

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

<p><i>In re</i></p> <p>YATSEN GROUP OF COMPANIES INC., <i>et al.</i>,¹</p> <p style="text-align: center;">Debtors in a Foreign Proceeding.</p>	<p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p>	<p>Chapter 15</p> <p>Case No. 21-10073 (BLS)</p> <p>(Joint Administration Requested)</p>
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**DECLARATION OF ALAN HUTCHENS
IN SUPPORT OF VERIFIED PETITION OF
ALVAREZ & MARSAL CANADA INC., AS FOREIGN
REPRESENTATIVE OF YATSEN GROUP OF COMPANIES INC.
AND CERTAIN OF ITS AFFILIATES, FOR (I) RECOGNITION OF
FOREIGN MAIN PROCEEDING AND (II) CERTAIN RELATED RELIEF**

I, Alan Hutchens, declare as follows:

1. I am a Senior Vice-President of Alvarez & Marsal Canada Inc., the court-appointed monitor and authorized foreign representative (“A&M” or the “Monitor”) for the above-captioned debtors (collectively, the “Debtors” or the “Company”) in a proceeding (the “Canadian Proceeding”) under Canada’s *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C 36, as amended (the “CCAA”) before the Ontario Superior Court of Justice Commercial List (the “Canadian Court”). I am fully authorized to act on behalf of the Monitor.

¹ The last four digits of the United States Tax Identification Number or Canadian Business Number, as applicable, follow in parentheses: (i) Yatsen Group of Companies Inc. (2349); (ii) SAR Real Estate Inc. (2023); (iii) HEAP Japanese Food Inc. (5908); (iv) KB Wisconsin Food Inc. (4510); (v) MT Security Square Food Inc. (3037); (vi) SAR Buckland Food Inc. (9797); (vii) SAR Coastland Food Inc. (2349); (viii) SAR Coventry Food Inc. (1230); (ix) SAR Dulles Expo Center Inc. (7199); (x) SAR First Colony Food Inc. (2616); (xi) SAR Glenbrook Food Inc. (0268); (xii) SAR Greenbrier Food Inc. (2387); (xiii) SAR Laurel Food Inc. (2866); (xiv) SAR Lloyd Food Inc. (3866); (xv) SAR Oglethorpe Food Inc. (9549); (xvi) SAR Orange Park Food Inc. (3467); (xvii) SAR Oviedo Food Inc. (9892); (xviii) SAR Park Place Food Inc. (0409); (xix) SAR Plymouth Food Inc. (pending); (xx) SAR Ramsey Food Inc. (1611); (xxi) SAR Santa Rosa Food Inc. (9745); (xxii) SAR Security Square Food Inc. (8008); (xxiii) SAR St. Charles Food Inc. (8325); (xxiv) SAR Stafford Food Inc. (1226); (xxv) SAR Superstition Springs Food Inc. (1883); (xxvi) SAR Tanforan Food Inc. (9106); (xxvii) SAR Valley Plaza Food Inc. (pending); (xxviii) SAR Westgate Massachusetts Food Inc. (9931); (xxix) SAR Willowbrook Food Inc. (8598); (xxx) SJ Arsenal Inc. (5763); (xxxi) SJ Boynton Inc. (pending); (xxxii) SJ Fox Run Inc. (2556); (xxxiii) SJ Lenox Food Inc. (9359); (xxxiv) SJ Macon Food Inc. (2782); (xxxv) SJ Rosspark Food Inc. (9994); (xxxvi) SJ Savannah Food Inc. (1810); (xxxvii) SJ South Hills Food Inc. (pending); (xxxviii) SJ Yorktown Food Inc. (4372). The Debtors’ executive headquarters is located at 7650 Birchmount Road, Markham, Ontario, L3R 6B9, Canada.

2. On January 25, 2021, the Canadian Court entered the Initial Order, a certified copy of which is attached hereto as Exhibit A (the “Initial Order”),² commencing the Canadian Proceeding and, among other things, appointing A&M as the Monitor and the Foreign Representative and authorizing the filing of these chapter 15 cases (collectively, the “Chapter 15 Cases”). A true and correct copy of the Affidavit of Joseph McCullagh (the “McCullagh Affidavit”) submitted to the Canadian Court in support of the Initial Order is attached hereto as Exhibit B. A true and correct copy of the Pre-Filing Report of the Proposed Monitor submitted by A&M to the Canadian Court in support of the Initial Order (the “Pre-Filing Report”) is attached hereto as Exhibit C. The Pre-Filing Report was filed to provide the Canadian Court with details on A&M’s qualifications to serve as Monitor and, based on A&M’s work with the Debtors leading up to the commencement of the Canadian Proceeding, information relating to the Debtors’ business, pre-filing activities, proposed postpetition financing and proposed Initial Order, among other things.

