entity with substantial experience in franchise arrangements and has indicated its support of the relief sought in the Declaration Order, as set out in the Affidavit of Michael Serruya sworn December 6, 2024. The Monitor understands that the Purchaser and certain

related parties have agreed to execute a release to be effective concurrent with execution of the Franchise Agreement to confirm this position; and

- (v) the Purchaser, through the Purchaser Affiliate, began its diligence of the Company in mid June 2024, has been engaged in discussions with the UK Purchaser since mid September 2024, and has provided evidence confirming that it is comfortable with the level of information received and does not require any further disclosure (in the form of a FDD or otherwise) to make an informed investment decision.

## **7.0 ASSIGNMENT ORDER**

- 7.1 In connection with, and as a condition to, the proposed Transaction, TBS Canada is seeking approval of the proposed Assignment Order which, among other things, orders that all of the rights and obligations of the Company under the contracts listed on Schedule “A” to the Assignment Order (the “**Material Agreements**”) shall be assigned, conveyed, transferred and assumed by the Purchaser, notwithstanding any restriction or prohibition contained in any such Material Agreement relating to the assignment thereof.
- 7.2 Several of the Material Agreements require a consent, approval or waiver from the agreement counterparty for the assignment of such Material Agreement (such consents, the “**Third Party Consents**”). Pursuant to the terms of the APA, TBS Canada and the Purchaser must use commercially reasonable efforts to obtain all Third Party Consents required to assign the Material Agreements.

- 7.3 Given the relatively short timeframe between the execution of the APA and the proposed date of closing for the Transaction (the “**Closing Date**”), the Company is not confident that it will be capable of obtaining all of the Third Party Consents required. Accordingly, TBS Canada is seeking the Assignment Order pursuant to Section 11.3 of the CCAA, assigning to the Purchaser the Material Agreements for which TBS Canada has not yet obtained the requisite Third Party Consent.
- 7.4 The proposed Assignment Order requires that amounts owing in respect of monetary defaults under any of the Material Agreements requiring a Third Party Consent which remain outstanding as of the Closing Date, other than those arising by reason only of the Company’s insolvency, the commencement of this CCAA Proceeding, or the Company’s failure to perform a non-monetary obligation (collectively, “**Cure Costs**”), be paid in order for such Material Agreement to be assigned to the Purchaser pursuant to the Assignment Order. Pursuant to the terms of the APA, the Purchaser and the Company have agreed that the Cure Costs for the Material Agreements shall be assumed by the Purchaser, other than with respect to any Cure Costs payable under the leases relating to the Purchased Locations. The Monitor has prepared an analysis of the Material Agreements and estimates that approximately \$600,000 will be payable in Cure Costs, all of which relates to the leases in respect of the proposed Purchased Locations (subject to adjustment once the list of Purchased Locations is finalized).
- 7.5 The Monitor has worked with the Company to ensure that the counterparties to the Material Agreements will be served with copies of the materials relating to the Transaction and the Assignment Order.

- 7.6 As discussed in the Seventh Searle Affidavit, the Purchaser Affiliate has a track record of success in the retail industry and has founded or acquired a number of companies of comparable size in the past. The Monitor understands that the Purchaser will be supported by SPE in connection with the Transaction and post-closing. The UK Purchaser has also indicated its support of the Purchaser's selection as a franchisee of The Body Shop for the Canadian operations. The Purchaser has demonstrated its commitment to closing the Transaction, including by providing the Monitor with a substantial deposit. Additionally, the Monitor is satisfied that the Purchaser has sufficient capital to fund the ongoing operations of the business. The Purchaser, together with the support of SPE, has not provided the Monitor with any reason to suggest it will be unable to satisfy its obligations under the Material Agreements on a go-forward basis following the closing of the Transaction.
- 7.7 As set out in the Seventh Searle Affidavit, the assignment of the Material Agreements for which Third Party Consents remain outstanding is necessary for the Purchaser to operate the "The Body Shop" business in Canada post-closing and the Purchaser has evidenced its intention to perform under the Material Agreements on a go-forward basis following the closing of the Transaction. As noted above, the assignment of the Material Agreements, through the relief sought in the Assignment Order, as applicable, is a condition under the APA and necessary for the completion of the Transaction.
- 7.8 The Monitor is supportive of the relief sought in the Assignment Order as: (a) each of the Material Agreements, including the leases to the Purchased Locations, have been identified by the Purchaser as necessary to the continued operation of TBS Canada's business and are required by the Purchaser to avoid an operational disruption following closing of the

Transaction; (b) the proposed Assignment Order is a condition to the proposed Transaction and provides for payment of Cure Costs such that any counterparty to a Material Agreement would not be prejudiced by the granting of the Assignment Order; and (c) TBS Canada, with the assistance of the Monitor, has worked to ensure the counterparties to the Material Agreements have been provided copies of the materials relating to the Transaction and the Assignment Order.

## **8.0 ANCILLARY ORDER**

### Expanded Powers

8.1 The Monitor understands that following the closing of the Transaction, TBS Canada's director and officers intend to resign. The proposed Ancillary Order therefore expands the Monitor's powers to facilitate the effective and efficient administration of TBS Canada following the closing of the Transaction, the completion of the CCAA Proceeding (or any subsequent proceeding) and the wind-down of TBS Canada. Specifically, and in addition to the Monitor's powers and duties under the Initial Order or any other order of the Court in the CCAA Proceeding, the CCAA and applicable law, effective upon the delivery of the Monitor's Certificate, the Monitor will be authorized and empowered, but not required to, among other things:

- (i) take any and all actions and steps, and execute all agreements, documents, instruments and writings, on behalf of, and in the name of, the Company in order to facilitate the performance of any of TBS Canada's powers or obligations, including, without limitation, under the APA and the Transaction (including any



post-closing matters) or any order of the Court, and to carry out the Monitor's duties under the Ancillary Order or any other order of the Court in the CCAA Proceeding;

