Court File No. CV-17-11864-00CL

STRELLMAX LTD.

FIRST REPORT OF THE RECEIVER

OCTOBER 6, 2017

Court File No. CV--17-11864-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and under section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43

FIRST REPORT OF RICHTER ADVISORY GROUP INC. IN ITS CAPACITY AS RECEIVER OF THE ASSETS, UNDERTAKINGS AND PROPERTIES OF STRELLMAX LTD.

OCTOBER 6, 2017

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APPENDICES

I. INTRODUCTION

1. Pursuant to the Order of the Honourable Madam Justice Conway of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated July 7, 2017 (the "**Receivership Order**"), Richter Advisory Group Inc. ("**Richter**") was appointed as receiver, pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**"), and section 101 of the *Courts of Justice Act* R.S.O. 1990 c. C.43, as amended (in such capacity, the "**Receiver**"), without security, of all the assets, properties and undertakings (the "**Property**") of Strellmax Ltd. ("**Strellmax**" or the "**Company**"). Pursuant to the Receivership Order, the Court authorized Strellmax to remain in day to day operation of its Business and authorized Strellmax to commence a liquidation sale of certain of the Company's assets, principally retail store inventory, (the "**Liquidation Sale**") and approved certain Sale Guidelines (as defined in the Receivership Order) pursuant to which the Liquidation Sale would be conducted. A copy of the Receivership Order is attached hereto as **Appendix "A"**.

2. Pursuant to a further Order dated July 7, 2017 (the "**Approval and Vesting Order**"), the Court approved the sale transaction contemplated by an asset purchase agreement (the "**APA**") in respect of certain of the Property not subject to the Liquidation Sale, principally Strellmax's wholesale inventory and related assets associated with Strellmax's wholesale business (the "**Purchased Assets**"), to be entered into between Strellson AG ("**Strellson**", in such capacity, the "**Purchaser**"), Strellson North American Ltd. (formerly Strellson Canada Ltd., the "**Buyer**"), Strellmax and the Receiver (the "**SNAL Transaction**"). A copy of the Approval and Vesting Order is attached hereto as **Appendix "B"**.

3. In support of the Receivership Order and the Approval and Vesting Order, Richter, in its capacity as proposed receiver of the Property of Strellmax, filed a report with the Court dated July 5, 2017 (the "**Pre-Filing Report**"). A copy of the Pre-Filing Report is attached hereto as **Appendix "C"**.

II. PURPOSE OF REPORT

4. The purpose of this, the Receiver's first report (the "**First Report**"), is to:

    a) Provide this Court with information regarding:

        (i) the nature of the business arrangement between Accord Financial Ltd. ("**Accord**") and the Company, actions taken by Accord since the date of the Receiver's appointment with respect to certain Property, and communications between Accord, the Receiver, and the Receiver's counsel, WeirFoulds LLP ("**WeirFoulds**");

        (ii) an update on the status of the SNAL Transaction; and

(iii) the proposed sale of certain 'Strellson' brand merchandise samples (the "**Samples**") owned by Strellmax and not subject to the SNAL Transaction or the Liquidation Sale, to the Buyer (the "**Samples Transaction**").

b) Recommend that the Court issue orders:

(i) approving the Samples Transaction and authorizing and directing the Receiver to complete same, and vesting in the Buyer, upon the closing of the Samples Transaction, all of the Company's right, title and interest in and to the Samples free and clear of all liens, charges, security interests and other encumbrances;

(ii) with respect to actions taken by Accord:

- declaring that Accord is in violation of the provisions of the Receivership Order, as a result of Accord's refusal to deliver Strellmax's Controlled Funds (as hereinafter defined), in its possession to the Receiver in accordance with the terms of the Receivership Order and as required by the Accord Agreement (as hereinafter defined);
- compelling Accord to report on and immediately turn over current and future Controlled Funds to the Receiver in accordance with the terms of the Receivership Order and/or the Accord Agreement; and
- ordering Accord to pay the costs incurred by the Receiver in respect of its motion, on a full indemnity basis; and

(iii) approving the Pre-Filing Report and this First Report, and the actions, activities and conduct of the Receiver set out therein.

