

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

STRELLMAX LTD.

SECOND REPORT OF THE RECEIVER

FEBRUARY 7, 2018

**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**

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

FEBRUARY 7, 2018

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I. INTRODUCTION

1. Pursuant to an 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, undertakings and properties (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 to commence a liquidation sale of certain of its 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 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**"). The SNAL Transaction was completed on August 1, 2017 (the "**Closing Date**"), and the Receiver's Certificate was delivered to the Purchaser on the same date and filed with the Court. 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"**.
4. Pursuant to the Order of the Honourable Mr. Justice Hainey dated October 27, 2017 (the "**Samples AVO**"), the Court approved the sale transaction contemplated by an asset purchase agreement (the "**Samples APA**") entered into on the same date, in respect of certain of the Company's inventory not subject to the Liquidation Sale or the SNAL Transaction (the "**Samples Transaction**"). The Samples Transaction closed upon the delivery of a Receiver's Certificate on November 28, 2017, which was then filed with the Court. A copy of the Samples AVO is attached hereto as **Appendix "D"**.
5. Pursuant to the Order of the Honourable Mr. Justice Hainey dated November 7, 2017 (the "**Controlled Funds Order**"), the Court directed, among other things, Accord Financial Ltd. ("**Accord**") to deliver the

Controlled Funds (as hereinafter defined) in its possession as of October 28, 2017 to the Receiver, to be held by the Receiver pending the outcome of the Priority and Distribution Motion (as defined in the Controlled Funds Order), and to deliver future Controlled Funds to the Receiver. Matters concerning Accord and the Controlled Funds are further discussed later in this, the Receiver's second report (the "**Second Report**"). A copy of the Controlled Funds Order is attached hereto as **Appendix "E"**.

6. In support of the Samples AVO and the Controlled Funds Order, Richter filed a first report in its capacity as Receiver with the Court dated October 6, 2017 (the "**First Report**" and together with the Pre-Filing Report, the "**Reports**"). A copy of the First Report is attached hereto as **Appendix "F"**.
7. The Reports, the Orders of the Court and other materials relevant to these proceedings are posted on the Receiver's website at <http://www.richter.ca/en/folder/insolvency-cases/s/strellmax-ltd>.

II. PURPOSE OF REPORT

8. The purpose of this Second Report is to:
 - a) provide this Court with information regarding:
 - (i) an update on the status of the SNAL Transaction, specifically as it relates to support services arrangements with the Buyer after the Closing Date;
 - (ii) the completion of the Liquidation Sale and the status of the Company's employees;
 - (iii) an update on the actions taken with respect to the Controlled Funds and cross-motion brought by Accord since the date of the First Report, and related communications between Accord, the Receiver and the Receiver's counsel, WeirFoulds LLP ("**WeirFoulds**"), and – since January 1, 2018 – the Receiver's counsel, DLA Piper (Canada) LLP ("**DLA**");
 - (iv) the activities of the Receiver since the date of the Receivership Order;
 - (v) the Receiver's receipts and disbursements for the period from the date of the Receivership Order to and including January 31, 2018; and
 - (vi) the Receiver's estimate of accrued and unpaid obligations as of the date of this Second Report (the "**Accrued Obligations**"), and subject to the filing of the Supplemental Report (as hereinafter defined), the Receiver's estimate of professional fees and disbursements, including those of its counsel, DLA, and administrative costs required to complete these receivership proceedings (the "**Remaining Costs**", and together with the Accrued Obligations, the "**Outstanding Disbursements**").
 - b) recommend that the Court issue Orders:

- (i) approving the Second Report, and the actions, activities and conduct of the Receiver set out herein;
- (ii) approving the Interim R&D (as hereinafter defined);
- (iii) terminating the D&O Charge (as defined in the Receivership Order);
- (iv) determining the relative priorities of the secured claims of the Secured Creditor (as hereinafter defined) and Accord, respectively, against the Property, and the quantum of each of the foregoing secured claims, if necessary;
- (v) subject to the filing of the Supplemental Report, authorizing and directing the Receiver to make an interim distribution (the "**Proposed Interim Distribution**") to Strellson, in its capacity as Secured Creditor (or as Strellson may direct), and/or Accord, based upon the Court's determination of the relative priorities of their secured claims against the Property, and in partial satisfaction of Strellson's secured claim against the Property;
- (vi) authorizing and directing the Receiver to make subsequent distributions, as the Receiver may determine are available, to Strellson up to the amount of Strellson's secured claim against the Property (or as the Court may otherwise direct), without further order of the Court;
- (vii) discharging Richter as Receiver upon completion of the Remaining Matters (as hereinafter defined), including terminating the Receiver's Charge, as provided for in the Receivership Order, and subject to the Receiver filing a discharge certificate (the "**Discharge Certificate**") confirming the same with the Court; and
- (viii) ordering and declaring that, effective upon its discharge as Receiver, Richter has duly and properly discharged its duties, responsibilities and obligations as the Receiver of Strellmax and discharging and releasing the Receiver from any and all further obligations as Receiver of Strellmax and any and all liability relating in any way to the acts or omissions of Richter while acting as Receiver, save and except for the Receiver's gross negligence or willful misconduct.

III. QUALIFICATIONS

9. In preparing this Second 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 (collectively, the "**Information**").
10. In accordance with industry practice, except as described in this Second 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.
11. 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 Second Report, or relied upon by Richter in preparing this Second Report.
12. Unless otherwise noted, all monetary amounts contained in this Second Report are expressed in Canadian dollars (“CAD”).

IV. THE SNAL TRANSACTION

13. As noted in the First Report, 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 “**Amended APA**”). The amendments to the APA were minor and thus, pursuant to the terms of the Approval and Vesting Order, did not require Court approval.
14. The key elements of the SNAL Transaction have been outlined in the Reports and, therefore, have not been repeated herein (all terms not otherwise defined herein shall have the meanings as defined in the Amended APA). Also as noted earlier in this Second Report, the SNAL Transaction was completed on the Closing Date, and the Receiver's Certificate was delivered to the Purchaser on August 2, 2017 and filed with the Court.
15. As detailed in the First Report, pursuant to the SNAL Transaction and in accordance with the terms of the Amended APA, the Buyer, Strellmax and the Receiver entered into an agreement (the “**Support Services Agreement**”) for transition services from and after the Closing Date and terminating no later than the Receiver's discharge (the “**Post-Closing Services**”). The Post-Closing Services include 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.