- (ii) sign such agreements, instruments and other documents on behalf of TBS Canada as the Monitor deems appropriate, whether in the Monitor's name or in the name of and on behalf of TBS Canada and execute administrative filings as may be required on behalf of TBS Canada, including the accounting, tax and reporting functions on behalf of, and in the name of, TBS Canada, in each case based solely upon information in TBS Canada's Books and Records, and provided that the Monitor shall incur no liability or obligation to any person with respect to such filings, reporting, statements and records;;
- (iii) exercise any powers which may be properly exercised by a board of directors of TBS Canada;
- (iv) conduct, supervise and direct the continuation or commencement of any process or effort to collect or recover any Property or other assets of TBS Canada (including any accounts receivable or cash) and to sell or dispose of such Property or other assets in accordance with the Orders of this Court in this CCAA Proceeding, including by filing any claim against the UK Parent in the UK Administration Proceeding;
- (v) meet and consult with current or former management of: (a) TBS Canada and/or its affiliates; or (b) the Purchaser and its affiliates, or any of their respective advisors, with respect to the carrying out of its powers and obligations under this Order or any other Order of this Court in this CCAA Proceeding;

- (vi) engage, retain, or terminate or cause TBS Canada to engage, retain or terminate the services of any employee, consultant, agent, representative, advisor, or other persons or entities, as the Monitor deems necessary or appropriate to assist with the exercise of the Monitor's powers and duties, including as such powers and duties are enhanced under the Ancillary Order;
- (vii) perform or cause TBS Canada to perform such other functions or duties, and enter into or cause TBS Canada to enter into any agreements, disclaim or terminate any agreements or incur any obligations, as the Monitor considers necessary or desirable in order to facilitate or assist the winding-down or liquidation of TBS Canada, the realization and/or sale of all of the Property not transferred pursuant to the Approval and Vesting Order, the distribution of any net proceeds of such Property and/or the Transaction, or any other related activities, including, without limitation, in connection with (a) developing and conducting a process for the solicitation, determination and resolution of claims against TBS Canada and their present and former directors and officers, (b) monetizing claims against TBSI Realisations Limited; and (c) terminating the CCAA Proceeding;
- (viii) exercise any shareholder, partnership, joint venture or other rights of TBS Canada;
- (ix) initiate, prosecute, and/or continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to TBS Canada or the Property;
- (x) have access to all books and records that are the Property of TBS Canada or that are in TBS Canada's possession or control and have the same access as TBS Canada

has to any books and records no longer in TBS Canada's control or possession (collectively, the "**Books and Records**");

- (xi) engage, deal, communicate, negotiate, agree and settle with any creditor or other stakeholder of TBS Canada (including, without limitation, any governmental authority) in the name of or on behalf of TBS Canada;
- (xii) hold the Proceeds in an account of the Monitor on behalf of TBS Canada, and pay or cause to be paid from the Proceeds, in the name of and on behalf of TBS Canada, or in its own name, such amounts as the Monitor deems necessary and appropriate or in accordance with the Anticipated Claims Process, as applicable;
- (xiii) claim or cause TBS Canada to claim any and all insurance proceeds or refunds or tax refunds to which TBS Canada is entitled that were not transferred pursuant to the Approval and Vesting Order;
- (xiv) act as an authorized representative of TBS Canada in respect of dealings with any taxing or regulatory authority;
- (xv) consult with any taxing or regulatory authority with respect to any issues arising in respect of this CCAA Proceeding;
- (xvi) file, or take such actions necessary for the preparation and filing of, on behalf of and in the name of TBS Canada: (a) any tax returns; and (b) TBS Canada's employee-related remittances, T4 statements and records of employment for TBS Canada's former employees, in either case, based solely upon the information in the Books and Records and on the basis that the Monitor shall incur no liability or

obligation to any person with respect to such returns, remittances, statements, records or other documents;

- (xvii) sign documentation or take other steps as necessary to cause or implement the dissolution or winding-up of TBS Canada;
- (xviii) assign TBS Canada, or cause TBS Canada to be assigned, into bankruptcy and to take any steps incidental thereto, and to act (without the obligation to do so) as the licensed insolvency trustee in bankruptcy of TBS Canada;
- (xix) apply to the Court for advice and directions or any further orders necessary or advisable to carry out the Monitor's powers and duties under the Ancillary Order or any other order of the Court granted in the CCAA Proceeding; and
- (xx) take any steps reasonably incidental to the exercise by the Monitor of the powers listed above or the performance of any statutory obligations.

8.2 The proposed Ancillary Order also affords the Monitor customary protections with respect to carrying out its expanded powers and duties, including in connection with certain employee-related liabilities and confirms that the Monitor shall not be deemed to be a director or officer of TBS Canada.

8.3 Given the circumstances, the Monitor is of the view that it is best positioned to supervise, and administer TBS Canada's estate and wind-down and that the proposed expansion of its powers is appropriate given, among other things, that:

- (i) as of the Time of Closing (as defined in the APA), TBS Canada will no longer have any directors or officers and, shortly thereafter, will cease to have any employees or business operations;
- (ii) in view of the Proceeds anticipated to materialize from the Transaction, additional steps in the CCAA Proceeding (or any subsequent proceeding) are required to realize and distribute value to TBS Canada's stakeholders, including the Affected Creditor Group; and
- (iii) without the proposed expansion of the Monitor's powers, no party will have the necessary authority or capacity to administer TBS Canada's estate or its wind-down, nor advance and eventually terminate the CCAA Proceeding.