3. I submit this Declaration in support of: (i) the official form chapter 15 petitions of the Debtors; (ii) the *Verified Petition of Alvarez & Marsal Canada Inc., as Foreign Representative of Yatsen Group of Companies Inc. and Certain of its Affiliates, for (I) Recognition of Foreign Main Proceeding and (II) Certain Related Relief* (the “Verified Petition”); (iii) the *Motion of Alvarez & Marsal Canada Inc., as Monitor of Yatsen Group of Companies Inc. and Certain of Its Affiliates, for an Order Granting Certain Provisional Relief* (the “Provisional Relief Motion”); (iv) the motion seeking joint administration of these Chapter 15 Cases (the “Motion for Joint Administration”); and (v) the motion to establish certain notice procedures with respect to the above pleadings (the “Notice Procedures Motion”).

² Capitalized terms not otherwise defined herein shall have the meanings given to them in the Initial Order.

4. Alvarez & Marsal Canada ULC, an affiliate of A&M, was engaged as a consultant to the Debtors on December 22, 2020. As a result of A&M's work with the Debtors leading up to the commencement of the Canadian Proceeding, I have become familiar with the Company's history, day-to-day operations, assets, financial condition, business affairs, and books and records. Except as otherwise indicated, all facts set forth in this Declaration are based upon: (i) my personal knowledge; (ii) my review of relevant documents; (iii) information supplied to me by other employees of A&M, the officers, directors and employees of the Company, professionals retained by the Company or professionals retained by the Monitor, including, with respect to matters of United States bankruptcy law, information provided to me by U.S. counsel; or (iv) my opinion based upon my experience and knowledge of the Company's operations and financial condition. I am authorized to submit this Declaration. I am an individual over the age of eighteen and, if I were called upon to testify, I could and would testify competently to the facts set forth herein.

BACKGROUND

I. The Company's Business

5. The Company opened its first restaurant in Boston, Massachusetts in 1987. As of the commencement of the Chapter 15 Cases, the Company operates over 226 restaurants across 34 states and Puerto Rico (collectively, the "Restaurants"). Of the 226 Restaurants, 194 of the Restaurants are mall-based and 32 are street-level restaurants, and 185 of the Restaurants are Company-owned (collectively, the "Corporate-Owned Restaurants") and 41 are franchised (collectively, the "Franchised Restaurants").

6. Like many other similarly situated businesses, the COVID-19 pandemic has had, and continues to have, a significant detrimental impact on the Business. For fiscal year 2020, the Company's revenues declined approximately 46% from the prior year due to extended

restaurant closures as well as significantly reduced sales in many of the mall and street-level locations that reopened following the initial lock-down measures. As of the commencement of these Chapter 15 Cases, many of the Restaurants remain closed or are underperforming compared to their pre-pandemic levels.

A. Operations Segment of the Company

7. The Operations Segment comprises a number of entities (collectively, the “Operations Companies”) that, among other things, operate the Company’s various Corporate-Owned Restaurants, hold the Company’s intellectual property, and/or are party to franchise arrangements and provide certain services in respect of the Company’s Franchised Restaurants.

8. SAR Holdings Inc. (“SHI”) is the parent company of the Operations Segment, and the Operations Companies that operate one or more individual Corporate-Owned Restaurants are referred to herein as “Individual Opcos.” There are approximately 58 Individual Opcos that form part of the Operations Segment.

9. The Operations Segment is in all material respects managed by Yatsen Group Inc. (“YGI”), out of Markham, Ontario. Among other things, all key business and strategic decisions are made by YGI, all key supplier arrangements (including various food and beverage supply contracts) are negotiated for the benefit of the Restaurants by YGI, and YGI provides, among other things, accounting, bookkeeping, information technology, point of sale systems, security systems, and other services to the Individual Opcos.

10. With the exception of seven (7) Individual Opcos, Individual Opcos do not typically enter into lease arrangements directly with landlords in respect of the premises leased for their Corporate-Owned Restaurant(s). Debtor SAR Real Estate, Inc. (“SAR Real Estate”) and the Individual Leasecos (as defined below) enter into lease arrangements with landlords (each such lease arrangement, as may be amended from time to time by the parties thereto, a

“Lease”), and the Individual Opcos enter into either an occupancy agreement (each, as may be amended from time to time by the parties thereto, an “Occupancy Agreement”) or a sublease (each, as may be amended from time to time by the parties thereto, a “Sublease”) with SAR Real Estate or the applicable Individual Leaseco, to permit the applicable Individual Opco to occupy and use the leased premises to operate their Restaurant at that location.

11. The Company also has a number of franchise arrangements (each, as may be amended from time to time by the parties thereto, a “Franchise Agreement”) with third-party franchisees (each such party, a “Franchisee”) in respect of the Franchised Restaurants referenced above, and the Company provides various services to the Franchisees pursuant to such Franchise Agreements. Certain Franchisees have entered into subleases (each, a “Sublease”) with SAR Real Estate or an Individual Leaseco (similar to the Individual Opcos discussed above) pursuant to the applicable Franchise Agreements to occupy and use the leased premises to operate their Franchised Restaurants. In twelve (12) circumstances, Franchisees have entered into lease arrangements directly with the landlord of the applicable premises.