16. Also as noted in the First Report, subsequent to the Closing Date, an amendment to the Support Services Agreement (the "**First SSA Amendment**") was executed effective September 8, 2017, to provide for, among other things, Strellmax to act as the Buyer's agent and consignee for the sale of the Buyer's inventory in the Company's Bloor Street West retail location (the "**Bloor Store**", until October 31, 2017, being the "**Bloor Term**") and 745 Thurlow retail location (the "**Vancouver Store**") (until such time as the Buyer takes assignment of Strellmax's lease, or enters into a new lease, for the Vancouver Store), in exchange for consideration in the form of a credit bid of Strellson's secured debt in the amount of \$25,000, and the reimbursement of Strellmax's associated out-of-pocket expenses. As discussed later in this Second Report, the Liquidation Sale was substantially complete by September 15, 2017.
17. The Receiver understands that the Buyer had been in negotiations with the Vancouver Store landlord (the "**Vancouver Landlord**") to take assignment of the Vancouver Store lease, but that the Vancouver Landlord was unwilling to consent to the assignment of the Vancouver Store lease to the Buyer. The Receiver further understands that consequently Strellmax, after discussion with the Buyer, served notice of repudiation effective October 31, 2017, in accordance with the Sale Guidelines, and vacated the Vancouver Store on or prior to that date.
18. On October 31, 2017, at the request of the Buyer, a second amendment to the Support Services Agreement (the "**Second SSA Amendment**", and together with the First SSA Amendment, the "**SSA Amendments**") was executed, extending the Bloor Term from October 31, 2017 to November 7, 2017 (the "**Extended Bloor Term**"). The purpose of the Extended Bloor Term was to allow the Buyer sufficient time to transfer its inventory to a new retail location operated by the Buyer.
19. The Receiver understands that the lease term for the Bloor Store had expired on April 30, 2017, but that the landlord (the "**Bloor Landlord**") had agreed to permit Strellmax to continue to occupy the premises on a month-to-month basis until September 30, 2017. In order to facilitate the SSA Amendments, Strellmax and the Bloor Landlord agreed to two (2) extensions, respectively, of the Bloor Store lease term: (i) from September 30, 2017 to October 31, 2017; and (ii) from October 31, 2017 to November 7, 2017. The Receiver further understands that Strellmax vacated the Bloor Store on November 7, 2017.
20. The Amended APA provided the Buyer with the option to offer employment to the Company's employees at its discretion, in order to continue the Company's wholesale business. As detailed in the First Report, sixteen (16) of the Company's employees (the "**Wholesale Employees**") 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 as at the Closing Date in respect of the Wholesale Employees' severance entitlement.

21. Following the Closing Date:

- a) as noted in the First Report, once the Liquidation Sale was completed at the Bayview Village retail location (the "**Bayview Store**"), four (4) of the Company's employees (the "**Bayview Employees**") who had been engaged in the operation of the Bayview Store accepted employment with the Buyer, on substantially similar terms as the Wholesale Employees (as applicable); and
- b) three (3) Strellmax employees who had been engaged in the operation of the Bloor Store (the "**Bloor Employees**") also accepted employment with the Buyer on substantially similar terms as the Wholesale Employees (as applicable), upon the termination of the Extended Bloor Term.

V. THE LIQUIDATION SALE

THE LIQUIDATION SALE

22. As noted earlier in this Second Report, the Court approved the Liquidation Sale and the Sale Guidelines pursuant to the Receivership Order.
23. As detailed in the Reports, 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 furniture, fixtures and equipment ("**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) of the Excluded Assets.
24. The key elements of the Liquidation Sale have been outlined in the Reports and, therefore, have not been repeated in their entirety herein. Below is a summary of certain 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 and 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 five (5) Closing Stores (as defined in the Sale Guidelines) 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 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**");
 - c) the Consultant advised Strellmax on the conduct of the Liquidation Sale and the Company was responsible for all 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) as detailed in the First Report, the Receiver had completed separate sale transactions to the Buyer (together, the **"Initial FF&E Sales"**) for all of the FF&E at three (3) of the five (5) Closing Stores at the end of the Liquidation Period;
- e) as noted earlier in this Second Report, Strellmax continued to operate the remaining two (2) retail locations (the Vancouver Store and the Bloor Store) as agent and consignee for the Buyer pursuant to the SSA Amendments until October 31, 2017 and November 7, 2017, respectively. The Receiver completed separate sale transactions of the FF&E located at the Bloor Store and the Vancouver Store to the Buyer (together, the **"Subsequent FF&E Sales"**) on substantially similar terms as the Initial FF&E Sales;
- f) as noted in the First Report, 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. On December 6, 2017, the Receiver completed a sale (the **"Premises Assets Sale"**, and together with the Initial FF&E Sales and the Subsequent FF&E Sales, the **"FF&E Sales"**) of certain for the FF&E located at the Premises – which was being used by both Strellmax and the Buyer pursuant to the Support Services Agreement – also on substantially similar terms as the Initial FF&E Sales.

25. Each of the FF&E Sales:

- (i) were completed on an "as is, where is" basis;
- (ii) were acquired for transaction values not exceeding \$25,000 (~\$87,000 in the aggregate). The purchase prices paid for each of the FF&E Sales were in excess of liquidation value (as estimated by the Consultant, except for the Premises Assets Sale as noted below) and, as such, the Receiver determined it was not practical to market the assets further in the circumstances. The agreed-upon purchase price for the Premises Assets Sale between the Receiver and the Buyer was for an amount in excess of liquidation value, as estimated by the Receiver based on past experience in similar situations and considering the cost savings of the Buyer as compared to a third party purchaser (the assets were already located in the Buyer's head office and did not need to be removed);

- (iii) were sold to the Buyer by the Receiver (and not the Consultant) and, as such, pursuant to the Liquidation Plan Consulting Agreement, no incremental fee was earned by the Consultant on the FF&E Sales, resulting in the preservation of net proceeds which would not have been the case in the event of a third party offer; and
 - (iv) 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.
26. Strellson, in its capacity as Secured Creditor, supported the FF&E Sales. As the aggregate consideration for the FF&E Sales amounted to less than the \$200,000 threshold outlined in the Receivership Order, no Court approval was sought by the Receiver.
27. As noted earlier in this Second Report, the Samples Transaction was approved by the Court pursuant to the Samples AVO, whereby the Buyer would take title to the Company's remaining sample merchandise (the "**Samples**") for a purchase price of approximately \$38,000, being the value of the Samples on the Company's books and records. The Samples purchase price was satisfied by a credit bid of a portion of the TD Facility and the Samples Transaction closed upon the delivery of a Receiver's Certificate on November 28, 2017 which was then filed with the Court. As at the date of this Second Report, in the Receiver's view, the only realizable physical assets of Strellmax remaining are of nominal estimated net realizable value.

EMPLOYEES

28. As at the date of the Receivership Order, Strellmax employed 46 individuals (the "**Employees**") at the Premises and in the Company's retail stores in Ontario and British Columbia ("**B.C.**"). The Company's workforce was not unionized and the Company did not maintain a pension plan.
29. As noted in the Pre-Filing Report, accrued wages were owing to the Employees for the most recent pay period leading up to the date of the Receivership Order (the "**Stub Period Wages**"). Subsequent to the date of the Receivership Order, the Receiver, with the approval of the Secured Creditor, provided sufficient funding to the Company for the payment of the Stub Period Wages, in the ordinary course. In addition, the Receiver understands that the Company maintained existing employee benefit plans during the course of the Employees' continued employment with Strellmax, including honouring employees' use of vacation entitlements earned outside of the six-month period leading up to the date of the Receivership Order, subject to the Company's staffing needs. The Receiver understands that the use of vacation entitlements by Employees during the receivership was limited and necessary to maintain the cooperation of the Employees during the receivership.