#### WEPP Act Declaration

- 8.4 Subsection 5(1) of the *Wage Earner Protection Program Act*, S.C. 2006, c. 47 s. 1, as amended (the "**WEPP Act**"), provides that an individual is eligible to receive payment under the Wage Earner Protection Program if, among other things: (i) the individual's employment is ended for a reason prescribed by regulation; (ii) the individual is owed eligible wages by a former employer; (iii) the former employer is subject to proceedings under the CCAA; and (iv) a court determines under subsection 5(5) of the WEPP Act that the criteria prescribed by the *Wage Earner Protection Program Regulations*, SOR/2008-222 (the "**WEPP Regulation**") are met.

- 8.5 Section 3.2 of the WEPP Regulation provides that the Court “may determine whether the former employer is the former employer all of whose employees in Canada have been terminated other than any retained to wind down its business operations”.
- 8.6 As discussed in the Prior Reports, after commencing the NOI Proceeding, TBS Canada completed a closure of a subset of store locations and terminated approximately 220 employees. In addition, immediately prior to the Closing Date, TBS Canada will provide notice of termination to those employees that have received offers of employment from the Purchaser and will deliver notice of termination to the employees at the Excluded Locations concurrently or shortly thereafter. As such, TBS Canada will have terminated all of its employees immediately prior to or shortly after the Closing Date. The proposed WEPP Act declaration is intended to ensure that TBS Canada’s former employees who may be eligible are able to access benefits, such as termination and severance pay, under the WEPP Act at the earliest opportunity.
- 8.7 In light of the foregoing, the Monitor supports the Company’s request for a declaration that TBS Canada is a former employer for the purposes of subsection 5(5) of the WEPP Act. If such declaration is made, the Monitor intends to liaise with TBS Canada to identify all employees that may be eligible for payments under the WEPP Act (the maximum amount of which for 2024 is CAD\$8,507.66) and assist eligible individuals in applying under the Wage Earner Protection Program.

### Extension of the Stay Period

8.8 The Stay Period currently expires on December 13, 2024. Pursuant to the proposed Ancillary Order, the Company is seeking an extension of the Stay Period to and including March 31, 2025.

8.9 The Monitor supports the proposed extension of the Stay Period to and including March 31, 2025, for the following reasons:

- (i) in addition to facilitating the closing of the Transaction, the stay of proceedings, as extended, will provide the Monitor with the breathing room necessary to exercise its powers and duties under the proposed Ancillary Order, seek approval of the Anticipated Claims Process and administer TBS Canada's estate and wind-down;
- (ii) TBS Canada anticipates that the Proceeds will provide sufficient liquidity through the extended Stay Period; and
- (iii) in the Monitor's view, TBS Canada has acted and continue to act in good faith and with due diligence to advance the CCAA Proceeding and consummate the Transaction for the benefit of their stakeholders.

### **9.0 CASH FLOW RESULTS RELATIVE TO FORECAST**

9.1 Actual receipts and disbursements for the period from September 21, 2024 to December 6, 2024 (the "**Reporting Period**"), as compared to the cash flow forecast attached as Appendix "C" to the First Report, are summarized in the following table:

<b>Cash Flow Variance Report</b>			<b>\$000's</b>
	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Sales	13,327	13,336	(9)
Other Receipts	253	-	253
<b>Total Receipts</b>	<b>13,579</b>	<b>13,336</b>	<b>243</b>
<b>Disbursements</b>			
Inventory Purchases	(1,176)	(2,669)	1,493
Vendor Payments	(1,645)	(1,500)	(145)
Rent	(3,272)	(3,320)	48
Payroll & Benefits	(4,249)	(4,135)	(114)
KERP & Store Bonus	(130)	(657)	527
Restructuring Professional Fees	(661)	(1,348)	687
Sales Tax Remittances	(254)	(486)	232
Other Expenditures	(203)	(141)	(63)
<b>Total Disbursements</b>	<b>(11,590)</b>	<b>(14,255)</b>	<b>2,665</b>
<b>Net Cash Flow</b>	<b>1,989</b>	<b>(919)</b>	<b>2,908</b>
Opening Cash Balance	3,143	3,143	-
Net Cash Flow	1,989	(919)	2,908
<b>Ending Cash Balance</b>	<b>5,132</b>	<b>2,224</b>	<b>2,908</b>

## 9.2 During the Reporting Period:

- (i) sales generally actualized as forecast, with offsetting variances experienced in lower sales volume and higher gross margin;
- (ii) the positive variance in other receipts of \$253,000 is from the collection of receivables from a wholesale customer not included in the forecast;
- (iii) the positive variance in inventory purchases of approximately \$1.5 million is due primarily to the delayed payment of the second and third installments of the Remaining DC Inventory replenishment transaction owing to the UK Purchaser. These amounts are now forecast to be paid on the closing of the Transaction;



- (iv) the positive variance in KERP and store bonus of approximately \$527,000 is due to amounts that were included in the forecast but were not required or implemented. The final KERP installment will be paid on the closing of the Transaction; and
- (v) the remaining positive variance in total disbursements of approximately \$645,000 is timing related and expected to reverse in the coming weeks.

9.3 Overall, during the Reporting Period, the Company experienced a positive net cash flow variance of approximately \$2.9 million.

9.4 The closing cash balance at December 6, 2024 was approximately \$5.1 million.

## **10.0 ACTIVITIES OF THE MONITOR**

10.1 Since the date of the First Report, the Monitor has engaged in the following activities:

- (i) assisting TBS Canada with advancing the Sale Process, including in connection with the negotiation of the Term Sheet and the APA with the Purchaser and facilitating conversations with the UK Purchaser where necessary to advance the Sale Process;
- (ii) assisting TBS Canada with communications to employees, suppliers, landlords and other stakeholders;
- (iii) assisting the Company with discussions and negotiations in connection with certain lease renewals/amendments and entering into new supply agreements with certain providers of 3PL and IT services;
- (iv) communicating with the administrator in respect of the UK Parent;

- (v) monitoring the Company's cash receipts and disbursements, and assisting in preparing weekly cash flow variance reporting;
- (vi) posting non-confidential materials filed with the Court to the Case Website;
- (vii) reviewing and providing the Monitor's views of various Transaction closing documents;
- (viii) facilitating discussions with stakeholders, including certain discussions that remain ongoing between TBS Canada and Koskie Minsky LLP, in their capacity as counsel to certain former employees of the Company; and
- (ix) with the assistance of Cassels, preparing this Second Report.