III. QUALIFICATIONS

5. In preparing this First Report, the Receiver has relied upon certain unaudited, draft, and/or internal financial information prepared by the Company's representatives, the Company's books and records, and discussions with the Company's representatives, its legal counsel and the Secured Creditor (as hereinafter defined) (collectively, the "**Information**").

6. In accordance with industry practice, except as described in this First Report:

a) Richter has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook; and

b) Richter has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Chartered Professional Accountants Canada Handbook.

7. Since future-oriented information is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, Richter expresses no assurance as to whether projections will be achieved. Richter expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this First Report, or relied upon by Richter in preparing this First Report.

8. Unless otherwise noted, all monetary amounts contained in this First Report are expressed in Canadian dollars.

IV. BACKGROUND

9. While this First Report summarizes some of the information set out in the Pre-Filing Report, for context, readers are directed to the Pre-Filing Report and to the Affidavit of Marcel Braun, sworn June 30, 2017 (the "**Braun Affidavit**") and filed in support of Strellson's application (in its capacity as Secured Creditor) for the Receivership Order and the Approval and Vesting Order, contained in the Applicant's Application Record dated June 30, 2017, for a more detailed explanation of the Company's background and the events leading to the appointment of the Receiver. A copy of the Application Record is posted on the Receiver's website at http://www.richter.ca/en/folder/insolvency-cases/s/strellmax-ltd.

10. Prior to the appointment of the Receiver, Strellmax operated as a wholesaler and retailer of 'Strellson' brand menswear in North America, from headquarters located in Toronto, Ontario. The Company's retail channel comprised five (5) standalone retail locations, and a store-in-store concession inside the Hudson's Bay Company (Yorkdale Mall, Toronto, Ontario).

11. The Company distributed under the 'Strellson' brand, pursuant to a licence agreement and a distribution agreement (the "**Licence Agreement**" and the "**Distribution Agreement**", respectively) with Strellson, as licensor.

12. Strellmax had operated a wholesale 'Strellson' business since 1997 and opened a flagship retail location in 2012 on Bloor Street in Toronto. From 2014 through 2016, the Company expanded its retail footprint, opening four (4) additional standalone stores across Canada, financed by existing cash flows, the TD Facility (as hereinafter defined), and a loan from its shareholder, Adamray Investments Inc. ("**Adamray**").

13. As at the date of the Receivership Order, the Company's standalone retail locations were as follows:

a) Bayview Village – Toronto, Ontario;

b) Bloor Street West – Toronto, Ontario;

c) Yorkdale Mall – Toronto, Ontario;

d) Rideau Centre – Ottawa, Ontario; and

e) 745 Thurlow – Vancouver, B.C.

14. As further detailed in the Pre-Filing Report and the Braun Affidavit, in addition to the significant capital expenditures required to support the Company's retail expansion, the Company experienced operating losses in fiscal 2016 and 2017 year-to-date, and had been operating with limited liquidity on the TD Facility for several months, despite numerous financial accommodations provided by Strellson to Strellmax during the months prior to the appointment of the Receiver.

15. As further detailed below, Strellson took an assignment of the TD Debt and Security (as hereinafter defined) on June 30, 2017 and thereby became Strellmax's largest and first ranking secured creditor "**Secured Creditor**"). Strellson was also already Strellmax's largest unsecured creditor as a result of credit and other financial accommodations granted in respect of the supply of 'Strellson' brand merchandise to Strellmax.

16. Absent continued support from Strellson, Strellmax would have been unable to continue to carry on the business, due to the following:

a) the Company's projections indicated that over the next 24 months, nearly all of the retail locations were forecast to suffer significant operating losses absent continued financial contributions from Strellson and that if it continued at status quo, the Strellmax wholesale business was likewise forecast to suffer significant operating losses; and

b) as a result of defaults on certain of the terms of the Licence Agreement and the Distribution Agreement, Strellson was unwilling to continue providing merchandise to the Company and was moving to terminate the Licence Agreement and the Distribution Agreement.

17. In July 2017, Strellson, in its capacity as Secured Creditor, sought and obtained the Receivership Order and the Approval and Vesting Order.