30. As noted above, on and following the Closing Date, the Buyer hired a total of 24 Employees, being the Wholesale Employees, the Bayview Employees, the Bloor Employees and Strellmax's sole director, Mark Altow (collectively, the "**Transferred Employees**"). The remaining Premises and retail Employees resigned or were terminated by Strellmax during the course of the receivership, as the Company deemed appropriate. All Employees who were not Transferred Employees were provided written notice of termination (as necessary) and the last of the Employees (with the exception of Mark Altow) were terminated effective on or about November 7, 2017, following the Company's exit from all of the Closing Stores. As further discussed later in this Second Report, notwithstanding his employment with the Buyer, Mark Altow has continued to act as officer and sole director of Strellmax during these receivership proceedings.
31. During the Liquidation Sale and pursuant to the SSA Amendments, the Company maintained the majority of its workforce at the Closing Stores up to the vacate date at each Closing Store. The Employees were paid in the ordinary course up to their last day worked, including any vacation accrued since the date of the Receivership Order. In addition, the Company provided certain of the Employees with incentive bonuses in the range of approximately \$450 to \$750 (the "**Incentive Bonuses**"), earned during the Liquidation Sale, to ensure cooperation. The Incentive Bonuses were offered to those Employees working at the Closing Stores whose employment was not expected, at the time, to be continued by the Buyer after the conclusion of the Liquidation Sale. As noted earlier in this Second Report, of the retail Employees, ultimately the Buyer offered employment to the Bayview Employees and the Bloor Employees.
32. Following the date of the Receivership Order, Strellmax agreed to honour the pre-filing vacation pay (the "**Vacation Incentive**") owing to a key finance employee who was not offered employment by the Buyer, but whose cooperation was needed for a defined period during the receivership proceedings. The amount of the Vacation Incentive was in excess of the amount which would be eligible under section 81.4 of the BIA and the provisions of the *Wage Earner Protection Program Act* ("**WEPPA**"), and was approved by the Secured Creditor. The Vacation Incentive, in the amount of approximately \$7,000, was paid by the Company in December 2017.
33. Following the date of the Receivership Order, the Receiver contacted Service Canada to establish a protocol for the submission of employee claims pursuant to WEPPA, given the nature of the receivership proceedings and the continued employment of the Employees by Strellmax at the outset of these proceedings. As Employee terminations were anticipated to be made by the Company on a periodic basis, Service Canada agreed to extend the application deadline for WEPPA claims by employees from 56 days from the date of the Receivership Order to 56 days from the date of termination by Strellmax, and advised the Receiver to submit these claims on a periodic basis during the receivership proceedings.

34. Following the termination of each Employee's employment with the Company, Strellmax issued a record of employment to Service Canada and the Employee, and provided the Receiver with the information necessary for the Receiver to comply with the provisions of WEPPA. Based on the Company's books and records, the Receiver filed a proof of claim on behalf of all Employees (including the Transferred Employees) in accordance with the provisions of WEPPA, its regulations and the applicable labour standards legislation in the province of employment, a copy of which was provided to each Employee along with instructions on submitting an application for payment pursuant to WEPPA. As at the date of the Second Report, the Receiver has submitted all employee claims pursuant to WEPPA of which the Receiver is aware. In the event the Receiver is made aware of any further claims, it will fulfil its duties under WEPPA in respect of those claims.

VI. ACCORD FINANCIAL LTD.

THE ACCORD AGREEMENT

35. As detailed in the First Report, pursuant to a letter agreement dated June 1, 2010, as amended from time to time (the "**Accord Agreement**"), Accord has provided accounts receivable management services and certain credit protection services (the "**Accord Services**") to the Company since 2010. The key terms of the Accord Agreement are 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 (being 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) as more fully outlined in the First Report, 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. Also as referenced in the First Report, pursuant to a letter from Accord to TD dated July 18, 2012 (a copy of which is attached hereto as **Appendix "G"**), Accord confirmed that it does not have a security interest in the Property and that title to the Company's accounts receivable, including the Controlled Funds, remain with Strellmax at all times.

THE CONTROLLED FUNDS

36. As outlined in the First Report, prior to the Court's direction pursuant to the Controlled Funds Order, Accord had refused to deliver certain Controlled Funds to the Receiver on the basis that Accord had a right of set-off against the Controlled Funds for its liability, if any, under the Accord LOC (as hereinafter defined). The details of the events leading to the Receiver's motion for the Controlled Funds Order (up to the date of the First Report) are outlined in the First Report, and are therefore not repeated in their entirety herein).
37. As detailed in the Affidavit of Jim Bates, President of Accord, sworn October 27, 2017 (the "**Bates Affidavit**") in support of Accord's Cross-Motion Record dated the same date, Strellson made demand for payment under the Accord LOC in August 2017 and Accord paid \$1.00 to Strellson on a without prejudice basis. The Bates Affidavit is included in Tab "2" of Accord's Cross-Motion Record.
38. On November 7, 2017, pursuant to the Controlled Funds Order, Accord was ordered and directed to immediately deliver to the Receiver all Controlled Funds in Accord's possession as of October 28, 2017, which amounted to approximately \$550,000 as at the date of the Controlled Funds Order (the "**Held Funds**"). On November 8, 2017, Accord deposited the Held Funds into Strellmax's bank account and the Receiver took possession and control of those funds. As directed in the Controlled Funds Order, the Receiver is holding the Held Funds pending the Court's determination of the Priority and Distribution Motion.
39. Also pursuant to the Controlled Funds Order, Accord was further ordered and directed to remit all Controlled Funds coming into its possession after October 28, 2017 to the Receiver at the expiry of ten (10) days (being the normal course time period established with Strellmax prior to the date of the Receivership Order). Since the date of the Controlled Funds Order, Accord has regularly deposited funds into Strellmax's bank account, which deposits appear to comply with 10-day period provided for in the Controlled Funds Order.

THE PRIORITY AND DISTRIBUTION MOTION

40. Pursuant to the Controlled Funds Order, the Receiver was authorized and directed to bring the Priority and Distribution Motion for the Court to determine the relative priorities of the secured claims of the Secured Creditor and Accord, to the Held Funds, and directions with respect to the Receiver's distribution of same.
41. As detailed later in this Second Report, the security opinion obtained by the Receiver from its prior independent legal counsel, WeirFoulds, on Strellson's security provides that, subject to the customary qualifications and assumptions, the security interest granted to the Toronto-Dominion Bank ("**TD**") pursuant to the security over certain of the Property and assigned to Strellson under the Assignment Agreement (as hereinafter defined), is valid and enforceable.

42. The Receiver has reviewed the Affidavit of Valeria Gomon, Chief Financial Officer of Strellson sworn December 8, 2017 (the "**Gomon Affidavit**") and the supplemental Affidavit of Jim Bates of Accord (the "**Supplemental Bates Affidavit**") sworn February 6, 2018. As at the date of this Second Report, nothing has come to the Receiver's attention, including in the contents of the Gomon Affidavit and the Supplemental Bates Affidavit that, in the Receiver's view, would alter the priority of the Secured Creditor's claim as outlined in the security opinion obtained.

