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CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
Court No:
Estate No:

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

Petitioner

-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

Proposed Monitor

REPORT OF RICHTER ADVISORY GROUP INC.
In its capacity as Proposed Monitor, submitted in conjunction with the CCAA Petition filed on March 23, 2016 under the provisions of the *Companies' Creditors Arrangement Act*, R.S.C. (1985), c. 36, Sections 4 and 11, 11.2 and 11.6 (hereinafter "CCAA Petition")

INTRODUCTION

1. Richter Advisory Group Inc. ("Richter" or "Proposed Monitor") understands that 7098961 Canada Inc. (formerly known as Beyond The Rack Enterprises Inc.) (hereinafter "BTR" or the "Company") is filing a CCAA Petition before this Honourable Court seeking:

   a) Issuance of an initial order pursuant to the CCAA in favour of the Petitioner, in accordance with the draft Initial Order (as defined in the CCAA Petition);

   b) Granting the Administration Charge and the D&O Charge (as defined in the CCAA Petition); and

c) Approving the Interim Financing Facility (as defined hereinafter) and granting the Interim Lender's Charge (as defined in the CCAA Petition).

2. Benoit Gingues, CPA, CA, CIRP of Richter, the individual with the primary responsibility for this matter, as well as Richter, are Licenced Insolvency Trustees within the meaning of subsection 2(1) of *the Bankruptcy and Insolvency Act* (Canada). Neither Richter or any of its representatives have been at any time in the two preceding years:

- The auditor of the Petitioner;
- A director, an officer or an employee of the Petitioner;
- Related to the Petitioner or to any director or officer of the Petitioner.

3. Richter has consented to act as Monitor should this Honourable Court grant the Petitioner's request to commence the CCAA proceedings.

4. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.

5. The purpose of this report is to inform the Court of the following:

- General information
- Historical events leading to the CCAA filing
- Objectives of CCAA proceedings
- Operating results and financial position
- Cash flow projections
- Interim Financing Facility
- Administration Charge
- D&O Charge
- Conclusion and recommendation

6. The information contained in this report is based on unaudited financial information as well as discussions with representatives of the Petitioner's management (hereinafter "Management"). The Proposed Monitor has not conducted an audit or other verification of such information and accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained herein.

GENERAL INFORMATION

7. 7098961 Canada Inc. (formerly known as Beyond the Rack Enterprises Inc.) is a private corporation incorporated in December 2008, under the Canada Business Corporations Act (the "CBCA"), with its principal place of business in Montreal, Canada. Beyond the Rack USA Inc. is the wholly owned subsidiary of 7098961 Canada Inc. (formerly known as Beyond the Rack Enterprises Inc.) and is not, at this stage, filing insolvency proceedings in Canada or the United States.

8. The Company's business activity is the online sale of designer brand apparel, accessories, beauty and home décor products, through its website, to customers primarily in Canada and the United States.

9. The Company leases a building which has approximately 180,000 square feet for administration and its main warehouse. A smaller warehouse is leased in Plattsburgh, New-York (10,000 square feet).

10. In December 2015, the Company provided employment to 230 employees and 76 contractuals involved in merchandising, procurement, warehousing, marketing, information technology and administration. Recently, the Company implemented cost cutting measures that included reduction of management positions, pay cuts for certain management positions and the reduction of the number of employees in all departments. The Company presently has 62 employees in Montreal and 52 contractuals overseas.

HISTORICAL EVENTS LEADING TO THE CCAA FILING

11. Since inception, the Company has incurred significant financial losses as it engaged in aggressive and costly marketing campaigns aimed at increasing customer growth and establishing its e-commerce infrastructure. The financial losses were supported primarily through debt and private equity placements. Despite efforts deployed by Management and financial advisers, the Company was not able to raise new sources of capital and relied upon its existing investor base and secured lenders to fund operations and support its growth.

12. Despite significant restructuring efforts including exiting unprofitable business lines, reduction in marketing activities and substantial employee terminations, the Company was not able to achieve sustainable profitability.

13. The financial position of the Company is deteriorating rapidly and the continuation of the business activities is dependent upon securing new financing. The only source of financing that the Company is able to obtain has to be implemented through the present proceedings.

OBJECTIVES OF CCAA PROCEEDINGS

14. The Company seeks the issuance of an Initial Order with the necessary reliefs to allow the continuation of the activities while a sale process is implemented under Court supervision, the whole with a view to execute a going concern sale providing transition employment to a significant number of employees and maximize the underlying value of the business for the benefit of all stakeholders (including the employees, the trade creditors, the suppliers, the customers and the shareholders).