V. SECURED CREDITORS

ASSIGNMENT OF TD BANK DEBT TO STRELLSON AG

18. The Toronto-Dominion Bank ("**TD**") provided certain credit facilities to Strellmax commencing in 2012 pursuant to a credit agreement dated June 6, 2016, as amended by amending agreements dated June 30, 2016 and December 6, 2016, respectively (the "**TD Facility**"). As security for its advances under the TD

Facility and prior credit facilities, TD was granted a first-ranking security interest in the Property (together with the TD Facility, the "**TD Debt and Security**").

19. As detailed in the Braun Affidavit, TD assigned certain of its rights and obligations under the TD Debt and Security to Strellson pursuant to an assignment agreement dated June 30, 2017 (the "**Assignment Agreement**"). A copy of the Assignment Agreement is attached as Exhibit "C" to the Braun Affidavit.

20. In order to continue the use of the Company's existing cash management arrangements with TD, TD retained cash collateral in the amount of $71,500 to secure the corporate credit card facility.

21. According to the Company's books and records, the amount outstanding to the Secured Creditor as at July 7, 2017 was approximately $3.8 million.

SECURITY OPINION

22. As noted in the Pre-Filing Report, Richter received an opinion on Strellson's security from its independent legal counsel, WeirFoulds, dated July 4, 2017. The security opinion provides that, subject to the customary qualifications and assumptions, the security interest granted to TD pursuant to the assigned security over certain of the personal property, assets and undertakings of Strellmax located in Ontario, and assigned to Strellson under the Assignment Agreement, is valid and enforceable as against a trustee in bankruptcy of Strellmax.

23. As part of the Assignment Agreement, a contractual Postponement and Assignment of Creditor's Claim and Postponement of Security granted by Adamray in favour of TD was assigned, among other things, to Strellson. Searches conducted by WeirFoulds in Ontario confirm that the registrations originally in favour of TD against all classes of collateral, excluding consumer goods, have been amended to account for the assignment to Strellson and that the registrations were either registered prior in time to all other registrants or are subordinate to the registrations in favour of TD.

24. Only one Ontario PPSA registration, in favour of National Leasing Inc. in respect of certain leased computer software, appeared to qualify as a potential purchase money security interest in the collateral described therein capable of having priority over TD's registrations assigned to Strellson.

25. A search conducted under the B.C. PPSA confirmed that Strellson has also registered its security interest against all of Strellmax's present and after-acquired personal property. The Strellson registration is the only registration against Strellmax that appears in the B.C. PPSA search as of that time.

OTHER SECURED CREDITORS

26. Also as noted in the Pre-Filing Report, the Receiver understands that Adamray provided a shareholder loan to Strellmax in the amount of approximately $1,150,000 (the "**Shareholder Loan**"), secured by a

security interest against the Property (the "**Subordinated Security**") which is contractually and temporally subordinate to the TD Debt and Security assigned to the Secured Creditor.

27. On March 1, 2016, at Strellmax's request, Accord provided an irrevocable letter of credit in favour of Strellson (the "**Accord LOC**") as security for amounts owing to Strellson on account of purchases of merchandise made by Strellmax from Strellson, to a maximum amount of $500,000. Accord did not take security from Strellmax in respect of Strellmax's reimbursement obligation to Accord in respect of the Accord LOC (the "**Reimbursement Obligation**"). A copy of the Accord LOC agreement is attached as **Appendix "H"** hereto.

28. However, Accord did obtain a subordination from Mark Altow on behalf of Adamray in respect of the Reimbursement Obligation and in connection therewith took an assignment of the Adamray Shareholder Loan and the Subordinated Security.

VI. THE SNAL TRANSACTION

29. As noted in the Pre-Filing Report, the Company, the Purchaser and their respective counsel (in consultation with Richter as proposed receiver) negotiated the terms and provisions of the APA. Subsequent to the Court's approval of the SNAL Transaction, the APA was executed on July 7, 2017, as amended and restated effective the same date. The amendments to the APA were minor and thus, pursuant to the terms of the Approval and Vesting Order, did not require court approval. The amendments to the APA primarily related to clarifying certain definitions of the Purchased Assets, and providing for a portion of the Purchase Price to be paid in cash to fund certain of the Company's liquidity needs (not initially contemplated in the APA) but leaving the total Purchase Price unchanged. A copy of the amended and restated APA (the "**Amended APA**") is attached as **Appendix "D"** hereto.