VII. CREDITORS

ASSIGNMENT OF TD BANK DEBT TO STRELLSON AG

43. As outlined in the Reports, 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**").
44. Also as detailed in the Reports, TD assigned certain of its rights and obligations under the TD Debt and Security to Strellson (the "**Secured Creditor**") 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 (as defined in the Pre-Filing Report), filed in support of the Secured Creditor's application for the Receivership Order.
45. 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 (the "**Cash Collateral**") to secure the corporate credit card facility. Subsequent to the closing of the SNAL Transaction, the Receiver terminated the Company's corporate credit card facility and the Cash Collateral (net of outstanding charges) was subsequently refunded to the Company by TD.
46. According to the Company's books and records, the balance outstanding to the Secured Creditor as at July 7, 2017 was approximately \$3.8 million, which balance was subsequently increased to approximately \$4.0 million by a further advance by the Secured Creditor following the date of the Receivership Order. The Secured Creditor has provided the Receiver with an updated account of its secured indebtedness as at January 31, 2018, which indicates an outstanding balance of approximately \$4.7 million, as follows:

Strellmax Ltd. Summary of Strellson Secured Indebtedness As at January 31, 2018 (\$000's)	
Balance - July 7, 2017	\$ 3,889
Additional advances by the Secured Creditor	192
	<u>4,081</u>
Accrued interest	95
Billed legal fees & expenses	531
Total Secured Indebtedness	\$ 4,707

47. During the receivership proceedings, Strellson satisfied a portion of the purchase price related to various transactions, including the SNAL Transaction, by credit bids of a portion of the TD Facility (as discussed elsewhere in this Second Report) in the aggregate amount of approximately \$0.9 million. The remaining balance of Strellson's secured indebtedness after consideration of the credit bids is approximately \$3.8 million. Based on the net proceeds to date in these receivership proceedings, a significant shortfall (in the amount of approximately \$2.0 million, net of costs of administration) is anticipated to the Secured Creditor. A copy of the Receiver's estimated realizations on the Property as at January 31, 2018 is attached hereto as **Appendix "H"**.

SECURITY OPINION

48. As noted in the Reports, Richter received an opinion on Strellson's security from its independent legal counsel 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 Property located in Ontario, and assigned to Strellson under the Assignment Agreement, is valid and enforceable as against a trustee in bankruptcy of Strellmax.
49. As part of the Assignment Agreement, a contractual Postponement and Assignment of Creditor's Claim and Postponement of Security granted by Strellmax's shareholder, Adamray Investments Inc. ("**Adamray**"), in favour of TD was assigned, among other things, to Strellson. Searches conducted in Ontario by the Receiver's legal counsel 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.
50. Only one Ontario PPSA registration, in favour of National Leasing Inc. ("**National**") in respect of certain leased computer software (the "**National Lease**"), 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. The Receiver understands that subsequent to the Closing Date, the Buyer executed a buyout agreement with National for the assets subject to the National Lease, in order to facilitate its continuation of the 'Strellson' brand business. National has released both Strellmax and the Receiver from any further obligation related to the National Lease.

51. 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 was the only registration against Strellmax that appeared in the B.C. PPSA search as at the relevant date.

OTHER SECURED CREDITORS

52. Also as noted in the Reports and the Bates Affidavit, 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 which is contractually and temporally subordinate to the TD Debt and Security assigned to the Secured Creditor (the "**Subordinated Security**").
53. 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 "C"** to the Bates Affidavit.
54. However, Accord did obtain subordination from Mark Allow on behalf of Adamray in respect of the Reimbursement Obligation and in connection therewith took an assignment of the Shareholder Loan and the Subordinated Security. Copies of the documentation in support of the subordination are attached as **Appendix "B"** to the Bates Affidavit.

OTHER PPSA REGISTRANTS

55. As noted in the Pre-Filing Report, in addition to the secured claims of Strellson, Adamray, and Accord noted above, the search report prepared by the Receiver's legal counsel setting out registrations filed under the applicable personal property security registries indicated that the only other Ontario or B.C. PPSA registration against Strellmax is the one in favour of National referenced above.

VIII. PRIORITY CLAIMS

56. The secured claims of Strellson and/or Accord are subject to prior charges and security interests or claims against the Property which rank, or may rank, in priority, including:

- a) the Administration Charge (as defined in the Receivership Order);
- b) the D&O Charge (as defined in the Receivership Order);
- c) Crown deemed trusts; and
- d) statutory claims pursuant to the BIA (the "**BIA Claims**").

ADMINISTRATION CHARGE

- 57. The Receivership Order provides for a first ranking charge in favour of the Receiver, the Receiver's counsel, and counsel to the Company (the "**Insolvency Professionals**") in an amount not to exceed \$400,000, subject to further Order of the Court, charging all of the Property as security for the professional fees and disbursements incurred both before and after the date of the Receivership Order.
- 58. As at the date of this Second Report, the Insolvency Professionals have received payment for fees and disbursements invoiced to date and incurred as part of these receivership proceedings. As discussed later in this Second Report, the Receiver proposes to hold a reserve sufficient to cover, among other things, the Accrued Obligations and Remaining Fees and Disbursements (as hereinafter defined) to complete these receivership proceedings.
- 59. The Receiver is seeking this Court's approval to terminate the Administration Charge and the security interest therein, upon the completion of the Remaining Matters, and the Receiver filing the Discharge Certificate with the Court.

D&O CHARGE

- 60. The Receivership Order provides for a charge in the maximum amount of \$150,000, subject to further Order of the Court, charging the Property to indemnify its directors and officers for liabilities incurred by the Company that result in post-filing claims against the directors and officers in their personal capacities. As at the date of this Second Report, Mark Altow remains as sole director of Strellmax.
- 61. The Receiver understands that, as at the date of this Second Report, all post-filing source deductions and sales taxes owing by Strellmax since the date of the Receivership Order were remitted in the ordinary course and that any sales tax returns not yet filed are anticipated to result in a refund for the Company. Further, Strellmax paid all wages, commissions and vacation earned since the date of the Receivership Order in the normal course. There are no remaining Strellmax operations or other Employees as at the date of this Second Report. As such, the Receiver is not aware of any potential outstanding amounts that could result in a claim against the directors and officers of Strellmax under the D&O Charge.

62. Accordingly, the Receiver is seeking this Court's approval to terminate the D&O Charge and the security interest therein. The termination of the D&O Charge has been discussed with counsel to Mark Altow, as sole director, and as at the date of this Second Report, the Receiver is not aware of any objections of Mark Altow or his counsel.

CROWN DEEMED TRUSTS

63. The Company's books and records indicated, as at the date of the Receivership Order, that Strellmax owed HST and B.C. PST, net of input tax credits, to Canada Revenue Agency ("**CRA**") and provincial taxing authorities in the amount of approximately \$35,000 (the "**Pre-Filing HST**"), which could potentially rank in priority to the Secured Creditor's security as against the Property. The Company, with the approval of the Secured Creditor, has paid the Pre-Filing HST. CRA completed a trust examination on September 6, 2017 and no material items were highlighted to the Receiver.