12. The Operations Segment is funded from cash flow from its own operations as well as a secured revolving credit facility (as may be amended from time to time by the parties thereto, the “Wells Fargo Credit Facility”) pursuant to a credit agreement dated as of September 30, 2019 (the “Wells Fargo Credit Agreement”) among SHI as Borrower, Wells Fargo Bank, National Association (“Wells Fargo”) as Administrative Agent and L/C Issuer (the “Secured Agent”) and each lender from time to time party thereto. The Wells Fargo Credit Facility is guaranteed by the Parent, certain of its subsidiaries (including certain entities in the Operations Segment, Debtor Yatsen Group of Companies Inc. (“YGC”), and Edjar Food Group Inc. (“EFG”), the entity that owns all of the shares of the Parent (with the guarantor entities

collectively, “Wells Fargo Credit Facility Guarantors” and, each, a “Wells Fargo Credit Facility Guarantor”). Neither SAR Real Estate nor any of the Individual Leasecos are Wells Fargo Credit Facility Guarantors. YGC is the only Debtor that is a Wells Fargo Credit Facility Guarantor or otherwise obligated under the Wells Fargo Credit Facility.

B. Real Estate Segment

13. The Real Estate Segment comprises YGC, SAR Real Estate and approximately 57 individual entities (collectively, the “Individual Leasecos”). YGC is the parent company of the Real Estate Segment.

14. YGC guarantees a number of the Leases to which SAR Real Estate and the Individual Leasecos are a party, and in respect thereof earns a guarantee fee based on a percentage of the guaranteed rent amounts, payable by the applicable Individual Opcos or the franchisor entity in the Operations Segment (the “Franchisor”). YGC’s primary role in the Real Estate Segment is to resolve and settle landlord disputes that may arise from time to time with SAR Real Estate or an Individual Leaseco. YGC has historically funded amounts payable in connection with lease terminations, settlements, and disputes with landlords. However, as a result of its current financial position, YGC does not have sufficient funds to address all claims of and issues with the landlords under the Leases.

15. The sole function served by SAR Real Estate and the Individual Leasecos is to enter into lease agreements in respect of various Corporate-Owned Restaurants and Franchised Restaurants. After entering into a Lease with a landlord, SAR Real Estate and the Individual Leasecos enter into an Occupancy Agreement or Sublease with the Individual Opco or Franchisee that will operate the Restaurant at the applicable leased location.

16. For administrative efficiency, the Individual Opcos and Franchisees typically make rent payments on behalf of SAR Real Estate or the applicable Individual Leaseco,

rather than pay the amounts due to SAR Real Estate or the Individual Leaseco to then pay the landlord. Similarly, where applicable, the Individual Opco or the Franchisees pay guarantee fees directly to YGC.

II. *The Company's Corporate Structure*

17. The Company functions as an integrated North American business and each of the Debtors is centrally managed from the Company's headquarters in Markham, Ontario, Canada. All key senior management are located in Markham. All key corporate functions are managed and performed in Markham, including treasury, corporate finance and accounting, strategic decision making, communications, human resources, payroll, information technology, new business development initiatives, and pricing and equipment acquisition. All key documents, including leases, the secured indebtedness that funds the Operations Segment, insurance and other key corporate documents, are negotiated, arranged, and maintained in Canada. Corporate books and records are maintained in the Markham office.

A. The Debtors

18. The Debtors in these Chapter 15 Cases are YGC, SAR Real Estate and 36 Individual Leascos.

(i) *Yatsen Group of Companies Inc.*

19. YGC, a corporation organized under the laws of the Province of Ontario, is a direct, wholly owned subsidiary of YGI, which is a direct, wholly owned subsidiary of the Parent. YGC's headquarters are located at 7650 Birchmount Road, Markham, Ontario, L3R 6B9, which is also the address of the headquarters for the whole Company.

20. YGC is the parent holding company of the Real Estate Segment, with no active operations, and directly owns 100% of the shares of SAR Real Estate and of each of the Individual Leasecos.

(ii) *SAR Real Estate Inc.*

21. SAR Real Estate, a corporation organized under the laws of the State of Delaware, is a direct, wholly owned subsidiary of YGC. SAR Real Estate is party to a number of Leases as tenant, and has entered into corresponding Occupancy Agreements or Subleases, as applicable, with Individual Opcos and Franchisees in respect of each such Lease. SAR Real Estate does not operate any of the Restaurants or otherwise carry on any business operations.