## **11.0 CONCLUSIONS AND RECOMMENDATIONS**

- 11.1 For the reasons set out in this Second Report, the Monitor is of the view that the relief sought in the Declaration Order, Approval and Vesting Order, Assignment Order and Ancillary Order is, in each case, reasonable, appropriate and necessary having regard to the Company's current circumstances and respectfully recommends that the Court grant the relief requested.

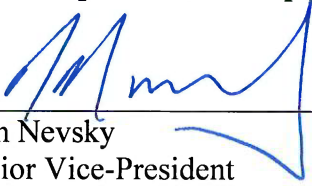
All of which is respectfully submitted to the Court this 9<sup>th</sup> day of December, 2024.

**Alvarez & Marsal Canada Inc.,  
solely in its capacity as Monitor of The Body Shop Canada Limited,  
and not in its personal or corporate capacity**

Per: \_\_\_\_\_

Josh Nevsky

Senior Vice-President



## **APPENDIX “A”**

**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 THE BODY SHOP CANADA LIMITED**

**FIRST REPORT OF THE MONITOR  
ALVAREZ & MARSAL CANADA INC.**

**SEPTEMBER 30, 2024**

## **TABLE OF CONTENTS**

<b>1.0</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>2.0</b>	<b>PURPOSE OF THIS REPORT .....</b>	<b>4</b>
<b>3.0</b>	<b>TERMS OF REFERENCE AND DISCLAIMER .....</b>	<b>5</b>
<b>4.0</b>	<b>UPDATES ON THE CCAA PROCEEDING.....</b>	<b>6</b>
<b>5.0</b>	<b>CRITICAL SUPPLIER CHARGE .....</b>	<b>10</b>
<b>6.0</b>	<b>SALE PROCESS.....</b>	<b>12</b>
<b>7.0</b>	<b>CASH FLOW RESULTS RELATIVE TO FORECAST .....</b>	<b>14</b>
<b>8.0</b>	<b>UPDATED CASH FLOW FORECAST .....</b>	<b>16</b>
<b>9.0</b>	<b>EXTENSION OF THE STAY PERIOD.....</b>	<b>18</b>
<b>10.0</b>	<b>ACTIVITIES OF THE MONITOR.....</b>	<b>19</b>
<b>11.0</b>	<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>20</b>

## **APPENDICES**

**Appendix A – Combined Fifth Report of the Proposal Trustee & Pre-Filing Report of the Proposed Monitor (without appendices)**

**Appendix B – Process Letter (in connection with the Sale Process)**

**Appendix C – Updated Cash Flow Forecast**

## 1.0 INTRODUCTION

- 1.1 On March 1, 2024 (the “**Filing Date**”), The Body Shop Canada Limited (“**TBS Canada**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act (Canada)*, R.S.C. 1985, c. B-3 (the “**BIA**”) and Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed as Proposal Trustee of the Company (the “**Proposal Trustee**”).
- 1.2 On the Filing Date, TBS Canada was a subsidiary of The Body Shop International Limited (now known as TBSI Realisations Limited) (the “**UK Parent**”). Prior to the Company filing the NOI, on February 13, 2024, the UK Parent commenced administration proceedings in the United Kingdom (the “**UK Administration Proceeding**”) and individuals of the firm FRP Advisory Trading Limited were appointed as joint administrators of the UK Parent (collectively, the “**UK Administrator**”).
- 1.3 Facing a liquidity crisis and other challenges caused by the commencement of the UK Administration Proceeding, TBS Canada filed the NOI, commencing a proceeding (the “**NOI Proceeding**”) to provide the stability and flexibility necessary to evaluate its strategic alternatives and explore various going concern alternatives, while also commencing a closure of a subset of store locations.
- 1.4 On March 4, 2024, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granted an Order (the “**March 4 Order**”) which, among other things:

- (i) extended the time to file a proposal, and expanded and extended the stay of proceedings triggered under the BIA by the NOI filing, until and including April 16, 2024; and
  - (ii) approved the Administration Charge and the D&O Charge over the Property (each as defined in the March 4 Order).
- 1.5 On March 8, 2024, Buth-Na-Bodhaige Inc. (“**TBS US**”), a United States-based affiliate of TBS Canada, commenced a proceeding under chapter 7 of title 11 of the United States Code (the “**Chapter 7 Proceeding**”) and Rimón, P.C. was appointed as trustee (the “**Chapter 7 Trustee**”).
- 1.6 On April 15, 2024, the Court granted an Order (the “**April 15 Order**”) which, among other things: (i) further extended the time for TBS Canada to file a proposal under the BIA to May 31, 2024; and (ii) approved the KERP and the KERP Charge (each as defined in the April 15 Order) over the Property.
- 1.7 On May 30, 2024, the Court granted an Order which, among other things, extended the time for TBS Canada to file a proposal under the BIA to July 12, 2024.
- 1.8 On July 5, 2024, the Court granted three orders:
  - (i) an order (the “**Initial Order**”) which, among other things:
    - (a) authorized the continuation of the NOI Proceeding under the *Companies’ Creditors Arrangement Act*, RSC 1985, c. C-36 (the “**CCAA**”, and such proceeding, the “**CCAA Proceeding**”);



- (b) appointed A&M as the Monitor of the Company under the CCAA Proceeding (in such capacity, the “**Monitor**”);
  - (c) granted a stay of proceedings up to and including October 8, 2024 (the “**Stay Period**”); and
  - (d) continued each of the Administration Charge, D&O Charge and KERP Charge (collectively, the “**Charges**”) in the CCAA Proceeding;
- (ii) an order (the “**Sale Process Order**”) which among other things, approved a sale process for the Company, its business or its assets (the “**Sale Process**”); and
  - (iii) an order (the “**Discharge Order**”) which among other things, terminated the NOI Proceeding, and discharged and released the Proposal Trustee.