64. Also as noted above, the Company has remitted all post-filing source deductions and sales taxes owing in the normal course.

65. Accordingly, the Receiver is not aware of any deemed trust amounts which could rank in priority to the claims of the Secured Creditor and/or Accord (as applicable).

BIA CLAIMS

66. As noted earlier in this Second Report, following the date of the Receivership Order, the Company paid the Stub Period Wages owing to the Employees (including source deductions). The Receiver has reviewed the Company's books and records, and based on the information available, the Receiver has determined that potential claims could be asserted by the Employees pursuant to section 81.4 of the BIA (the "**81.4 Claims**") in the amount of approximately \$21,000.

67. Also as noted earlier in this Second Report, the Receiver, to the best of its knowledge, has complied with its obligations under WEPPA and will continue to do so as required, including providing information to Service Canada and the Employees for the purpose of administering claims pursuant to WEPPA. As at the date of this Second Report, the Receiver has not settled any of the 81.4 Claims as it is anticipated that subrogation letters will be filed by Service Canada pursuant to the provisions of WEPPA (where Service Canada is subrogated to the rights of the Employees), in which case the amount of the 81.4 Claims would be payable directly to Service Canada. As a result, the Receiver will maintain a reserve to, among other things, provide for the payment of any 81.4 Claims.

68. As noted earlier in this Second Report, the Receiver understands that the Company did not maintain a pension plan and, accordingly, is not aware of any potential claims pursuant to section 81.6 of the BIA.

IX. ACTIVITIES OF THE RECEIVER

POWERS OF THE RECEIVER

69. Pursuant to the Receivership Order, the Receiver was authorized and directed to take possession and control of the Company's Treasury Assets (as defined in the Receivership Order), which included without limitation, all proceeds in respect of the Liquidation Sale, the SNAL Transaction and the Company's accounts receivable. As mentioned earlier in this Second Report, the terms of the Receivership Order also contemplated that Strellmax would remain in possession and control of its Property (other than the Treasury Assets) and its Business (as defined in the Receivership Order), through its sole director, Mark Altow. The Receiver was authorized and directed to remit sufficient funding to Strellmax to operate its Business.
70. Also pursuant to the Receivership Order, the Receiver was empowered and authorized, but not obligated, to expand its role by also exercising the customary powers of a receiver pursuant to the BIA (the "**Permissive Powers**"), where it considered it necessary or desirable.
71. Prior to the conclusion of the Company's operations, the Receiver exercised certain Permissive Powers, as it considered appropriate in the circumstances, predominantly related to the FF&E Sales and the Samples Transaction (including its motion for the Samples AVO).
72. As noted earlier in this Second Report, operations were substantially complete by November 7, 2017, when the Company vacated the final Closing Store. Accordingly, the Receiver further expanded its role by exercising certain further Permissive Powers as it considered appropriate in the circumstances to, among other things, reconcile the payments owing under the SSA Amendments, and carry out the administration of the receivership generally.

ACTIVITIES OF THE RECEIVER

73. The Receiver's activities since the date of the Receivership Order have included:
 - a) opening new bank accounts under the Receiver's name and taking possession and control over the Treasury Assets;
 - b) sending to all known creditors the *Notice and Statement of Receiver* required under section 245(1) and 246(1) of the BIA;
 - c) assisting Strellmax in communications with its employees, landlords and suppliers with a view to minimizing disruption to the Liquidation Sale and to facilitate the completion of the SNAL Transaction;

- d) communicating with certain landlords, the Company and its counsel in respect of the payment of post-filing rent and the timing of repudiation notices sent in respect of the Closing Store leases;
- e) responding to inquiries from stakeholders, including addressing the questions or concerns of parties who contacted the Receiver by telephone and/or by email;
- f) overseeing and monitoring the proceeds from the Liquidation Sale, collections of Strellmax accounts receivable and other amounts;
- g) corresponding with the Secured Creditor and its counsel regarding the status of the receivership proceedings, the Liquidation Sale and the SNAL Transaction;
- h) reviewing and responding to demands for payment received from suppliers, vendors, and service providers;
- i) determining the amounts owed to the Employees as at the date of the Receivership Order and liaising with Service Canada on the administration of WEPPA;
- j) completing, with the assistance of the Company, the SNAL Transaction, including overseeing the inventory count by an independent third party and reviewing the calculation of the final purchase price at the Closing Date;
- k) filing a Receiver's Certificate with the Court attesting that the SNAL Transaction had been completed to the satisfaction of the Receiver and confirming the closing of the SNAL Transaction;
- l) expanding its role and exercising certain Permissive Powers to complete, among other things, the FF&E Sales and the Samples Transaction (and filing a Receiver's Certificate with the Court certifying same);
- m) working with the Company and the Buyer on the reconciliation of the Buyer's sales and reimbursable costs owing to Strellmax, pursuant to the SSA Amendments;
- n) corresponding with Mark Altow, the Employees and the Buyer's employees (pursuant to the Support Services Agreement) regarding Strellmax operations and the administration of these receivership proceedings;
- o) discussions and correspondence with the Receiver's legal counsel and Strellson's counsel, Gowling WLG, on a number of matters relating to these receivership proceedings, including but not limited to the SNAL Transaction, the Support Services Agreement and SSA Amendments and the administration of WEPPA;

- p) discussions and correspondence with the Receiver's legal counsel, the Company, Strellson, Strellson's counsel, Accord and Accord's counsel regarding the Controlled Funds and motions in respect of same;
- q) corresponding with the Company and the Company's tax preparer, Ernst & Young LLP, regarding the preparation of the fiscal year-end 2016 Strellmax corporate income tax return;
- r) attending before this Court in respect of the Receivership Order and the Approval and Vesting Order, the Samples AVO and the Controlled Funds Order;
- s) preparing the First Report, this Second Report and materials in support of the Controlled Funds Order and the Priority and Distribution Motion; and
- t) other matters pertaining to the administration of Strellmax's receivership proceedings.

X. RECEIVER'S STATEMENTS OF RECEIPTS AND DISBURSEMENTS

- 74. In accordance with the terms of the Receivership Order, the Receiver took possession and control of the Treasury Assets during the course of the receivership proceedings, including but not limited to: (i) the net proceeds from the Liquidation Sale; (ii) the cash purchase price from the SNAL Transaction; and (iii) proceeds from the Company's collection of outstanding accounts receivable from sales made by Strellmax both prior to, and following, the date of the Receivership Order.
- 75. The Receiver's CAD statement of receipts and disbursements for the period from the date of the Receivership Order to January 31, 2018 (the "CAD R&D") is summarized as follows:

Strellmax Ltd.		
Statement of Receipts and Disbursements (Canadian Dollars)		
For the period July 7, 2017 to January 31, 2018		
Receipts		Notes
Net proceeds from Strellmax	\$ 1,859,672.73	a
SNAL Transaction - cash purchase price	186,781.60	b
Cash in bank at the date of the Receivership Order	54,975.16	
Interest earned	8,330.54	
Miscellaneous refunds	188.14	
FF&E Sales	-	c
Samples Transaction	-	c
Total Receipts	2,109,948.17	
Disbursements		
Funding the Business	259,322.48	a
Professional fees - Receiver	143,541.18	d
Professional fees - Receiver's counsel	75,275.94	d
HST paid on disbursements	28,446.23	
Receivership filing fees	70.00	
Bank charges	67.16	
Total Disbursements	506,722.99	
Excess of Receipts over Disbursements/ Cash on Hand	\$ 1,603,225.18	