(iii) *Individual Leaseco Debtors*

22. The 36 Individual Leaseco Debtors, together with their jurisdictions of incorporation, are set out in a list attached to the McCullagh Affidavit as Exhibit B. Each of the Individual Leaseco Debtors is a direct, wholly owned subsidiary of YGC. Other than SAR Coastland Food Inc. and SAR First Colony Food Inc., which are corporations organized under the laws of the Province of Ontario, each of the other Individual Leaseco Debtors are incorporated in the United States

23. Similar to SAR Real Estate, each of the Individual Leaseco Debtors is party to one or more Leases as tenant, and each has entered into a corresponding Occupancy Agreement or Sublease with an Individual Opco or Franchisee in respect of each such Lease. The Individual Leaseco Debtors do not operate any of the Restaurants or otherwise carry on any business operations.

B. Employees

24. The Debtors do not have any employees and the respective directors and officers of the Debtors are employees, officers and/or directors of the Parent and/or certain other entities within the Company's corporate structure.

C. Financial Position of the Debtors³

(i) YGC

25. Based on YGC's unaudited financial statements for the year-ended December 31, 2020, YGC's assets as of December 31, 2020, had a book value of approximately US\$1.3 million, comprised largely of current assets, including approximately US\$925,000 of cash and approximately US\$309,000 of receivables from its subsidiaries.

26. As of December 31, 2020, YGC's liabilities amounted to approximately US\$675,000, including approximately US\$62,000 of current liabilities and approximately US\$612,000 of non-current liabilities comprising advances from its parent and other related companies.

27. The contingent liability of YGC for Lease guarantees is approximately US\$8.4 million for arrears alone.

(ii) SAR Real Estate

28. Based on the SAR Real Estate's unaudited financial statements for the year-ended December 31, 2020, SAR Real Estate's assets as of December 31, 2020, had a book value of approximately US\$22.9 million, composed primarily of accounts receivable relating to the Occupancy Agreements and Subleases to which SAR Real Estate is a party.

29. As of December 31, 2020, SAR Real Estate's liabilities amounted to approximately US\$22.9 million, composed primarily of accounts payable in respect of the Leases to which it is a party.

³ Copies of the unaudited financial statements for the year-ended December 31, 2020, for each of YGC, SAR Real Estate and each of the Individual Leaseco Debtors are attached to the McCullagh Affidavit as Exhibit C.

30. The statement of profit and loss for SAR Real Estate for the year ended December 31, 2020, reflects a small loss of US\$1,506. The liabilities of approximately US\$22.9 million reflected on its balance sheet consist almost exclusively of existing rent arrears.

(iii) Individual Leaseco Debtors

31. Similar to SAR Real Estate, the unaudited financial statements for the year-ended December 31, 2020, for each of the Individual Leaseco Debtors reflect approximately equivalent accounts receivable amounts relating to the Occupancy Agreement(s) and Sublease(s) to which such Individual Leaseco Debtor is a party, and corresponding accounts payable amounts due to the landlord(s) in respect of the Lease(s) to which it is a party.

D. Lease Arrangements

32. There are approximately 207 Leases to which SAR Real Estate and the Individual Leasecos are a party, and YGC has guaranteed approximately 74 of such Leases. Of those 207 Leases, SAR Real Estate and the Individual Leaseco Debtors are party as tenants to 189 Leases, approximately 61 of which are guaranteed by YGC. The remaining 18 Leases to which Individual Leasecos that are not Debtors are a party are not affected by the Chapter 15 Cases. In addition, as also noted above, there are seven (7) Individual Opcos and twelve (12) Franchisees that have entered into lease arrangements directly with the applicable landlord in respect of their Restaurants, and those lease arrangements are not affected by the Chapter 15 Cases.

(i) Impact of COVID-19 Pandemic on Lease Payments

33. Commencing in or about the second half of March 2020, the COVID-19 pandemic forced the Company to comply with applicable local government shutdown measures. The Restaurants were shuttered—rendered unable to be operated as contemplated by the Leases—for an extended period of time, resulting in revenues ceasing during the shutdown

period. The Company continues to face tremendous uncertainty and instability caused by the COVID-19 pandemic.

34. Prior to and including March 2020, all lease obligations under the Leases for the Corporate-Owned Restaurants had been paid in full. Beginning in April 2020, however, the Individual Opcos and Franchisees stopped making payments in respect of their rental obligations pursuant to the Occupancy Agreements and Subleases and ceased paying the guarantee fees, where applicable.

35. SAR Real Estate and the Individual Leasecos have no business operations and do not generate cash. Thus, when the Individual Opcos and Franchisees stopped making payments to the applicable landlords in respect of their obligations pursuant to the applicable Occupancy Agreements and Subleases, SAR Real Estate and the Individual Leasecos did not have the cash available to make payments to the applicable landlords pursuant to the Leases, and thus defaulted under substantially all of the Leases to which they are a party. In aggregate, the monthly lease obligations of SAR Real Estate and the Individual Leasecos are approximately US\$3.6 million. As of December 31, 2020, approximately 174 of the 189 Leases to which the Debtors are a party are in arrears, with approximately US\$26.8 million of arrears outstanding in aggregate pursuant to such Leases.

(ii) Review of Existing Lease Arrangements and Negotiations with Landlords

36. In light of the ongoing COVID-19 pandemic and its negative impacts on the Business, the Company undertook an analysis of the viability of each of its locations. The Company determined that a number of locations are not sustainable or sustainable only with Lease modifications.