1.9 In connection with the NOI Proceeding, the Proposal Trustee filed five reports with the Court (the “**Prior Reports**”), including most recently a combined Fifth Report of the Proposal Trustee and Pre-Filing Report of the Proposed Monitor dated June 28, 2024, (the “**Pre-Filing Report**”). The Prior Reports, the Pre-Filing Report and other documents filed with the Court in the NOI Proceeding and the CCAA Proceeding are available on the Monitor’s case website at: [www.alvarezandmarsal.com/TheBodyShop](http://www.alvarezandmarsal.com/TheBodyShop) (the “**Case Website**”). A copy of the Pre-Filing Report (without appendices) is attached hereto as **Appendix “A”**.

## 2.0 PURPOSE OF THIS REPORT

2.1 The purpose of this first report of the Monitor (the “**First Report**”) is to provide the Court with information on:

- (i) the result of the sale process in the UK Administration Proceeding (the “**UK Sale Process**”) and its impact on the Canadian Sale Process;
- (ii) TBS Canada’s recent inventory replenishment transactions and current inventory levels;
- (iii) TBS Canada’s ongoing efforts to pursue a going concern transaction through the Sale Process;
- (iv) TBS Canada’s cash flow results for the 13-week period ended September 20, 2024;
- (v) TBS Canada’s updated cash flow forecast for the 13-week period ending December 20, 2024;
- (vi) the Company’s request for an order declaring the UK Purchaser (as defined below) a critical supplier and granting a charge in favour of the UK Purchaser over certain recently purchased inventory;
- (vii) the Company’s request for an extension of the Stay Period to and including December 13, 2024; and
- (viii) the Monitor’s activities and the recommendations of A&M in connection with the foregoing.

### 3.0 TERMS OF REFERENCE AND DISCLAIMER

3.1 In preparing this First Report, A&M, in its capacity as the Monitor, has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Company and has held discussions with management of the Company and its legal counsel (collectively, the “**Information**”). Except as otherwise described in this First Report:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

3.2 Future oriented financial information referred to in this First Report was prepared based on the Company’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

3.3 This First Report should be read in conjunction with the Affidavit of Jordan Searle, General Manager of the Company, sworn September 25, 2024 (the “**Sixth Searle Affidavit**”). Capitalized terms used and not defined in this First Report have the meanings given to them in the Sixth Searle Affidavit.

3.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

#### **4.0 UPDATES ON THE CCAA PROCEEDING**

##### UK Sale Process

4.1 As discussed in the Prior Reports, the UK Administrator commenced a sale process for the business and assets of the UK Parent on March 20, 2024.

4.2 In mid-July 2024, the UK Administrator announced that they had selected a consortium bid led by Aurea Group (now known as The Body Shop International Limited) (the “**UK Purchaser**”) as the preferred bidder for the UK Parent and had entered into an exclusivity agreement with the UK Purchaser to allow for additional time to complete due diligence and implement a transaction. Aurea Group is a private capital firm that invests in the beauty, wellness and cosmetic sectors.

4.3 Through the duration of the UK Sale Process, TBS Canada and the Monitor were in regular contact with the UK Administrator to, among other things, understand and plan for: (i) the expected completion date of a transaction; and (ii) any potential impacts the sale may have on the business and operations of TBS Canada.

- 4.4 After going exclusive with the UK Purchaser, the UK Administrator advised TBS Canada and the Monitor that, consistent with the UK Purchaser's global strategy for The Body Shop, the UK Purchaser's intention was to transition the Canadian business into a franchise market with a new franchise partner that would need to be identified through the Canadian Sale Process.
- 4.5 On September 6, 2023, it was announced that the UK Purchaser had successfully closed the transaction to acquire the assets and business of the UK Parent (the "**UK Transaction**"). As part of the UK Transaction, the UK Purchaser acquired the "The Body Shop" name and all intellectual property and all inventory owned by the UK Parent, including the inventory located in the U.S. based distribution centre (the "**US Distribution Centre**"). The UK Purchaser did not acquire the equity interest in TBS Canada.

#### Inventory Replenishment

- 4.6 Since the date of the Pre-Filing Report, TBS Canada and the Monitor have successfully arranged for several transactions to bring approximately \$37.5 million (retail value) of merchandise into Canada to replenish the Company's inventory, including the following:
- (i) in July 2024, TBS Canada purchased approximately \$4 million (retail value) of inventory located at certain shuttered TBS US stores from a firm who had been retained by a group of US landlords (the "**US Stores Merchandise**");
  - (ii) in August and early September 2024, TBS Canada purchased approximately \$13.5 million (retail value) of inventory owned by the UK Parent and located at the US Distribution Centre (the "**Third Replenishment Order**"); and

- (iii) in late September 2024, following the closing of the UK Transaction, TBS Canada entered into an agreement with the UK Purchaser (who purchased all of the UK Parent's inventory) to purchase all of the inventory that remained at the US Distribution Centre, representing approximately \$20 million (retail value) (the **"Remaining DC Inventory"**).

Collectively, the **"Inventory Replenishment Orders"**.