30. The key elements of the SNAL Transaction, as contemplated by the Amended APA, have been outlined in the Pre-Filing Report and, therefore, have not been repeated in their entirety herein (all terms not otherwise defined herein shall have the meanings as defined in the Amended APA).

31. The SNAL Transaction was completed on August 1, 2017 (the "**Closing Date**") and the Receiver's Certificate was delivered to the Purchaser on August 2, 2017 and filed with the Court.

32. Pursuant to the SNAL Transaction:

    a) the Purchased Assets were acquired on an "as is, where is" basis, and vested in the Buyer free and clear of any Claims (as defined in the Approval and Vesting Order). The Purchased Assets include the following:

(i) certain inventory owned by the Company at closing, comprising inventory in relation to the wholesale business (the "**Wholesale Inventory**") in the amount of approximately $790,000 of book value on the Company's books and records ("**Book Value**");

(ii) other inventory designated by the Purchaser prior to the Closing Date (the "**Designated Inventory**", and together with the Wholesale Inventory, the "**Purchased Inventory**") in the amount of approximately $130,000 of Book Value, designated in accordance with the terms of the Amended APA (which required the Designated Inventory to be of Book Value in an amount no less than $100,000 and no more than $300,000);

(iii) all wholesale customer contracts, customer orders and other commitments (collectively, the "**Wholesale Customer Contracts**");

(iv) all purchase orders outstanding with the Company's merchandise suppliers (the "**Wholesale Purchase Orders**");

(v) wholesale business customer lists;

(vi) the IT Systems; and

(vii) the books and records related to the Purchased Assets.

b) the Purchased Assets specifically exclude, among other things, the Company's inventory other than the Purchased Inventory, furniture, fixtures, and equipment (the "**FF&E**") which were subject to the Liquidation Plan (as defined in the Pre-Filing Report) and accounts receivable;

c) the Buyer agreed to assume certain liabilities of the Company (the "**Assumed Obligations**") existing at the Closing Date, including the following:

(i) the liabilities in respect of the unfulfilled Wholesale Customer Contracts;

(ii) the liabilities in respect of the unfulfilled Wholesale Purchase Orders; and

(iii) certain liabilities in connection with the IT Systems.

d) the purchase price (the "**Purchase Price**") for the Purchased Assets was composed of:

(i) 100% of the Book Value of the Purchased Inventory (being the "**Purchased Inventory Book Value**"), net of amounts still owing on inventory delivered in connection with the Wholesale Purchase Orders, which is an Assumed Obligation of the Buyer;

(ii) $50,000 (the "**IT Systems Credit Bid Amount**"); plus

(iii) the Assumed Obligations.

e) the Purchase Price (exclusive of any transfer taxes) was satisfied at closing by the following:

(i) a credit bid by the Purchaser of a portion of the TD Facility in an amount equal to the Purchased Inventory Book Value, less the Book Value of Purchased Inventory delivered in the Interim Period and remaining on hand, or remaining in-transit, at the Closing Date (the "**Delivered In Season Inventory Amount**"), plus the IT Systems Credit Bid Amount;

(ii) a cash payment in an amount equal to the Delivered In Season Inventory Amount; and

(iii) the Buyer's assumption of the Assumed Obligations at closing.

f) effective on the Closing Date, the Buyer, Strellmax and the Receiver entered into an agreement (the "**Support Services Agreement**") for transition services from and after the Closing Date (the "**Post-Closing Services**"), including in relation to the allocation of space at the Buyer's office and warehouse, access to the employees and the computer systems of each of the Buyer and Strellmax, and the Buyer's assistance to the Company in collecting accounts receivable from the Wholesale Customers. In accordance with the Amended APA, the Support Services Agreement provides that:

(i) the Buyer shall provide certain Post-Closing Services to Strellmax and/or the Receiver (the "**Post-Closing Buyer Services**"), the consideration for which shall be the Post-Closing Strellmax Services (as hereinafter defined) and the services and accommodations provided by Strellmax to the Buyer during the Interim Period while the Buyer worked to satisfy the closing conditions to the SNAL Transaction. Effective on the Closing Date, Strellmax vacated its head office and warehouse premises (the "**Premises**"), and the Buyer entered into a new lease with the landlord for the Premises on that same date;

(ii) Strellmax and/or the Receiver shall provide certain Post-Closing Services to the Buyer (the "**Post-Closing Strellmax Services**"), the consideration for which shall be the Post-Closing Buyer Services and the Purchase Price;

(iii) Strellmax shall serve as agent to the Buyer for the limited purposes of: (i) making sales to Wholesale Customers after the Closing Date (the "**Post-Closing Sales**"); (ii) collecting accounts receivable in respect of the Post-Closing Sales made; and (iii) remitting accounts receivable in respect of the Post-Closing Sales to the Buyer, all as agent for the Buyer; and

(iv) the Support Services Agreement shall terminate no later than the Receiver's discharge. A copy of the Support Services Agreement is attached hereto as **Appendix "E"**.

g) the Buyer had the option to offer employment to the Company's employees at its discretion, in order to continue the Company's wholesale business. Prior to the Closing Date, sixteen (16) of the

Company's employees (the "**Transferred Employees**") were offered, and accepted, employment with the Buyer effective on the Closing Date, representing the vast majority of the employees associated with the Company's wholesale business. The Buyer assumed Strellmax's liabilities existing at the Closing Date in respect of the Transferred Employees' severance entitlement. Following the Closing Date:

(i) the Buyer offered employment to four (4) of the Company's employees (the "**Bayview Employees**") who had been engaged in the operation of the Bayview Village retail location, once the Sale was completed (as further discussed later in this First Report). The offers, which were on substantially similar terms as the Transferred Employees (as applicable), were accepted by the Bayview Employees;

(ii) as at the date of this First Report, the Receiver understands that the Buyer is in the process of evaluating which of the Company's remaining employees it may offer employment in order to continue a limited retail channel for the 'Strellson' brand in Canada;

33. Subsequent to the Closing Date, an amendment to the Support Services Agreement (the "**SSA Amendment**") was also executed effective September 8, 2017, to allow for, among other things, Strellmax to act as the Buyer's agent and consignee for the sale of the Buyer's inventory in the Bloor Street West retail location (until October 31, 2017) and the 745 Thurlow retail location (until the Buyer takes assignment of Strellmax's lease, or enters into a new lease, for the location), in exchange for consideration in the form of a credit bid of Strellson's secured debt in the amount of $25,000 plus the reimbursement of associated out of pocket expenses. A copy of the SSA Amendment is attached hereto as **Appendix "F"**.

VII. THE SAMPLES TRANSACTION

34. Prior to the date of the Receivership Order, in the ordinary course of its business, the Company purchased from Strellson (and pre-paid for) the Samples which were used by Strellmax to solicit and secure wholesale customer orders for the upcoming season's merchandise. As at the Closing Date, the Samples were still in transit from Strellson and were not included as a Purchased Asset in the Amended APA.

35. As discussed above, the Buyer acquired the Purchased Assets in order to continue the Company's wholesale business. The Purchaser, and in turn the Buyer, wish to enter into the Samples Transaction, whereby the Samples are to be acquired by the Buyer on an "as is, where is" basis, to facilitate the continuation of that wholesale business.

36. The Receiver has agreed to sell the Samples to the Buyer at their Book Value, subject to this Court's approval. In the Receiver's view, the Court's approval for the Samples Transaction is required for the following reasons:

    a) the Samples Transaction, in the Receiver's view, could be considered outside of the Company's ordinary course of business, as the Receiver understands that it would not be customary for Strellmax to return samples to Strellson, particularly in exchange for the payment by Strellson of the Company's full landed inventory cost; and

    b) the Book Value of the Samples is approximately $37,000, which value exceeds the $25,000 transaction value threshold set out in paragraph 11(j) of the Receivership Order.