15. The contemplated sales process will be managed by the Monitor on an accelerated basis.

16. The Company also seeks to obtain the relief required to provide it with the opportunity to successfully devise a Plan of Arrangement and present same to its creditors.

OPERATING RESULTS AND FINANCIAL POSITION

Operating results

17. The following table summarizes the operating results of the Company for the last three fiscal years.

Beyond the Rack Enterprises Inc. Statement of earnings For the year ended January 31, (In million)	2016 (Unaudited)	2015 (Audited)	2014 (Audited)
Net Sales	$ 96.0	$ 133.1	$ 131.6
Cost of sales	63.4	85.2	80.3
Gross margin	**32.6**	**47.9**	**51.3**
Expenses			
Shipping and handling	21.2	33.5	32.4
Marketing	5.2	16.8	6.4
General and administrative	23.3	27.0	23.5
Profit/(loss) from operations	**$ (17.1)**	**$ (29.5)**	**$ (11.0)**

18. We caution that the information pertaining to the year ended January 31, 2016 is preliminary, subject to review by the Company's accountants and may require adjustments, which may be material.

19. The fiscal 2016 decrease in net sales and operating loss as compared to fiscal 2015 is the result of the restructuring efforts put forward by Management in an attempt to achieve

profitability and positive cash flow. The Company discontinued unprofitable business lines to focus on luxury items, which explains the significant decrease in sales, shipping and handling costs. Numerous employee terminations and cuts in marketing spending were also undertaken by the Company.

20. The fiscal 2015 increase in operating losses are attributed to an aggressive marketing-driven customer growth expansion in the United States which failed to deliver the desired return.

21. Reported loss from operations excludes financial costs and other adjustments not related to the Company's operations.

Financial Position

22. The following table summarizes the preliminary unaudited balance sheet of the Company as at January 31, 2016:

Beyond the Rack Enterprises Inc. Unaudited Balance Sheet - January 31, 2016 (In million)	Preliminary
Assets	
Cash	$ 1.4
Trade receivables	1.9
Other receivables	1.8
Inventory	8.1
Prepaid expenses and other	0.8
Property & Equipment	1.9
Intangible Assets	2.1
	$ 18.0
Liabilities and Shareholders' deficiency	
Secured creditors	
Line of credit and long term debt (SVB)	$ 12.3
Long term debt (LZH)	6.7
Obligations under finance leases	0.5
	19.5
Unsecured creditors	
Accounts payable	22.7
Deferred revenues (Open customer orders)	7.7
Credit notes	4.2
Retractable preferred shares and warrants	44.2
	98.3
Shareholders' deficiency	(80.2)
	$ 18.0

23. We caution that the preliminary balance sheet is subject to review by the Company's accountants and may require year-end adjustments, which may be material.

24. As at March 17, 2016, secured loans included approximately $12.5 million from Silicon Valley Bank ("SVB") and $6.1 million from Long Zone Holdings Inc. ("LZH").

25. As at March 17, 2016, open customer orders and outstanding credit notes amounted to approximately $6.8 million and $4.4 million respectively.

26. Unsecured liabilities include $22.7 million of accounts payable and accrued liabilities.

27. As at March 17, 2016, working capital assets comprised of the following:

- $150,000 of cash held in 9 bank accounts in Canada and the US;
- $500,000 of trade receivables due from the payment processors;
- $4 million of inventory held in 2 different locations (Montreal and Plattsburgh); and
- Other receivables pertaining to a duty drawback claim of $542K.

28. Other assets include $1.9 million of property and equipment and $2.1 million of intangible assets.

CASH FLOW PROJECTIONS

29. The Company's cash flow projections with the accompanying notes and reports (hereinafter the "Projections") that were prepared by Management for the 5-week period from March 24 to April 24, 2016 (hereinafter the "Period") are included in **Appendix A**.

30. The Projections reflect the following general assumptions :

- Issuance of an Initial Order providing the reliefs detailed in the draft Initial Order ;
- Approbation and implementation of the Interim Financing Facility, as described in the following section of this report, in order to fund the operations ;
- Continued service by the payment providers ; and
- Continued service by the different outsourcing companies and individuals.

31. More particularly, the Projections reflect the following assumptions

- **Cash Receipts**

    - Management uses a sophisticated model to forecast sales which takes into consideration elements such as the level of marketing expenses, historical sales, actual promotions, etc. Considering the type of activity and the disturbance that could be experienced following the announcement of the CCAA filing, Management has projected that only a portion of the model's forecasted sales would actually be made during the Period.
    - Receipts from payment processors assume a holdback of 12%.
    - The duty drawback claim of $542K was filed in January 2016 and is expected to be collected during the Period.