37. In August 2020, the Company engaged Hilco Real Estate, LLC (“Hilco”) to provide certain consulting services in connection with 182 of the Leases (the “Hilco”).

Engagement”). Pursuant to the Hilco Engagement, Hilco is assisting the Company in reviewing and developing a strategic plan for restructuring and/or terminating the applicable Leases, and in negotiating and implementing the terms of such restructuring and/or terminations with the applicable landlords.

38. The Company was able to achieve sustainable arrangements in respect of over 20 Leases with certain landlords, each of which is a party to one or a small number of Leases with SAR Real Estate or one of the Individual Leasecos. However, the Company has not been able to achieve a resolution with the remaining landlords, which represent a majority of the Company’s Lease portfolio.

39. The Company expects to disclaim certain Leases, and intends to seek to implement a comprehensive restructuring of their lease obligations to provide for a more sustainable Lease portfolio for the long-term. Based on discussions with the Company, it is the Monitor’s understanding that the Company expects to issue notices of disclaimer in respect of approximately twenty-eight (28) Leases and it is continuing to review and assess its other Leases and its options and alternatives in respect thereof.

(iii) Litigation and Other Steps Advanced by Certain Landlords

40. As a result of the payment defaults under the Leases, a number of landlords have issued notices of default and certain landlords have commenced taking various steps and/or legal actions against the applicable tenant entity.

41. As of the commencement of the Chapter 15 Cases, nine (9) landlords have commenced or sought to commence legal actions against SAR Real Estate and/or certain Individual Leaseco Debtors in respect of approximately 96 Restaurant locations. One of these legal actions in various jurisdictions in the United States has resulted in default judgment being granted, garnishment being filed, and the closure of a key location as a result of the landlord’s

actions; four actions were settled among the parties; and the balance of the legal actions are ongoing at this time, and the applicable tenant entities have been defending such actions. The most recent of these actions was filed in January by one of the landlords in respect of 43 locations. In addition, one landlord has locked the Debtors out of seven (7) locations, and the Debtors have not had access to such locations since October 2020.

42. I believe that the Canadian Proceeding, the Chapter 15 Cases, and the requested stay of proceedings are critical to provide stability to the Company and to prevent further actions and potential restaurant closures by other landlords, while the Company works to advance a global resolution in respect of the various landlord claims.

III. *The Debtors' Capital Structure*

43. The closures of substantially all of the Restaurants due to the COVID-19 pandemic negatively impacted the Company's financial performance, resulting in certain defaults under the Wells Fargo Credit Agreement relating to certain financial covenants for the Q2 2020 period. The Secured Agent issued a formal notice of certain events of default under the Wells Fargo Credit Agreement on September 3, 2020.

44. In September 2020, SHI engaged CR3 Partners, LLC ("CR3") to, among other things, assist SHI in the analysis and preparation of the Company's business plan for 2020 and 2021, and assist SHI in its discussions with Wells Fargo.

45. The Company, with the assistance of CR3, has been engaged in detailed and constructive discussions with Wells Fargo in connection with the financial and operational challenges faced by the Company due to the COVID-19 pandemic, and an amendment to the Wells Fargo Credit Facility.

46. The Company has been working cooperatively with Wells Fargo in connection with the Canadian Proceeding and the DIP Facility. Although Wells Fargo continues

to reserve its rights in all respects, and on the express understanding that Wells Fargo will be treated as an unaffected creditor in any plan of compromise or arrangement filed by the Debtors in the Canadian Proceeding and that any Court-ordered charges are junior and subordinated to the security granted by YGC in favor of Wells Fargo in respect of its guarantee of the Wells Fargo Credit Facility, discussions have been constructive and Wells Fargo has raised no objection to the commencement of the Canadian Proceeding by the Debtors or borrowings to be made under the DIP Facility by the Debtors. The parties are in the process of settling the terms of a formal amendment to the Wells Fargo Credit Facility to memorialize the understanding of the parties.

47. With the exception of the requested stay of proceedings pursuant to the proposed Initial Order, the Debtors are not seeking to affect Wells Fargo or YGC's guarantee obligations in respect of the Wells Fargo Credit Facility. The DIP Financing and the Charges (each as defined in the Initial Order) are all proposed to be subordinate to the security granted by YGC in favor of Wells Fargo in respect its guarantee of the Wells Fargo Credit Facility.

IV. Events Leading to Cross Border Filings

48. The COVID-19 pandemic forced substantially all of the Restaurants to close altogether and, upon reopening, to operate at reduced hours. Such closures resulted in significant and continuing loss of revenues. In turn, the Individual Opcos and Franchisees ceased making payments in respect of their rent obligations under the Occupancy Agreements and Subleases. As of the date hereof, the obligations under substantially all of the Debtors' Leases are in arrears resulting in a number of landlords taking steps and legal actions against certain of the Debtors.

