

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL
No.: 500-11-050409-164

SUPERIOR COURT
(Commercial Division)
(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act, R.S.C. 1985, c.
C-36, as amended)

IN THE MATTER OF THE PLAN OF COMPROMISE
OF:

7098961 CANADA INC. (formerly known as
BEYOND THE RACK ENTERPRISES INC.)

Debtor

-and-

RICHTER ADVISORY GROUP INC.

Monitor

<p>FOURTH REPORT OF THE MONITOR ON THE STATE OF THE DEBTOR'S BUSINESS AND FINANCIAL AFFAIRS MAY 13, 2016</p>
--

A) 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 Debtor 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**"). Thereafter, the Stay Period was extended a number of times and most recently until May 13, 2016.
3. On May 13, 2016, the Debtor will present a Motion for the issuance of an Order Extending the Stay of Proceedings up to and including May 20, 2016.

4. 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.
5. 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.
6. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.

B) EXECUTIVE SUMMARY

7. As part of its monitoring of the Debtor's business and financial affairs, and in light of the recent developments, the Monitor had determined that it was necessary to inform the Court and the creditors of a material adverse change in the Company's financial situation. On May 10, 2016, the Monitor issued its Third Report ("Third Report"), the whole pursuant to Section 23.(1) (d) (i) of the CCAA.
8. On May 10, 2016 the Monitor was informed by the Debtor that it was analyzing its options and that it would present its course of action in the following days. The Monitor was subsequently informed that the Debtor had a meeting on May 11, 2016 with representatives of the DIP Lender and Paysafe Merchant Services Inc. and Paysafe Merchant Services Corp. (collectively "Paysafe") and that negotiations were ongoing to reach an agreement.
9. The Monitor was not part of those negotiations and therefore cannot comment on the likelihood that an agreement will be reached shortly and ultimately implemented. However, based on its discussions with the Debtor and the DIP Lender, it appears to the Monitor that the parties are actively working toward reaching a consensus.

10. Pursuant to the Motion to extend the Stay of Proceedings filed on May 12, 2016, and given the complexity of the situation, the Debtor is requesting an extension of the Stay Period to May 20th, 2016 so that it may attempt to reach an agreement with all the parties and complete a transaction which could be presented to the Court for approval.
11. As indicated in the Third Report, the Monitor advised the Court and the creditors of its concern with respect to the ability of the Debtor to meet post-filing obligations.
12. The Monitor addressed this concern with the Debtor especially in light of its desire to extend the Stay Period to May 20, 2016 to ensure that the Debtor has taken the necessary measures in order that no creditor, supplier, employee or customer suffer any undue prejudice by any such extension.
13. The Debtor informed the Monitor that since shortly after the issuance of the Third Report, its website is offering for sale only merchandise held in inventory. In this way, all new orders processed would be available for immediate shipment to the customers. On May 12, 2016, the Monitor conducted limited tests to determine if, in fact, this was the case and one item has proven not to be in stock in our sample testing. Because of the limited sampling, results are not conclusive.
14. With respect to ongoing employee, supplier and services obligations, the Debtor prepared new cash flow projections covering the additional Stay Period. We refer the Court to the section below for our comments.

C) CASH FLOW PROJECTIONS

15. The Debtor prepared cash flow projections ("**Projections**") for the period from May 14 to 20, 2016 (the "**Period**") (refer to **Appendix A**) which are filed under seal with the Court.
16. Cash on hand as of May 13, 2016 is approximately \$150,000.
17. The Projections reflect the following general assumptions:
 - Extension of the Stay Period;
 - Continued service by the only payment provider (PayPal); and
 - Continued service by the different outsourcing companies and individuals.

18. More particularly, the Projections reflect the following assumptions:

Cash Receipts

- The projected sales were based on the trend observed since the Debtor commenced selling only items from inventory and using PayPal as the sole payment provider;
- Receipts assume that the payment processor will continue to offset, from its remittance, the customers' cancellations of pre-filing orders; and
- Receipts from payment processors assume a holdback of 12%.

Cash Disbursements

- No purchase of new merchandises is projected.
 - Cash disbursements are projected as a function of the amount of funds received from the payment processor. Management expects to adjust disbursements in the eventuality that the funds received from payment processor differ from the projected amounts.
19. On May 13, 2016, the Debtor forwarded to the Monitor a letter from Canada Border Services Agency confirming that the Drawback Claim of \$441,239 has been approved for an interim payment. This amount is projected by the Debtor to be collected after May 20, 2016.

D) POST-FILING OBLIGATIONS

20. Post-filing customer orders amount to approximately \$2.6 million as of May 12, 2016. Since the Debtor indicated that only items held on inventory are offered on its website, the Debtor assumes that there will be no further increase of post-filing customer orders.
21. Based on information provided by the Debtor on May 12, 2016, post-filing obligations (excluding customer orders and professional fees) amount to approximately \$538,000 including \$75,000 of salaries.

22. Post-filing obligations (excluding customer orders and professional fees) are projected by the Debtor to increase as follows from May 14 to May 20, 2016:

Estimated Post-Filing Obligations From May 14 to 20, 2016	Estimated Increase
Salaries	\$ 75,000
Occupancy and utilities	6,000
Marketing, information technology and other	<u>36,000</u>
Total Estimated Increase	<u>\$117,000</u>

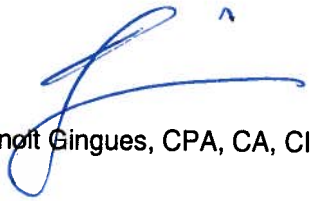
23. Therefore the Debtor is estimating that post-filing obligations (excluding customer orders and professional fees) will amount to \$655,000, including \$150,000 of salaries.
24. Professional fees unpaid as of the date of this report are estimated at \$385,000.
25. The Monitor received a demand from a supplier requesting the return of goods claiming same was shipped to the Debtor on consignment. The Monitor not being in control of the asset, forwarded the demand to the Debtor. As of the date of this report, the Monitor has not received further information from the Debtor.

E) CONCLUSION AND RECOMMENDATION

26. The objective of the CCAA proceedings undertaken 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).
27. 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.
28. The parties involved have indicated that a transaction is imminent but more time is needed to finalise the negotiations, document the transaction and request Court approval.

29. The Monitor believes that the issuance of an Order Extending the Stay of Proceedings is justifiable under the circumstances for the following reasons:
- The lawyer for the DIP Lender informed the Monitor that the DIP Lender undertakes to pay all accrued post-filing salary obligations in the event that the Debtor does not have sufficient funds to do so.
 - Post-filing obligations (excluding customer orders and professional fees) are projected by the Debtor to increase by \$117,000 from May 14 to 20, 2016.
 - The Debtor anticipates to collect approximately \$440,000 of duty Drawback in the near future.
 - Several direct and indirect jobs are at stake.
 - Since the issuance of the Initial Order, the Debtor has continued to act diligently and in the interest of all stakeholders.
 - If the Initial Order issued by this Court is not extended as requested by the Debtor, there is a strong possibility that it will go bankrupt and a liquidation will ensue.

Richter Advisory Group Inc.
Monitor



Benoit Gingues, CPA, CA, CIRP

APPENDIX A (UNDER SEAL)