37. Should the Court see fit to approve the Samples Transaction, the Receiver would proceed to execute a short form asset purchase agreement with the Buyer (and any other necessary documentation to complete the Samples Transaction) and take the necessary steps to complete the Samples Transaction.

38. In the Receiver's view, the Samples Transaction is reasonable in the circumstances and the best alternative to a liquidation of the Samples for the following reasons:

    a) the Receiver understands that the Buyer is the sole party continuing the sale of 'Strellson' brand merchandise in North America and hence alternative sales channels for the product are limited;

    b) the Licence Agreement provides Strellson with the first right of refusal to repurchase the Company's inventory in the event the agreement is terminated. The terms of the Licence Agreement stipulate that the repurchase price (the "**Repurchase Price**") paid by the licensor shall be the cost paid by Strellmax to the manufacturer at delivery for the current season's merchandise. The Licence Agreement was terminated by Strellson on July 6, 2017. The proposed Samples Transaction contemplates that the purchase price, at 100% of the Book Value, will be at least the amount of the Repurchase Price; and

    c) the Samples represent a limited quantity of merchandise, rendering it impractical to incur additional costs marketing the Samples to the public in the circumstances. As such, the proposed Samples Transaction would be more beneficial to the Company's creditors than the liquidation alternative.

VIII. THE LIQUIDATION SALE

39. As noted earlier in this First Report, the Court approved the Liquidation Sale and the Sale Guidelines pursuant to the Receivership Order.

40. As detailed in the Pre-Filing Report, the Company engaged the services of HyperAMS, LLC (the "**Consultant**") pursuant to an agreement dated June 28, 2017 (the "**Liquidation Plan Consulting Agreement**") between the Consultant and Strellmax, to advise Strellmax in respect of the liquidation of the Company's inventory and FF&E not subject to the SNAL Transaction (the "**Excluded Assets**"). Following the execution of the Liquidation Plan Consulting Agreement, Strellmax developed the Liquidation Plan with the assistance of the Consultant in order to enable the Company to conduct an orderly liquidation (being the Liquidation Sale, as approved by the Court) of the Excluded Assets.

41. Below is a summary of the key aspects of the Liquidation Sale:

    a) pursuant to the Receivership Order, the Liquidation Sale was conducted by the Company, under the supervision of the Receiver in accordance with the Sale Guidelines;

    b) the Liquidation Sale commenced under the supervision of the Receiver on July 7, 2017 (the "**Sale Commencement Date**") at the Company's five (5) retail locations which, pursuant to the Sale Guidelines, was to terminate no later than October 31, 2017. The Liquidation Sale was substantially completed in all of the Closing Stores (as defined in the Sale Guidelines) on or before September 15, 2017 (the "**Sale Termination Date**", the period from the Sale Commencement Date through the Sale Termination Date being the "**Liquidation Period**");

        (i) the Receiver understands that, following the repudiation of the Bayview Village retail lease by Strellmax (effective September 14, 2017), the Buyer entered into a new lease for the same location with the Bayview Village landlord. As mentioned earlier in this First Report, the Buyer engaged the Bayview Employees to continue retail sales of the 'Strellson' brand at the Bayview Village location. As further discussed below, the Receiver completed the Initial FF&E Sales (as hereinafter defined) with the Buyer, which included the FF&E located at the Bayview Village location.

    c) the Consultant advised Strellmax on the conduct of the Liquidation Sale and the Company was responsible for all reasonable costs and expenses in connection with the Liquidation Sale. The Consultant's engagement with the Company was terminated by Strellmax effective the week of September 8, 2017;

    d) the Receiver completed separate sale transactions (together, the "**Initial FF&E Sales**") for all of the FF&E at three (3) of the five (5) Closing Stores, which were acquired by the Buyer at the end of the Liquidation Period at each of the respective Closing Stores. Each of the Initial FF&E Sales:

        (i) were completed on an "as is, where is" basis;

(ii) were acquired for transaction values not exceeding $25,000 (~$70,000 in the aggregate). The purchase prices paid for each of the Initial FF&E Sales were in excess of liquidation value (as estimated by the Consultant) and, as such, the Receiver determined it was not practical to market the assets further in the circumstances. Furthermore, as the assets were sold to the Buyer by the Receiver (and not the Consultant), pursuant to the Liquidation Plan Consulting Agreement, no incremental fee was earned by the Consultant on the sales, resulting in the preservation of net proceeds which would not have been in the case in the event of a third party offer; and