- 4.7 The Inventory Replenishment Orders, together with on hand inventory, is projected to provide TBS Canada with sufficient merchandise levels through the 2024 holiday season and into the first quarter of 2025.
- 4.8 The Inventory Replenishment Orders ensure that TBS Canada has sufficient inventory levels to continue to operate in the ordinary course and to properly support the business throughout the ongoing Sale Process (as described further below).
- 4.9 Prior to agreeing to purchase the Remaining DC Inventory, TBS Canada and the Monitor considered, among other things: (i) the cost to retail mark-up that would ensure that the inventory will provide incremental value to the estate in a going-concern scenario, as well as in an alternate realization scenario if the Sale Process is ultimately not successful; and (ii) the fact that the Chapter 7 Trustee entered into an agreement to sell the US Distribution Centre and is required to exit the US Distribution Centre by no later than mid-October 2024. Accordingly, if TBS Canada had not entered into the agreement to purchase the Remaining DC Inventory in September, such inventory may not have been available to TBS Canada.

Other Updates

- 4.10 As set out in the Prior Reports, since the commencement of the NOI Proceeding, the Proposal Trustee has engaged in discussions with the UK Administrator, the UK Parent, Royal Bank of Canada (formerly HSBC Bank Canada) (“**RBC**”) and HSBC UK with respect to, among other things, certain bank accounts held by TBS Canada but managed by the UK Parent. One of these bank accounts was held with HSBC UK and domiciled in the United Kingdom. On August 6, 2024, the funds held in this HSBC UK account were transferred to the Company’s Canadian domiciled bank accounts in the amount of approximately \$341,000.
- 4.11 As described in the Sixth Searle Affidavit, the Company has previously provided updates to the Court regarding Aurelius IV UK Acquico Seven Limited (“**Aurelius Seven**”) and its loan agreement (the “**Aurelius Loan Agreement**”) with the UK Parent. The obligations of the UK Parent under the Aurelius Loan Agreement were guaranteed by TBS Canada on a secured basis. On September 7, 2024, Aurelius Seven signed a release in favour of TBS Canada and the UK Parent whereby it released all security in its favour, including the Canadian Security (the “**Aurelius Release**”). The Aurelius Release does not release the Company from its obligations under the guarantee and indemnity provided in connection with the Aurelius Loan Agreement. The Aurelius Release is attached to the Sixth Searle Affidavit as Exhibit “L”.

## 5.0 CRITICAL SUPPLIER CHARGE

5.1 In connection with the Remaining DC Inventory transaction described above, TBS Canada, with the assistance of the Monitor, negotiated the following deferred payment plan with the UK Purchaser:

- (i) 50% of the purchase price, or approximately \$1.3 million, to be paid upon shipment of all the Remaining DC Inventory (expected during the week ending October 4, 2024);
- (ii) 10% of the purchase price, or approximately \$300,000, to be paid 15 days after the final shipment date; and
- (iii) the remaining 40% of the purchase price, or approximately \$1.1 million, to be paid by November 29, 2024.

5.2 As of the date of this First Report, the majority of the Remaining DC Inventory has been delivered to TBS Canada's 3PL provider's warehouse, with the remaining deliveries to occur in the coming days. Accordingly, TBS Canada has scheduled the first 50% installment of the purchase price to be paid this week.

5.3 As a condition to the Remaining DC Inventory transaction, TBS Canada is required to seek a Court-ordered charge in favour of the UK Purchaser to secure the outstanding balance of the purchase price, being approximately \$1.4 million (i.e., the second and third installments). Accordingly, TBS Canada is seeking a \$1.5 million charge (the "**Critical Supplier Charge**"), attaching solely against the Remaining DC Inventory for the benefit



of the UK Purchaser. Should the Critical Supplier Charge be granted, the relative priorities of the Charges will be:

- (i) First – Administration Charge (to the maximum amount of \$700,000);
- (ii) Second – D&O Charge (to the maximum amount of \$2.1 million);
- (iii) Third – KERP Charge (to the maximum amount of \$315,000); and
- (iv) Fourth – Critical Supplier Charge (to the maximum amount of \$1.5 million, solely against the Remaining DC Inventory).

5.4 The Monitor is of the view that the proposed Critical Supplier Charge is required and reasonable in the circumstances, and recommends that the Court grant the proposed Critical Supplier Charge for the following reasons:

- (i) while TBS Canada is expected to be in possession of the Remaining DC Inventory by the time the proposed charge is being sought for approval, TBS Canada requires the continued cooperation of the UK Purchaser. The UK Purchaser remains a “critical supplier” to TBS Canada because: (a) the UK Purchaser is the owner of the intellectual property related to the “The Body Shop” inventory, including the Remaining DC Inventory, and (b) TBS Canada continues to rely on various IT systems and accounting and treasury services now performed by the UK Purchaser;
- (ii) the Critical Supplier Charge was a condition to the transaction agreed to with the UK Purchaser for the Remaining DC Inventory. Without such a charge, the UK Purchaser may require immediate payment or the immediate return of the

Remaining DC Inventory or take other steps to inhibit TBS Canada's ability to sell the Remaining DC Inventory;

- (iii) if TBS Canada is not able to purchase and continue to sell the Remaining DC Inventory, the Company will not have sufficient inventory to maintain its current 71 store network during the Sale Process or through the proposed extended Stay Period, and it will not be able to deliver the business to a potential purchaser with sufficient inventory levels to properly trade during the important upcoming holiday shopping season. This would be expected to have a detrimental effect on the consideration offered in bids in the Sale Process and on the current employee base; and
- (iv) the Monitor is not aware of any party that would be materially prejudiced by the proposed Critical Supplier Charge, including creditors who have registered security interests as Enterprise does not have a security interest in inventory and RBC does not currently have any outstanding exposure.

## **6.0 SALE PROCESS**

- 6.1 As described in the Pre-Filing Report, commencing in early June 2024, A&M in its capacity as Proposal Trustee began exploring options for a going concern transaction and engaging with parties regarding a potential sale of the assets and business of TBS Canada.
- 6.2 On July 5, 2024, as part of the NOI to CCAA conversion, TBS Canada obtained the Sale Process Order which formalized the Sale Process, established formal procedures (the

“**Procedures**”) and authorized TBS Canada, with the assistance of the Monitor, to continue the Sale Process.

