

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
Court No: 500-11-050409-164
Estate No: 0000293-2016-QC

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

IN THE MATTER OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C.
(1985), c. C-36 WITH RESPECT TO:

**7098961 CANADA INC. (FORMERLY KNOWN AS
BEYOND THE RACK ENTERPRISES INC.),** a
legal person duly incorporated under the laws of
Canada, having its principal place of business at
905 Hodge St., Saint-Laurent QC H4N 2B3

Debtor

-and-

RICHTER ADVISORY GROUP INC., a duly
incorporated legal person having its principal place
of business at 1981 McGill College Avenue, in the
city and district of Montreal, Quebec, H3A 0G6

Monitor

**SECOND REPORT OF THE MONITOR
ON THE STATE OF THE DEBTOR'S FINANCIAL AFFAIRS
APRIL 22, 2016**

INTRODUCTION

1. On March 24, 2016, the Honourable Justice Martin Castonguay, J.S.C., issued an initial order (the "**Initial Order**") pursuant to the *Companies' Creditors Arrangement Act* (the "**CCAA**") in respect of 7098961 Canada Inc. (formerly known as Beyond the Rack Enterprises Inc., the "**Debtor**") as appears from the Court record.
2. Pursuant to the Initial Order, Richter Advisory Group Inc. ("**Richter**" or the "**Monitor**") was appointed as Monitor to the Company and a stay of proceedings (the "**Stay of Proceedings**") was issued from the date of the Initial Order until April 22, 2016 (the "**Stay Period**") and on April 20, 2016, the Stay Period was extended to April 25, 2016.

3. On April 25, 2016, the Debtor will present a Motion for the issuance of an Order Extending the Stay of Proceedings up to and including June 15, 2016.
4. We refer the Court to the report issued by Richter as Proposed Monitor dated March 23, 2016 for general information on the Debtor, historical events leading to the CCAA filing, objectives of the CCAA proceedings and historical financial information and to the First Report of the Monitor dated April 19, 2016, for information on the state of the financial affairs of the Debtor and the solicitation process.
5. This Second Report of the Monitor has been prepared in order to inform the Court of the following:
 - A. Executive summary
 - B. Cash flow projections
 - C. Activities of the Monitor
 - D. Motion for the issuance of an Order Extending the Stay of Proceedings.
6. We inform the Court that the Monitor has not conducted an audit or investigation of the information that was provided by the Debtor and that accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this report. The information contained herein is based on unaudited financial information provided to the Monitor by the Debtor's management as well as discussions with the Debtor's management and employees.
7. The cash flow projections appended to this report were prepared by the Debtor's management and are based on underlying financial assumptions. The Monitor cannot provide an opinion as to the accuracy, completeness or reliability of these projections. As the cash flow projections relate to future events, which are indeterminable by nature, variances will occur, which may be material. Accordingly, the Monitor does not express an opinion regarding the likelihood of materialization of these cash flow projections.
8. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.

A) EXECUTIVE SUMMARY

9. The objectives of the CCAA proceedings was to seek the issuance of an Initial Order with the necessary reliefs to allow the continuation of the activities while a solicitation process was being conducted under Court supervision, the whole with a view to identify the best transaction for the benefit of all stakeholders (including the employees, the trade creditors, the suppliers, the customers and the shareholders).
10. On March 29, 2016, Richter implemented a formal process to solicit offers for the sale of the Debtor's assets and business.
11. On April 18, 2016, offers received were opened in private with representatives of the Monitor and its legal counsel, and representatives of the Debtor and its legal counsel.
12. The best offer envisages an investment in the Debtor to fund a Plan of Arrangement with the creditors, the whole to be implemented by June 4, 2016 or, failing same, an acquisition of the assets. This offer is from a company related to the DIP Lender and it provides for a conditional \$2 million of additional Interim Financing to the Debtor.

B) CASH FLOW PROJECTIONS

DIP Financing

13. The Initial Order authorized an Interim Financing Facility providing the Debtor with \$1,150,000 to maintain its operations with a Maturity Date of May 27, 2016. To date, the full amount of the DIP Facility has been received by the Debtor.

Period from March 23 to April 17, 2016

14. When the Motion for the Issuance of an Initial Order was filed on March 23, 2016, the Debtor submitted a projected cash flow statement for the initial 30-day period.
15. We refer this Court to **Appendix A** (under seal) for the comparative cash flow statement for the above period including details of the major variances.
16. The cash receipts from the payment processors have been significantly impaired as a result of payment processors offsetting, from their remittance, customers' order cancellations totaling approximately \$1,222,000 pertaining to pre-filing orders. For the 4-week period ended April 17, 2016, new orders totaled approximately \$2.5 million, which are \$200,000 higher than initially projected.