- **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 customer 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.

INTERIM FINANCING FACILITY

32. On March 21, 2016, Gestion Optifer Inc. (the "DIP Lender") and the Petitioner entered into an Interim Financing Facility agreement pursuant to which:

a) Interim financing totaling $1,150,000 (the "DIP Advances") will be made available;

b) The conditions precedent to the DIP Advances include the following:

i) the conclusion of agreements between the Company and its payment processors; and

ii) the assignment of SVB's claim to the DIP Lender;

c) The DIP Advances are also conditional and subject to the issuance of an order from this Honorable Court granting a first-ranking charge in favor of Gestion Optifer Inc. for an amount of $2,000,000 over the universality of the Petitioner's property, movable and immovable, corporeal and incorporeal, present and future wherever situated, and ahead of and senior to all other secured and unsecured creditors, interest holders, lien holders, and claimants of any kind whatsoever (the "DIP Charge");

d) The DIP Advances bear interest at an annual interest rate of 15% payable every Friday and there are structuring fees totaling 3% and a funding fee of $25,000;

e) The Maturity Date is May 27, 2016; and

f) The DIP Advances are to be used for the purpose of maintaining the operations of the Company;

33. Without DIP Advances there could be no attempt to support a going concern restructuring;

34. There is no other financing alternatives available;

35. The benefit of the DIP Charge outweighs the prejudice to actual lender whose security is being subordinated; and

36. The Interim Financing Facility is for a limited time and scope to allow the Company to continue to operate during the solicitation process.

PROPOSED ADMINISTRATION CHARGE

37. Richter has agreed to act as Court appointed Monitor to the Petitioner, which acceptance is conditional upon the granting by this Honourable Court of a charge in the amount of $250,000 on the Petitioner's Property in order to guarantee the payment of the Proposed Monitor's fees, the Proposed Monitor's legal fees, the Petitioner's legal fees and the fees of certain other advisers, including the professional fees and disbursements incurred both before and after the issuance of the Initial Order being sought herein (hereinafter the "Administration Charge").

38. The above professionals currently have amounts totalling approximately $200,000 as deposits for post-filing fees. The Projections assume that the funds generated during the Period will be used solely to maintain the operations. As such, the Projections do not provide for the payment of any professional fees.

39. In addition, professional fees related to completing a sale transaction will be incurred.

40. It is contemplated that the Administration Charge be junior to the DIP Charge.

PROPOSED D&O CHARGE

41. The draft Initial Order provides for a charge against the assets of the Applicant in favour of the Applicant's directors and officers in the amount of $225,000 (the "D&O Charge") for liabilities incurred by the Company that may result in post-filing claims against the directors and officers in their personal capacities.

42. The amount of the D&O Charge was estimated by the Company, taking into consideration hourly and salaried payroll costs, vacation pay and sales tax. This amount corresponds to three weeks of salaries and estimated accrued vacation pay on those salaries ($225,000), the assumption being that salaries and accrued vacations will be paid every two weeks with one week in arrears.

43. The Proposed Monitor has been advised that due to the potential for personal liability, the remaining directors of the Company are unwilling to continue their services and involvement in the Company's CCAA proceedings without the protection of the D&O Charge. As the Company will require the participation and experience of the Company's remaining directors to successfully sell the Company's business, the Proposed Monitor believes that the D&O Charge is required and reasonable in the circumstances.

44. It is contemplated that the D&O Charge will be junior to the Administration Charge as set out in the draft Initial Order.

45. It is to be noted that this charge would only apply in the event the existing indemnification policy's provider does not cover the liability of the D & O liabilities described in the draft Initial Order.

CONCLUSION AND RECOMMENDATION

46. As a result of the Company's deteriorated financial condition and liquidity issues, it is unable to continue operations in the near term absent (i) a stay of proceedings and (ii) increased liquidity provided by an interim financing.

47. The Proposed Monitor will manage an accelerated sale process with a view to sell substantially all of the assets of the Company in a going concern basis, avoid business interruption and maximize value for all stakeholders.

48. The Proposed Monitor believes that the reliefs requested in the draft Initial Order are necessary and reasonable in the circumstances and will allow the Company to contemplate a sale of the business in a going concern basis for the benefit of all its stakeholders.

Respectfully submitted at Montreal, this 23rd day of March 2016.

Richter Advisory Group Inc.
Proposed Monitor

Benoit Gingues, CPA, CA, CIRP