- 6.3 The Sale Process and Procedures are described in the Pre-Filing Report. As discussed therein, the Sale Process was designed having regard to the interrelated nature of TBS Canada and the UK Parent. In particular, the Procedures provide that the Bid Deadline would not be set until: (i) a purchaser was identified in the UK Sale Process; and (ii) it was clear whether TBS Canada would remain an operating subsidiary of the UK Parent’s business, or if the UK purchaser would seek to enter into a franchise relationship in Canada.
- 6.4 As discussed above, in the weeks leading up to the closing of the UK Transaction, TBS Canada and the Monitor were notified that the UK Purchaser was not purchasing the equity of TBS Canada, but instead intended to convert the Canadian business into a franchise market. With this information, the Monitor continued to advance the Sale Process, including continuing to work with the UK Parent’s franchising group to understand the steps required of a new party to enter into a franchise arrangement with the UK Purchaser for the Canadian business.
- 6.5 On September 6, 2024, upon receiving confirmation of the closing of the UK Transaction, the Monitor distributed a process letter (the “**Process Letter**”) to each of the parties who were active in the Sale Process and to additional parties identified as potential purchasers. The Monitor also posted the Process Letter to the Case Website, served the Process Letter on the Service List in the CCAA Proceeding, and placed an announcement with Insolvency Insider. A copy of the Process Letter is attached hereto as **Appendix “B”**.

6.6 Consistent with the Procedures, the Process Letter: (i) established the Bid Deadline and other key milestones; (ii) set-out the process for submitting a Bid; and (iii) invited parties, with the assistance of the Monitor, to advance a potential franchise arrangement with the UK Purchaser.

6.7 The key milestones established in the Process Letter are as follows:

- (i) Bids are required to be received by the Monitor by no later than October 8, 2024 at 5:00 p.m. Eastern Time (the “**Bid Deadline**”);
- (ii) selection of the successful Bid to be October 11, 2024, or such later date as may be determined by the Company, in consultation with the Monitor; and
- (iii) the outside date for implementing a transaction to be November 15, 2024.

6.8 TBS Canada and the Monitor continue to advance the Sale Process, including ongoing discussions regarding a franchise agreement with the UK Purchaser, with the aim of implementing a going-concern and value maximizing transaction for TBS Canada.

## **7.0 CASH FLOW RESULTS RELATIVE TO FORECAST**

7.1 Actual receipts and disbursements for the period from June 22, 2024 to September 20, 2024 (the “**Reporting Period**”), as compared to the cash flow forecast attached as Appendix “F” to the Pre-Filing Report, are summarized in the following table:

<b>Cash Flow Variance Report</b>			<b>\$000's</b>
	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Sales	12,418	11,491	927
Other Receipts	341	-	341
<b>Total Receipts</b>	<b>12,760</b>	<b>11,491</b>	<b>1,269</b>
<b>Disbursements</b>			
Inventory Purchases	(3,674)	(2,280)	(1,395)
Vendor Payments	(937)	(1,717)	780
Rent	(4,110)	(3,960)	(150)
License Fee	(251)	(135)	(116)
Payroll & Benefits	(4,258)	(4,315)	57
KERP	(157)	(157)	--
Restructuring Professional Fees	(1,641)	(2,699)	1,059
Sales Tax Remittances	(636)	(536)	(100)
Other Expenditures	(222)	(166)	(56)
<b>Total Disbursements</b>	<b>(15,886)</b>	<b>(15,965)</b>	<b>78</b>
<b>Net Cash Flow</b>	<b>(3,127)</b>	<b>(4,474)</b>	<b>1,347</b>
Opening Cash Balance	6,269	6,269	-
Net Cash Flow	(3,127)	(4,474)	1,347
<b>Ending Cash Balance</b>	<b>3,143</b>	<b>1,796</b>	<b>1,347</b>

## 7.2 During the Reporting Period:

- (i) the positive variance in sales of approximately \$927,000 is due to a combination of greater than forecast sales and gross margin;
- (ii) the positive variance in other receipts of approximately \$341,000 is due to the collection of funds that were held with HSBC UK and domiciled in the United Kingdom (as discussed above). Collection of these funds were not included in the Company's cash flow forecast;
- (iii) the negative variance in inventory purchases of approximately \$1.4 million is due to higher than forecast inventory purchases;

- (iv) the positive variance in vendor payments of approximately \$780,000 is primarily due to timing and is expected to reverse in future weeks;
- (v) as described in Prior Reports, TBS Canada entered into the License Arrangement to access the US Distribution Centre and facilitate the purchase and shipment of inventory purchases. The above negative variance reflects a license fee payment for September 2024 which was not included in the Company's cash flow forecast; and
- (vi) the remaining positive variance in total disbursements of approximately \$809,000 is expected to be timing-based and reverse in future weeks.

7.3 Overall, during the Reporting Period, the Company experienced a positive net cash flow variance of approximately \$1.3 million, primarily attributable to the higher-than-forecast sales and timing variances in operating disbursements.

7.4 The closing cash balance as at September 20, 2024 was approximately \$3.1 million, as compared to the projected cash balance of \$1.8 million.

## **8.0 UPDATED CASH FLOW FORECAST**

8.1 TBS Canada, with the assistance of the Monitor, prepared an updated cash flow forecast (the "**Updated Cash Flow Forecast**") for the period September 21, 2024 to December 20, 2024 (the "**Cash Flow Period**"). A copy of the Updated Cash Flow Forecast, together with Notes and Summary of Assumptions, is attached to this First Report as **Appendix "C"**.