49. The Company is presently facing a liquidity crisis and is unable to satisfy its liabilities as they become due.

50. The Company ultimately concluded, in consultation with its professionals and the cooperation of the DIP Lender, to pursue a global restructuring of the Real Estate Segment and a resolution of the Company's unsustainable lease obligations under the supervision of the Canadian Court and with the benefit of monitoring in accordance with the CCAA and the protections afforded by recognition of the Canadian Proceeding by this Court.

V. *The Canadian Proceeding and the DIP Facility*

51. The Canadian Court entered the Initial Order commencing the Canadian Proceeding on January 25, 2021. The Initial Order appointed Alvarez & Marsal Canada Inc. as the Monitor and Foreign Representative.

52. The Initial Order also authorized the Debtors to enter into the DIP Facility pursuant to the terms of that certain DIP Financing Agreement, dated as of January 24, 2021 (the "DIP Financing Agreement"). Specifically, the Initial Order authorizes the Debtors to borrow up to an aggregate maximum amount of CAD\$5 million under the DIP Facility, with up to CAD\$500,000 available during the period up to the Comeback Hearing, to provide the Debtors with sufficient liquidity during the first ten (10) days of the Canadian Proceeding to pay the costs of necessary professional advisors, including the fees and expenses of the Debtors' Canadian and U.S. counsel, and the fees and expenses of the Monitor and its Canadian and U.S. counsel. The Initial Order also grants the DIP Lender a charge on all property of the Debtors, which has priority as set forth in the Initial Order.⁴

53. The Initial Order further allows for the Debtors to make Lease payments in advance on the first of every month for the full month period during the course of the Canadian Proceeding (subject to any applicable Lease expiring, getting disclaimed, or otherwise

⁴ For the avoidance of doubt, the DIP Lender's Charge shall be subordinate to Wells Fargo's lien on the assets of YGC.

terminated). The first such payment on February 1, 2021 shall also include the amount of Lease obligations incurred from the date of the granting of the Initial Order through the end of January 2021. Further, the Debtors and those Individual Opcos that are party to Occupancy Agreements or Subleases with the Debtors have agreed to an arrangement pursuant to which such Individual Opcos (in such capacity, the “Funding Companies”) will fund, in aggregate, US\$3.1 million (the “Rent Reserve”) to be held in escrow by the Monitor as security for the payment of rent obligations incurred from and after the commencement of the Canadian Proceeding. The Rent Reserve represents the aggregate rent obligations for a one-month period under the Leases to which the Debtors are a party, excluding (i) rent obligations for the 30-day notice period for such Leases that the Debtors intend to disclaim at this time pursuant to the Initial Order (the rent for which will be paid through the disclaimer notice period pursuant to the Initial Order), and (ii) excluding any Leases that expire on January 31, 2021, and which the applicable Debtor does not intend to renew. A copy of the escrow agreement entered into by the Debtors, the Funding Companies, and the Monitor is attached to the McCullagh Affidavit as Exhibit E (the “Escrow Agreement”).

54. Pursuant to the Escrow Agreement, the Rent Reserve is to be funded by or as directed by the Funding Companies as soon as practicable following the granting of the Initial Order and prior to the Comeback Hearing. In the event any such Individual Opco or Franchisee, if applicable, fails to satisfy any rent payment in any given month pursuant to its obligations under the applicable Occupancy Agreement or Sublease with one of the Debtors, YGC, on behalf of the Debtors, shall have the ability to direct the Monitor to pay the applicable rent payment from the Rent Reserve to satisfy the applicable Debtor’s rent obligations pursuant to the applicable Lease, and as required pursuant to the Initial Order.

55. I believe that the DIP Facility will not financially prejudice the Debtors' limited creditor pool, given (a) the protections to be afforded to the various landlords in the Initial Order (as described above, including the Rent Reserve); (b) that it is intended that the landlords will receive all post-filing rent amounts owing in the ordinary course; and (c) the fact that Wells Fargo is being treated as unaffected in any plan of arrangement or proposal and the DIP Lender's Charge is subordinate to the liens and security interests on the assets of YGC.

REQUEST FOR FINAL RECOGNITION

56. The Monitor has filed, concurrently herewith, the Verified Petition, which seeks final relief in aid of the Canadian Proceeding and recognition and enforcement in full of the Initial Order in the United States. As set forth in the Verified Petition, this Court should recognize the CCAA Proceeding as a "foreign main proceeding," as defined in section 1502(4) of title 11 of the United States Code (the "Bankruptcy Code"). First, these Chapter 15 Cases have been commenced by a duly authorized foreign representative. In addition, the Bankruptcy Code provides for recognition of a foreign proceeding as a "foreign main proceeding" if such foreign proceeding is a "foreign proceeding" pending in the country where the debtor has its "center of its main interests." See 11 U.S.C. § 1517(b)(1).