(iii) were paid for in the form of a credit bid by the Purchaser of a portion of the TD Facility in the amount of the respective purchase prices.

e) as noted earlier in this First Report, Strellmax continues to operate two (2) of the retail locations as agent and consignee for the Buyer pursuant to the SSA Amendment. The Buyer intends to purchase the FF&E from the remaining retail locations, and certain FF&E located at the Premises (the "**Premises Assets**") at or around the termination of the SSA Amendment, on substantially similar terms as the Initial FF&E Sales.

42. Strellson, in its capacity as Secured Creditor, supported the Initial FF&E Sales. As the aggregate consideration for the Initial FF&E Sales amounted to less than the $200,000 threshold outlined in the Receivership Order, no Court approval was sought by the Receiver.

43. Upon the completion of the sales of the remaining FF&E located at the retail locations, the Premises Assets, and the Samples Transaction (subject to this Court's approval), in the Receiver's view, all realizable assets subject to the Liquidation Sale will have been sold.

IX. ACCORD FINANCIAL LTD.

THE ACCORD AGREEMENT

44. Pursuant to a letter agreement dated June 1, 2010, as amended from time to time (the "**Accord Agreement**"), a copy of which is attached hereto as **Appendix "G",** Accord has provided accounts receivable management services and certain credit protection services (the "**Accord Services**") to the Company since 2010.

45. The terms of the Accord Agreement provide as follows:

a) Accord provides protection against the risk of loss on credit sales made by Strellmax to a prescribed subset of its customers as a result of the customer's insolvency, subject to certain credit limits established on a customer-by-customer basis (the "**Covered Customers**");

b) the proceeds of all sales made to Covered Customers, regardless if they are made in excess of the established credit limits, are to be collected by Accord directly from the Covered Customers (the "**Controlled Funds**");

c) the Controlled Funds are to be remitted by Accord to Strellmax regularly, or when demanded by Strellmax, net of a pre-determined commission payable to Accord for the Accord Services; and

d) accounts receivable from Covered Customers and the proceeds thereof are at no time the property of Accord, save and except in circumstances where funds are advanced by Accord to Strellmax in relation to a particular uncollected customer account, and are then transferred to Accord only at the request of Accord. Pursuant to a letter from Accord to TD dated July 18, 2012 (a copy of which is attached hereto as **Appendix "I"**), Accord confirmed that it does not have a security interest in the Property, that title to the Company's accounts receivable, including the Controlled Funds, remain with Strellmax at all times, and that Accord will transfer the Controlled Funds to Strellmax on a daily basis (subject to a $2,500 minimum threshold).

46. The Receiver understands that, in addition to sales made prior to the date of the Receivership Order, sales made by Strellmax to wholesale customers since the date of the Receivership Order have also continued to be remitted to Accord pursuant to the Accord Agreement.

STRELLSON DEMAND ON THE ACCORD LOC

47. The Receiver understands that Strellson made demand for payment under the Accord LOC in early August 2017. Strellson has advised the Receiver that, as at the date of this First Report, Accord has denied any liability to Strellson under the Accord LOC and has not paid any amounts to Strellson thereunder. As such, no Reimbursement Obligation on the part of Strellmax has arisen or exists as of the date of this First Report.

ACCORD'S REFUSAL TO DELIVER THE CONTROLLED FUNDS TO THE RECEIVER

48. On August 29, 2017, the Receiver contacted Jim Bates ("**Mr. Bates**"), Senior Vice President and Chief Operating Officer of Accord, and requested that the Controlled Funds (in the amounts of approximately $542,000 and US$75,000, respectively, as at that date) held by Accord be paid into the Company's bank account, as in the ordinary course pursuant to the Accord Agreement. Mr. Bates advised the Receiver that he could not discuss the Controlled Funds until advised by counsel.