Notes:

- a) net proceeds from Strellmax in the amount of approximately \$1.9 million include the net proceeds from the Liquidation Sale and collections of the Company's accounts receivable (including the Controlled Funds). Of the net proceeds collected, the Receiver provided funding to Strellmax in the amount of approximately \$260,000 to operate the Business, as authorized and directed pursuant to the Receivership Order. The Company's cash flow statement (the "**Company Cash Flow**", a copy of which is attached hereto as **Appendix "I"**) presents, in CAD, the receipts and disbursements of the Business for the period from the date of the Receivership Order to January 31, 2018;
- b) the proceeds from the SNAL Transaction shown in the table above reflect the cash portion of the purchase price paid by Strellson in the amount of approximately \$187,000. The total purchase price of the SNAL Transaction amounted to approximately \$970,000, including the portion satisfied by a credit bid of a portion of Strellson's secured debt;
- c) the purchase prices for the FF&E Sales and the Samples Transaction were also satisfied by credit bids of a portion of Strellson's secured debt, in the amounts of approximately \$87,000 and \$38,000, respectively; and

- d) in addition to the professional fees paid to the Receiver and the Receiver's counsel reflected in the table above, Strellmax paid certain fees and disbursements of the Receiver and the Receiver's counsel directly, which payments are reflected in the Company Cash Flow.
76. As detailed in the above table, the Receiver had total CAD receipts of approximately \$2.1 million between the date of the Receivership Order and January 31, 2018, the majority of which related to net proceeds from Strellmax's Business. Total disbursements over the same period were approximately \$510,000, and as at January 31, 2018, cash on hand was approximately \$1.6 million.
77. The Receiver's United States dollar ("**USD**") statement of receipts and disbursements for the period from the date of the Receivership Order to January 31, 2018 (the "**USD R&D**", and together with the CAD R&D, the "**Interim R&D**") is summarized as follows:

Strellmax Ltd.	
Statement of Receipts and Disbursements (U.S. Dollars)	
For the period July 7, 2017 to January 31, 2018	
Receipts	
Net Proceeds from Strellmax	\$ 125,472.75
Interest earned	326.13
Total Receipts	125,798.88
Disbursements	
Bank charges	15.94
Total Disbursements	15.94
Excess of Receipts over Disbursements/Cash on Hand	\$ 125,782.94

78. As detailed in the above table, the Receiver had total USD receipts of approximately \$126,000 between the date of the Receivership Order and January 31, 2018, the majority of which related to net proceeds from Strellmax's Business, predominantly accounts receivable collections denominated in USD. Total disbursements over the same period were approximately \$16, and as at January 31, 2018, cash on hand was approximately \$126,000.
79. The Receiver estimates there remains approximately \$40,000 in Accrued Obligations relating to professional fees and disbursements, and Strellmax operating costs, incurred up to the date of this Second Report as part of these receivership proceedings. In addition, the Receiver may file a supplemental report (the "**Supplemental Report**") with the Court prior to the date of the Priority and Distribution Motion, to provide the Court with an estimate of the Remaining Costs, including remaining professional fees and disbursements of the Receiver and its counsel (the "**Remaining Fees and Disbursements**").

80. Subject to filing the Supplemental Report with the Court, the Receiver seeks authority to pay the Remaining Fees and Disbursements from cash on hand without further order of this Court.

XI. PROPOSED INTERIM DISTRIBUTION

81. As detailed in the Reports and summarized earlier in this Second Report, the security granted by the Company in favour of TD and assigned to Strellson pursuant to the Assignment Agreement, is valid and enforceable according to the independent, written legal opinion obtained by the Receiver in respect of same.

82. The table below sets out the Receiver's Proposed Interim Distribution of the net proceeds from realization to Strellson and/or Accord, in order of priority as determined by this Court:

Strellmax Ltd.	
Funds Available for Interim Distribution	
As at January 31, 2018	
Cash on Hand (in CAD) ⁽¹⁾	\$ 1,757,850.15
Less: Reserves	
81.4 Claims	(21,000.00)
Accrued Obligations	(40,000.00)
Remaining Fees and Disbursements	n/a
Other Remaining Costs	n/a
Contingency	(196,850.15)
Total Reserves	(257,850.15)
Proposed Interim Distribution (in CAD)	\$ 1,500,000.00
Note:	
¹ USD-denominated cash on hand has been converted to CAD at the Bank of Canada January 31, 2018 daily rate (1.2293) for presentation purposes.	

83. As at the date of this Second Report, the Receiver seeks this Court's authority to make the Proposed Interim Distribution in the amount of \$1,500,000. Funds reserved by the Receiver are anticipated to be sufficient to fund the estimated remaining operational/administrative costs and professional fees to complete the receivership, and any remaining priority claims of which the Receiver is aware and any further tax remittances required by Strellmax or the Receiver.

84. As the Priority and Distribution Motion is to be heard only on March 15, 2018, the Receiver intends to provide an updated figure for the Proposed Interim Distribution in the Supplemental Report, when additional information on the Remaining Costs anticipated in these receivership proceedings is available.

85. The Receiver notes that additional funds are expected to be received in the remaining administration, including income tax and import duties refunds, although the Receiver is unable to estimate the timing and likelihood of these recoveries at this time.

86. The Receiver respectfully requests that the Court authorize the Proposed Interim Distribution according to the Court's determination of the relative priorities, and amounts (if necessary), of the secured claims of Strellson and Accord and such subsequent distributions to Strellson (or as otherwise directed by the Court) as the Receiver determines appropriate and retaining sufficient reserves to address costs to complete the administration of, and any potential priority claims prior to the termination of, these receivership proceedings.

XII. REMAINING MATTERS TO BE COMPLETED IN THESE PROCEEDINGS

87. If this Court grants the Orders requested herein, the Receiver will have completed its duties, statutory or otherwise, except for the following (the "**Remaining Matters**"):

- a) responding, as necessary, to any requests of the Receiver for information, or further motions of interested parties related to Accord or the Controlled Funds, including as outlined in the Controlled Funds Order;
- b) collecting the Controlled Funds in Accord's possession from collection of the Company's remaining accounts receivable;
- c) paying the Outstanding Disbursements;
- d) providing sufficient funding to the Company to wind-down its operations, pursuant to the terms of the Receivership Order;
- e) pursuing the potential recovery of any unclaimed HST and/or import duties paid during these proceedings;
- f) pursuing the potential recovery of any uncollected pre-filing insurance claims made;
- g) ensuring the completion and filing of the Company's fiscal year-end 2016 and 2017 corporate income tax returns with CRA and pursuing the potential recovery of income tax refunds expected by the Company;
- h) realizing on any remaining net realizable physical assets of Strellmax, should the Receiver deem it appropriate to do so, depending on the estimated costs of realization. The Company's limited remaining physical assets consist primarily of office equipment not subject to the FF&E Sales or the SNAL Transaction, which the Receiver estimates will have nominal net realizable value;
- i) arranging for the redirection of Strellmax's mail from the Buyer's head office (being the former Premises) to the Receiver's offices, if necessary, prior to the termination of the Support Services Agreement;