17. Since the filing of the CCAA, the Debtor is paying its suppliers based on negotiated terms or on cash on delivery basis. The Debtor advises that it has not incurred significant unpaid liabilities since the filing.

Period from April 18 to June 19, 2016

18. The Debtor presents to this Court its cash flow projections ("**Projections**") for the period from April 18 to June 19, 2016 (the "**Period**") (refer to **Appendix B**) which are filed under seal with the Court.
19. The Projections reflect the following general assumptions:
- Extension of the Stay Period;
 - Continued service by the payment providers;
 - Continued service by the different outsourcing companies and individuals;
 - Additional DIP Advances totaling \$2 million.
20. More particularly, the Projections reflect the following assumptions:

Cash Receipts

- The forecasted sales were based on the recent trending since the filing of the CCAA.
- Receipts assume that the payment processors will continue to offset, from their remittance, the customers' cancellations of pre-filing orders.
- Receipts from payment processors assume a holdback of 12%.
- The duty drawback claim of \$441K is expected to be collected during the Period. We note that this duty drawback receipt was originally projected at \$542K and assumed to be collected the week ended March 24, 2016. Management has amended its claim and reduced the amount of its refund to \$441K.

Cash Disbursements

- Funds will be used in priority to pay employees and expenses to maintain the operations of the business. Purchases, shipping and marketing expenses will depend on the level of funds collected from the payment processors. Therefore, such disbursements were projected as a function of payment processors receipts. Management expects to purchase more products and fulfill more open customers' orders in the eventuality that the funds received from payment processors are higher than projected.

- Operating expenses were projected based on historical information and the expected level of activity.
- More particularly, salaries reflect the actual number of employees and payments to contractors reflect the amounts necessary in order to maintain operations and the IT infrastructure.

C) ACTIVITIES OF THE MONITOR

21. The Debtor has provided the Monitor with its full cooperation and the Monitor has had unrestricted access to its premises, as well as to the various books and records.
22. The Monitor has implemented procedures to insure a monitoring of the receipts and disbursements, as provided by the CCAA, with a view of performing comparison and variance analysis of actual results against the Debtor's cash flow projections filed with the application made pursuant to the CCAA.
23. The Monitor, to its knowledge, has been kept informed of the Debtor's major activities and has reviewed the disbursements to ensure that they were related to current commitments.

D) MOTION FOR THE ISSUANCE OF AN ORDER EXTENDING THE STAY OF PROCEEDINGS

24. The Debtor's application to extend the Stay of Proceedings to June 15, 2016 is reasonable and the Monitor recommends that this Court agrees to it, given inter alia the following factors:
 - If the extension is granted, we are not aware of any other issue that may materially prejudice creditors.
 - Several suppliers and employees have indicated their support to the Debtor during the current restructuring process.
 - The extension of the Stay of Proceedings is supported by the DIP Lender, the Debtor's principal secured lender.
 - Several direct and indirect jobs are at stake.
 - Since the issuance of the Initial Order, the Debtor has continued to act diligently, in good faith and in the interest of its creditors.

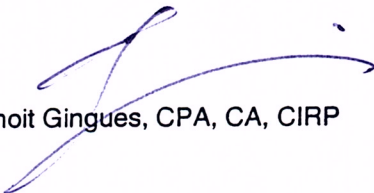
- Since March 24, 2016, the Debtor has continued to pay its employees and suppliers of goods and services on time and/or according to existing agreements.
- If the Initial Order issued by this Court is not extended as requested by the Debtor, there is a strong possibility it will go bankrupt and a liquidation will ensue.

CONCLUSION AND RECOMMENDATION

25. The Monitor has managed an accelerated solicitation process with a view to sell the assets or the business of the Debtor in a going concern basis, avoid business interruption and maximize value for all stakeholders.
26. The Monitor believes that the issuance of an Order Extending the Stay of Proceedings is necessary and reasonable in the circumstances and will allow the Debtor to implement the transaction being proposed by the party having submitted the highest proposal in the context of the solicitation process, the whole for the benefit of all of the Debtor's stakeholders since it is contemplating the submission of a Plan of Arrangement under the CCAA.

Respectfully submitted at Montreal, this 22nd day of April 2016.

Richter Advisory Group Inc.
Monitor



Benoit Gingues, CPA, CA, CIRP

Filed Under Seal

Appendix A

Comparative Cash Flow Statement

Period from March 23 to April 17, 2016

Filed Under Seal

Appendix B

Cash Flow Projections

Period from April 18 to June 19, 2016