49. On the same day, counsel to Accord, Julian Heller ("**Mr. Heller**") sent a letter (a copy of which is attached hereto as **Appendix "J"**) to the Receiver advising that a demand had been made by Strellson on the Accord LOC, and that accordingly, Accord was invoking a purported right of set-off against the Controlled Funds.

50. In response to the August 29 Letter, on August 31, 2017, the Receiver's counsel, WeirFoulds, wrote to Mr. Heller (a copy of which is attached hereto as **Appendix "K"**):

    a) summarizing the Receiver's understanding of the Accord Agreement (detailed above);

    b) advising of its understanding that Controlled Funds in the possession of Accord at that time amounted to approximately $620,000 and US$75,000, respectively;

    c) advising that in refusing to remit the Controlled Funds, Accord was in contempt of the Receivership Order, on the basis that pursuant to the Accord Agreement, the Controlled Funds are the Company's property; and

    d) demanding, on the Receiver's behalf, that Accord comply with the Receivership Order and the Accord Agreement and immediately deliver the Controlled Funds to the Receiver, failing which a Court order directing same would be sought.

51. On September 14, 2017, Mr. Heller again wrote to WeirFoulds (a copy of which is attached hereto as **Appendix "L"**) to, among other things, advise that:

    a) Accord had remitted a portion of the Controlled Funds in the amounts of $69,115.79 and US$75,455.79 (the Receiver subsequently confirmed that these amounts were deposited to the Company's bank account) but that Accord was holding $500,000 of the Controlled Funds on account of the demand made on the Accord LOC and a further $50,000 of Controlled Funds on account of legal costs being incurred by Accord in relation to these matters;

    b) on August 18, 2017, a letter had been sent by Mr. Heller to Gowling WLG ("**Gowling**"), counsel to Strellson as beneficiary under the Accord LOC, requesting that certain information be provided in respect of the Company's secured creditors but no response had been received; and

    c) the Controlled Funds would not be released absent an order of the Court or a release of Accord by all parties in relation to the Accord Agreement and the Accord LOC.

52. On September 18, 2017 following email communications between Gowling and Mr. Heller, WeirFoulds wrote to Mr. Heller (a copy of which is attached hereto as **Appendix "M"**) advising that the Receiver had no involvement in any dispute surrounding the demand under the Accord LOC and that the Receiver's sole issue related to the delivery of the Company's property, namely the Controlled Funds, to the Receiver by

Accord. WeirFoulds further advised that the Receiver intended to bring a motion in order to enforce the terms of the Receivership Order if the Controlled Funds were not released to the Receiver.

53. The Receiver understands that Controlled Funds in the possession of Accord amounted to approximately $626,000 as at September 29, 2017, and that further Controlled Funds in the amount of approximately $360,000 were expected to be collected from Strellmax's wholesale customers as of that date. The Receiver further understands that as at the date of this First Report, Strellmax has requested, but has not yet been provided with, a more recent report of the Controlled Funds from Accord.

X. RECOMMENDATION

54. The Receiver recommends that this Court grant orders:

a) approving the Samples Transaction and authorizing and directing the Receiver to complete same, and vesting, upon the closing of the Samples Transaction, all of the Company's right, title and interest in and to the Samples to the Buyer free and clear of all liens, charges, security interests and other encumbrances;

b) with respect to actions taken by Accord:

(i) declaring that Accord is in violation of the provisions of the Receivership Order, as a result of Accord's refusal to deliver the Controlled Funds in its possession to the Receiver in accordance with the terms of the Accord Agreement;

(ii) compelling Accord to report on and immediately turn over current and future Controlled Funds to the Receiver in accordance with the terms of the Receivership Order and/or the Accord Agreement; and

(iii) ordering Accord to pay the Receiver's costs incurred in respect of its motion, on a full indemnity basis; and

c) approving the Pre-Filing Report and this First Report, and the actions, activities and conduct of the Receiver set out therein.

All of which is respectfully submitted on the 6th day of October, 2017.

Richter Advisory Group Inc.
as the Receiver of
Strellmax Limited
and not in its personal capacity

Paul van Eyk, CA·CIRP, CA·IFA
Senior Vice-President

Katherine Forbes, CPA, CA
Vice-President