57. A&M is an entity that has been authorized by the Canadian Court to monitor the business and financial affairs of the Debtors with the powers and obligations set out in the CCAA and the Initial Order. The Initial Order, among other things (i) appointed the Monitor as Foreign Representative and directs the Monitor to commence these Chapter 15 Cases, and (ii) requested that all courts make such orders and provide assistance to the Monitor as may be necessary and desirable to give effect to the Initial Order. See (Initial Order ¶¶ 21-29, 44-47, 56.) It is my understanding that for these reasons, A&M satisfies the definition of a "foreign representative" as that term is defined in section 101(24) of the Bankruptcy Code.

58. The Canadian Proceeding is a “foreign proceeding” as it is a collective judicial proceeding authorized and supervised by the Canadian Court under the CCAA and pursuant to the Initial Order. It is my understanding that for these reasons, the Canadian Proceeding qualifies as a “foreign proceeding” as that term is defined in section 101(23) of the Bankruptcy Code. In compliance with section 1515(b) of the Bankruptcy Code, a certified copy of the Initial Order, which commenced the Canadian Proceeding, is attached hereto as Exhibit A.

59. The Debtors’ “center of main interest” is clearly in Markham, Ontario. As set forth more explicitly below, all of the Debtors’ principal corporate, management, banking, and strategic functions are undertaken in Canada, and the Canadian and United States operations are entirely integrated.

60. The Company functions as an integrated North American business and each of the Debtors is centrally managed from the Company’s headquarters in Markham, Ontario, Canada. More specifically:

- (a) the Debtors are managed out of the corporate headquarters in Markham, Ontario, where all corporate-level decision-making and corporate administrative functions are centralized;
- (b) the Company does not have any corporate headquarters or any regional office in the United States, with the exception of one location for SAR Real Estate which is used primarily for receipt of correspondence;
- (c) the Debtors do not have any employees, and their respective officers and directors (with the exception of one individual) are employees of the Parent;
- (d) all lease agreements and other agreements to which the Debtors are a party are negotiated and administrated at the corporate level in Canada, and it is my belief (including based on discussions with a senior officer and employee of the Parent) that as part of the negotiations of the Leases, landlords have always been aware that they were negotiating and entering into arrangements with a Canadian-managed business (and many of the Leases have been in place for decades, subject to multiple renewals). In particular, the contact information for the representatives of the Company

and the Debtors that negotiate the Leases all include the address of the Markham, Ontario headquarters and local Canadian phone numbers;

- (e) the notice provisions for all but two (2) of the 207 Leases provide for notices by landlords to the tenants under such Leases (or a copy of such notice) to be delivered to the Markham, Ontario headquarters;
- (f) the officer of the Debtors that has executed substantially all of the Leases on behalf of the Debtors is an executive of the Company and a Canadian resident who works out of the Markham, Ontario headquarters;
- (g) after a Lease is entered into, none of the SAR Real Estate or the Individual Leaseco Debtors engage in any operations;
- (h) many of the Leases to which the Debtors are a party are guaranteed by YGC, the Canadian parent entity of the Real Estate Segment, and disputes among landlords and SAR Real Estate or an Individual Leaseco are typically resolved by YGC out of Markham, Ontario;
- (i) YGC is the entity in the Real Estate Segment whose primary role is to resolve and settle landlord disputes that arise from time to time with SAR Real Estate or an Individual Leaseco;
- (j) all new business development initiatives, including due diligence, site assessment and review of prospective new lease arrangements, are conducted by the Company's leasing team and reviewed by the Company's senior officers, all of which are centralized and managed from the Company's headquarters in Markham, Ontario;
- (k) the administration of the Debtors' accounts receivable and accounts payable are managed from the Company's headquarters in Markham, Ontario; and
- (l) all bookkeeping, invoicing, and accounting functions are performed on behalf of the Debtors by the Parent at the headquarters in Markham, Ontario.

61. Based on these facts, it is my understanding that the Debtors' center of main interest is in Canada and the Canadian Proceeding is therefore a foreign main proceeding as that term is defined in section 1517(b)(1) of the Bankruptcy Code.

62. In compliance with section 1515(c) of the Bankruptcy Code, my counsel has advised me regarding the definition of "foreign proceeding" in the Bankruptcy Code and, to

the best of my knowledge, the Canadian Proceeding is the only “foreign proceeding,” as such term is defined in section 101(23) of the Bankruptcy Code, pending with respect to the Debtors.

REQUEST FOR PROVISIONAL RELIEF

I. Motion for Joint Administration

63. Joint administration is warranted in these Chapter 15 Cases. The Debtors are affiliated entities with closely related financial affairs and business operations, and joint administration will ease the administrative burden on the parties. The Monitor anticipates that the various notices, applications, motions, other pleadings, hearings and orders in these cases will affect each of the Debtors. The failure to administer these Chapter 15 Cases jointly would result in duplicative pleadings and service. Such duplication would impose unnecessary expenses on all parties.