- j) closing the Company's bank accounts with TD and taking possession and control of any remaining Treasury Assets;
 - k) making a final distribution(s) to the Secured Creditor in respect of its secured claim, or as the Court may otherwise direct. As discussed earlier in this Second Report, based on the estimated realizations for the Property, Strellson is anticipated to suffer as significant shortfall on its secured claim; and
 - l) attending to other administrative matters incidental to these proceedings such as filing the Receiver's reports pursuant to sections 246(2) and 246(3) of the BIA.
88. Upon the completion of the Remaining Matters, the Receiver will have realized on the Property and completed its statutory duties as well as those duties set out in the Receivership Order or subsequent Orders of this Court. Accordingly, the Receiver is of the view that it is appropriate to seek an Order of the Court discharging the Receiver upon the filing of the Discharge Certificate with this Court certifying that all of the Remaining Matters have been completed.

XIII. REQUEST FOR APPROVAL OF FEES

89. The Receiver and its counsel have maintained detailed records of their professional time and disbursements since the date of the Receivership Order.
90. The Receiver's professional fees incurred for services rendered from July 3, 2017 to January 31, 2018 amount to \$335,030.40, plus disbursements in the amount of \$546.73 (all excluding HST). The Receiver's professional fees and disbursements have not yet been approved by the Court. The Receiver intends to provide an updated account of the time spent by the Receiver's professionals in the Supplemental Report, which will be supported by affidavit at that time.
91. The fees of the Receiver's prior counsel, WeirFoulds, for services rendered from June 22, 2017 to December 31, 2017 amount to \$161,882.50, plus disbursements in the amount of \$2,032.39 (all excluding HST). The fees and disbursements of the Receiver's counsel have not yet been approved by the Court. An updated account of the time spent by the Receiver's current legal counsel, DLA, is intended to be included in the Supplemental Report, and supported by affidavit at that time.
92. The Receiver has reviewed WeirFoulds' accounts and has determined that the services have been duly authorized and duly rendered and that the charges are reasonable given the circumstances.
93. In addition to the fees incurred by the Receiver and its counsel to be updated in the Supplemental Report, and on the assumption that there are no delays, disputes or unforeseen developments in connection with

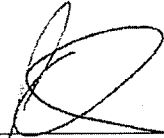
these proceedings, including the within motion and the performance of the Remaining Matters, the Receiver will provide an estimate of Remaining Fees and Disbursements for the Receiver and its counsel (all amounts excluding HST). These amounts shall represent the Receiver's best estimate of the reasonable professional and legal fees required to complete the administration of these proceedings up to the effective date of discharge.

XIV. RECOMMENDATIONS


94. The Receiver recommends that this Court grant Orders:
- a) approving the Second Report and the actions, activities and conduct of the Receiver set out herein;
 - b) approving the Interim R&D;
 - c) terminating the D&O Charge;
 - d) determining the relative priorities of the secured claims of the Secured Creditor and Accord, respectively, against the Property and the quantum of each of the foregoing secured claims, if necessary;
 - e) authorizing and directing the Receiver to make the Proposed Interim Distribution to Strellson, in its capacity as Secured Creditor (or as Strellson may direct), and/or Accord, based upon the Court's determination of the relative priorities of their secured claims against the Property, and in partial satisfaction of Strellson's secured claim against the Property;
 - f) authorizing and directing the Receiver to make subsequent distributions, as the Receiver may determine are available, to Strellson up to the amount of Strellson's secured claim against the Property (or as the Court may otherwise direct), without further order of the Court;
 - g) discharging Richter as Receiver upon completion of the Remaining Matters, including terminating the Receiver's Charge, and subject to the Receiver filing the Discharge Certificate confirming the same with the Court; and
 - h) ordering and declaring that, effective upon its discharge as Receiver, Richter has duly and properly discharged its duties, responsibilities and obligations as the Receiver of Strellmax and discharging and releasing the Receiver from any and all further obligations as Receiver of Strellmax and any and all liability relating in any way to the acts or omissions of Richter while acting as Receiver, save and except for the Receiver's gross negligence or willful misconduct.

All of which is respectfully submitted on the 7th day of February, 2018.

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

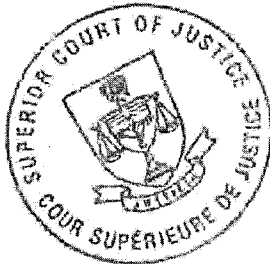
APPENDIX “A”

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

THE HONOURABLE) FRIDAY, THE 7th DAY
JUSTICE CONWAY) OF JULY, 2017



STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended and section 101 of the Courts of Justice Act, R.S.O. 1990, c. c-43, as amended

ORDER

(Appointing Receiver)

THIS APPLICATION made by Strellson AG (the "**Applicant**") for: (i) an Order 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 (the "**CJA**") appointing Richter Advisory Group Inc. ("**Richter**") as receiver (the "**Receiver**") without security, of the assets, undertakings and properties of Strellmax Ltd. (the "**Debtor**") comprising, acquired for, or used in relation to, the business carried on by the Debtor; and (ii.) an Order approving a sale transaction in respect of certain assets (the "**Purchased Assets**") of the Debtor contemplated by an asset purchase agreement (the "**APA**"), to be entered into between the Company, the Applicant, Strellson Canada Ltd. (the "**Buyer**") and the Receiver, in the form appended to the Pre-Appointment Report of the Receiver dated July 5, 2017 (the "**Pre-Appointment Report**"), and vesting in the Buyer the Company's right, title and interest in and to the Purchased Assets, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Marcel Braun sworn June 30, 2017, and the Exhibits thereto, and the Pre-Appointment Report and the Appendices thereto, and on hearing the submissions of counsel for the Applicant, counsel for the proposed Receiver, counsel for the Debtor, counsel for Accord

Financial Ltd. and those other parties listed on the counsel slip, no one appearing for any other person although duly served as appears from the affidavit of service of Thomas Gertner sworn July 4, 2017, filed, and on reading the consent of Richter to act as the Receiver and on being advised that Accord takes no position on the Order sought,

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Application, the Application Record and the Pre-Appointment Report is hereby abridged and that this Application is properly returnable today and hereby dispenses with further service thereof.

APPOINTMENT

2. **THIS COURT ORDERS** that, pursuant to section 243(1) of the BIA and section 101 of the CJA, Richter is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtor comprising, acquired for or used in relation to the business (the "**Business**") carried on by the Debtor, including all proceeds thereof (the "**Property**").