8.2 A summary of the Updated Cash Flow Forecast is set out in the following table:

<b>Cash Flow Forecast</b>		<b>\$000's</b>
<b>Total Receipts</b>		<b>20,148</b>
<b>Disbursements</b>		
Inventory Purchases		(2,669)
Vendor Payments		(1,750)
Rent		(4,020)
Payroll & Benefits		(4,775)
KERP and Store Bonus		(657)
Restructuring Professional Fees		(1,944)
Sales Tax Remittances		(1,192)
Other Expenditures		(166)
<b>Total Disbursements</b>		<b>(17,173)</b>
<b>Net Cash Flow</b>		<b>2,975</b>
Opening Cash Balance		3,143
Net Cash Flow		2,975
<b>Closing Cash Balance</b>		<b>6,118</b>

8.3 The Monitor notes the following with respect to the Updated Cash Flow Forecast:

- (i) sales are forecast based on projected sales at the Company's 71 retail store locations;
- (ii) inventory purchases include payments for the Remaining DC Inventory transaction only (as discussed above);
- (iii) vendor payments consist of shipping and 3PL costs, credit and debit card processing fees, information technology services, and other store-level and general operating costs;
- (iv) payroll & benefits and rent consist of payments for the retail stores and the Company's head-office, including the costs associated with the US Contractors and approximately 520 employees in Canada; and

- (v) restructuring professional fees include costs for the Company's legal counsel, and the Monitor and its legal counsel.

8.4 The Updated Cash Flow Forecast has been prepared solely for the purpose and subject to the Cash Flow Assumptions, and readers are cautioned that it may not be appropriate for other purposes.

## **9.0 EXTENSION OF THE STAY PERIOD**

9.1 The Stay Period currently expires on October 8, 2024, and the Company is seeking an extension of the Stay Period until and including December 13, 2024.

9.2 The Monitor supports the Company's motion to extend the Stay Period for the following reasons:

- (i) it will provide the Company with the stability to continue to operate in the ordinary course and advance the Sale Process for the benefit of Canadian stakeholders;
- (ii) in accordance with the Updated Cash Flow Forecast, the Company is projected to have sufficient liquidity through to the end of the proposed extended Stay Period; and
- (iii) the Company continues to act in good faith and with due diligence during the CCAA Proceeding and continues to seek to preserve and maximize value for their stakeholders.



## **10.0 ACTIVITIES OF THE MONITOR**

10.1 Since the date of the Monitor's Pre-Filing Report, the Monitor has engaged in the following activities:

- (i) assisting the Company in its communications to employees, suppliers, landlords and other stakeholders;
- (ii) advancing the Sale Process, including among other things, engaging with interested parties and soliciting interest for a potential going concern transaction for TBS Canada;
- (iii) facilitating meetings and discussions among interested parties and the UK Purchaser in connection with the Sale Process and advancing a potential franchise agreement with the UK Purchaser;
- (iv) attending meetings and engaging in various correspondence with the UK Administrator, the UK Parent and the Chapter 7 Trustee regarding their respective restructuring proceedings and matters in connection with the CCAA Proceeding, including discussions to advance TBS Canada's efforts to emerge as a going concern business;
- (v) assisting the Company with discussions regarding its inventory replenishment efforts;

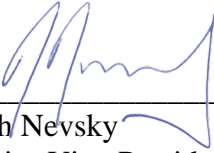
- (vi) assisting the Company with discussions and negotiations in connection with certain lease renewals/amendments and entering into new supply agreements with certain providers of 3PL and IT services;
- (vii) monitoring the Company's cash receipts and disbursements, and assisting in preparing weekly cash flow variance reporting;
- (viii) assisting the Company in the preparation of the Updated Cash Flow Forecast;
- (ix) posting non-confidential materials filed with the Court to the Case Website;
- (x) facilitating discussions with stakeholders, including certain discussions that remain ongoing between TBS Canada and Koskie Minsky LLP, in their capacity as counsel to certain former employees of the Company; and
- (xi) with the assistance of Cassels, preparing this First Report.

## **11.0 CONCLUSIONS AND RECOMMENDATIONS**

- 11.1 For the reasons set out in this First Report, the Monitor is of the view that the relief sought in the Company's proposed Order, in each case, is reasonable, appropriate and necessary having regard to the Company's current circumstances and respectfully recommends that the Court grant the relief requested.

All of which is respectfully submitted to the Court this 30<sup>th</sup> day of September, 2024.

**Alvarez & Marsal Canada Inc.,  
solely in its capacity as Monitor of The Body Shop Canada Limited,  
and not in its personal or corporate capacity**

Per:   
Josh Nevsky  
Senior Vice-President

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

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE BODY SHOP CANADA LIMITED, IN  
THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**  
Proceeding commenced at Toronto

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**FIRST REPORT OF  
THE MONITOR**

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**Cassels Brock & Blackwell LLP**  
Suite 3200, Bay Adelaide Centre – North Tower  
40 Temperance Street  
Toronto, ON M5H 0B4

**Natalie E. Levine LSO#: 64908K**  
Tel: 416.860.6568  
nlevine@cassels.com

**Alec Hoy LSO#: 85489K**  
Tel: 416.860.2976  
ahoy@cassels.com

Counsel for Alvarez & Marsal Canada Inc., solely  
in its capacity as Monitor and not in its personal or  
corporate capacity.

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

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE BODY SHOP CANADA LIMITED, IN  
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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**  
Proceeding commenced at Toronto

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**SECOND REPORT OF  
THE MONITOR**

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**Cassels Brock & Blackwell LLP**

Suite 3200, Bay Adelaide Centre – North Tower  
40 Temperance Street  
Toronto, ON M5H 0B4

**Natalie E. Levine LSO#: 64908K**

Tel: 416.860.6568  
nlevine@cassels.com

**Alec Hoy LSO#: 85489K**

Tel: 416.860.2976  
ahoy@cassels.com

Counsel for Alvarez & Marsal Canada Inc., solely  
in its capacity as Monitor and not in its personal or  
corporate capacity.