64. Joint administration will permit this Court to use a single docket for the jointly administered cases and combine notices to creditors and other parties in interest. Joint administration will protect parties in interest by ensuring that they will be apprised of all matters. Accordingly, I believe entry of an order granting the relief requested in the Motion for Joint Administration is in the best interest of the Debtors and all parties in interest.

II. Motion for Provisional Relief

65. The Monitor has also filed, concurrently herewith, the Provisional Relief Motion seeking: (i) enforcement of the Initial Order in the United States on a provisional basis, including authorizing the Debtors to obtain credit under the DIP Facility and granting the DIP Lender the DIP Lender’s Charge (as such terms are defined in the Initial Order); (ii) affirmation of the DIP Lender’s protection under section 364(e) of the Bankruptcy Code for borrowings prior to the recognition hearing; and (iii) the application of sections 108, 362 and 365(e) of the Bankruptcy Code to these Chapter 15 Cases.

66. As set forth in the Provisional Relief Motion, the Debtors are parties to numerous lease agreements with U.S. counterparties that may contain provisions granting the counterparty a right to terminate for various reasons, including any of the Company's affiliates filing for bankruptcy or commencing the Canadian Proceeding, becoming a debtor under the Bankruptcy Code, or becoming insolvent. Accordingly, it is my belief that, unless the protections of section 362 of the Bankruptcy Code are immediately applied in these Chapter 15 Cases, some of these creditors may seek to commence enforcement or other actions in U.S. jurisdictions of their choosing, which could disrupt the Company's U.S. business and its efforts to effectuate a global restructuring. I believe that the threat of such disruption as well as the legal cost of defending potentially numerous enforcement actions in multiple jurisdictions, may have a severe and adverse impact on the Company and its stakeholders. Furthermore, it is my belief that, unless the protections of section 365(e) of the Bankruptcy Code are applied in these Chapter 15 Cases, counterparties to leases may well seek to terminate those leases to the detriment of the Company's operations and the success of the Canadian Proceeding.

67. The DIP Lender has agreed to provide the DIP Facility according to the terms outlined in the DIP Financing Agreement. The DIP Lender, which is an entity owned by equity holders of the Debtors, and the Debtors negotiated the terms of the DIP Facility. Accordingly, I believe that the terms of the DIP Financing Agreement are reasonable under the circumstances because, among other reasons, the pricing of the DIP Facility is favorable when compared to similar related-party DIP facilities that have been approved by the Canadian courts.

68. Moreover, based on the projections, the Debtors require immediate access to a portion of the DIP Facility to allow for payment of professional fees estimated to be incurred during the course of the Canadian Proceeding and these Chapter 15 Cases. The Company has

prepared projections with the assistance of A&M, which I have reviewed and believe to be reasonable, that provide the projected cash flow of the Company on a weekly basis following entry of the Initial Order. Those projections disclose that the Company will require access to the DIP Facility during the first two (2) weeks following entry of the Initial Order. If the interim and final requested relief is not granted, the Debtors will be unable to effectively administer their restructuring proceedings causing harm to the Debtors and to the detriment of their stakeholders.

69. The DIP Lender has requested provisional protections under section 364(e) of the Bankruptcy Code while recognition is under consideration. Recognition of the approval of the DIP Facility through the Initial Order will permit the Debtors to engage in a restructuring process supervised by the Canadian Court and this Court, which will preserve and maintain the going-concern value of the Debtors, for the benefit of all of the Debtors' stakeholders.

70. I believe that the entry of an order granting provisional relief will not harm the Debtors' creditors. The provisional relief will be in place for only a short time, and affected parties would be able to seek relief, if necessary, either in this Court or in the Canadian Court. Moreover, the provisional relief will facilitate the Debtors' preservation of their business as a going concern. Accordingly, I believe that the balance of harms weighs in favor of granting the provisional relief.

III. *Notice Procedures Motion*

71. The relief sought in the Notice Procedures Motion is warranted in these Chapter 15 Cases. The Debtors have a significant number of creditors, potential creditors, and other parties in interest, all of which will need to be provided with notice of, among other things, the filing of these Chapter 15 Cases, the order on the Provisional Relief Motion, the deadline to object to recognition of these Chapter 15 Cases, and the hearing date for recognition of these

Chapter 15 Cases. I believe the notice procedures set forth in the Notice Procedures Motion represent a cost-effective method for the Monitor to effectively handle service in these Chapter 15 Cases. Accordingly, I believe entry of an order granting the relief requested in the Notice Procedures Motion is in the best interest of the Debtors and all parties in interest.

CONCLUSION

Based on the foregoing, I believe that the relief requested in the Debtors' Chapter 15 Cases is well justified, necessary under the circumstances, in the best interests of the Debtors and their creditors and should be granted in full.

I certify pursuant to 28 U.S.C. § 1746 under penalty of perjury under the laws of the United States that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: January 25, 2021
Toronto, Canada

/s/ Alan Hutchens

Alvarez & Marsal Canada Inc.

By: Alan Hutchens

Title: Senior Vice-President