3. **THIS COURT ORDERS** that subject to further Order of this Court, and subject to paragraph 7 hereof, the Debtor shall remain in possession and control of the Property and shall remain in day to day operation and control of the Business, subject at all times to the provisions of the Sale Guidelines, and the Receiver shall not be or be deemed to be in possession and control of the Property save and except as specifically provided for herein or pursuant to steps actually taken by the Receiver with respect to the Property under the permissive powers granted to the Receiver pursuant to paragraph 11 of this Order (the "**Permissive Powers**").

4. **THIS COURT ORDERS** that the Debtor shall be entitled to continue to utilize its central cash management system currently in place with Toronto-Dominion Bank ("**TD**") or, with the prior written consent of the Receiver, replace it with another substantially similar central cash management system (the "**Cash Management System**") and that TD or any future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Debtor or Receiver of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, and shall be entitled to provide the Cash Management System without any liability in respect thereof to any person other than the Debtor, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash

Management System, an unstayed and unaffected creditor with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

LIQUIDATION SALE

5. **THIS COURT ORDERS** that the Sale Guidelines attached hereto as Schedule "A" (the "**Sale Guidelines**") and the transactions contemplated therein and thereunder are hereby approved, authorized and ratified.

6. **THIS COURT ORDERS** that the Debtor is authorized to, market and sell its assets not subject to the APA through a liquidation sale ("**Sale**") conducted by the Debtor under the supervision of the Receiver at the Closing Stores (as that term is defined in the Sale Guidelines), in accordance with the Sale Guidelines, free and clear of all liens, claims, encumbrances, security interests, mortgages, charges, trusts, deemed trusts, executions, levies, financial, monetary or other claims, whether or not such claims have attached or been perfected, registered or filed and whether secured, unsecured, quantified or unquantified, contingent or otherwise, whensoever and howsoever arising, and whether such claims arose or came into existence on or prior to the date this Order or came into existence following the date of this Order (in each case, whether contractual, statutory, arising by operation of law, in equity or otherwise) (all of the foregoing, collectively, "**Claims**"), including, without limitation, the Administration Charge and the Director's Charge (each as defined below), and any other charges hereafter granted by this Court in these proceedings, and all Claims, charges, security interests or liens evidenced by registration pursuant to the *Personal Property Security Act* (Ontario) (the "**PPSA**") or any other personal or removable property registration system (all such Claims, charges, security interests and liens collectively referred to herein as "**Encumbrances**"), and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the assets sold in accordance with this paragraph 6 are hereby expunged and discharged as against such assets.

RECEIVER'S POWERS

Mandatory Powers

7. **THIS COURT ORDERS** that the Receiver is hereby authorized and directed to act at once in respect of and take possession and control of all of the Debtor's funds, cash, cash equivalents, investment items, treasury items, bank accounts, accounts with other financial institutions, including without limitation all proceeds in respect of the Sale and the APA (collectively "**Treasury Assets**").

8. **THIS COURT ORDERS** that the Receiver is authorized and directed to remit to the Debtor sufficient funding from the Treasury Assets to operate the Business. Without limiting the foregoing, the

Receiver is authorized and hereby directed to remit sufficient funds to the Debtor to enable the Debtor to pay the rent in full for the month of July, 2017 under each of the debtor's stores, head office, distribution centres and other real property leases (the "Leases"), to the extent such amounts have not already been remitted by the Debtor. Commencing on August 1, 2017, rent under all Leases (save and except any component of rent comprising percentage rent which shall be calculated and paid in accordance with the terms of the Lease) shall be paid by the Debtor twice monthly in advance in equal payments, up to and including the effective date of any notice of repudiation delivered by the Debtor to the relevant landlord, and the Receiver be and is hereby authorized and directed to remit to the Debtor sufficient funding from Treasury Assets to enable the Debtor to make such in advance rent payments in accordance herewith.

9. **THIS COURT ORDERS** that notwithstanding any term of this Order, but subject to the rights of the Receiver to repudiate, and any trustee in bankruptcy that may be appointed in respect of the Debtor, to disclaim, retain, or assign Leases:

- (a) any charges created by this Order over the Leases shall only be a charge in the Debtor's interest in such Leases;
- (b) except as expressly permitted by the terms of the Leases, none of the Leases shall be amended or varied or deemed to be amended or varied, in any way without obtaining the prior written consent of the applicable landlord or without further Order of this Court;
- (c) the Debtor shall provide the relevant landlord(s) with at least fifteen (15) days' prior notice of the intention to repudiate a Lease (the "**Repudiation Notice Period**");
- (d) if a notice of repudiation is delivered by the Debtor in respect of a Lease, then (a) during the Repudiation Notice Period, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Debtor 24 hours prior written notice, and (b) at the effective time of the repudiation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Debtor in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation, if any, to mitigate any damages claimed in connection therewith.

10. **THIS COURT ORDERS** that the Debtor shall provide each of the relevant landlords with notice of the Debtor's intention to remove any fixtures from any leased premises at least six days prior to the

date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Debtor's entitlement to remove any such fixture under the provisions of the Lease, such fixture shall remain on the premises and shall be dealt with as agreed between such landlord, the Debtor and the Receiver, or by further Order of this Court upon application by the Receiver on at least two (2) days' notice to such landlord. If the Debtor repudiates the Lease governing such leased premises it shall not be required to pay rent under such lease pending resolution of any such dispute (other than rent payable for the Repudiation Notice Period), and the repudiation of the Lease shall be without prejudice to the Debtor's or Receiver's claim to the fixtures in dispute.

Permissive Powers

11. **THIS COURT ORDERS** that subject at all times to paragraph 7 above relating to Treasury Assets, the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized, but not obligated, to do any of the following where the Receiver considers it necessary or desirable:

- (a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising of or from the Property;
- (b) to receive, preserve, and protect the Property, or any part or parts thereof, including but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
- (c) to manage, operate, and carry on the business of the Debtor, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease to carry on all or any part of the business, or cease to perform any contracts of the Debtor;
- (d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;

- (e) to purchase or lease such machinery, equipment, inventories, supplies, premises, or other assets to continue the business of the Debtor or any parts thereof;
- (f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;
- (g) to settle, extend or compromise any indebtedness owing to the Debtor;
- (h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;
- (i) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;
- (j) to sell, convey, transfer, lease or assign any Property or any part or parts thereof out of the ordinary course of business, without the approval of this Court in respect of any transaction not exceeding \$25,000, provided that the aggregate consideration for all such transactions does not exceed \$200,000; and with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amounts set out above, and in each such case notice under subsection 63(4) of the PPSA, shall not be required.
- (k) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;
- (l) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

- (m) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property; and
- (n) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons, including the Debtor, and without interference from any other Person.

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

12. **THIS COURT ORDERS** that: (i) the Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "**Persons**" and each being a "**Person**") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control and shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

13. **THIS COURT ORDERS** that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtor, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "**Records**") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 13 or in paragraph 14 of this Order shall require the delivery of the Records, or the granting of access to the Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

14. **THIS COURT ORDERS** that if any Records are stored or otherwise contained on a computer or other electronic system of information storage ("**Computer Operating System**"), whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper

or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

15. **THIS COURT ORDERS** that until the Receiver is discharged or upon further Order of the Court (i) the Receiver and the Debtor shall maintain all Records and Computer Operating Systems, or copies of such Records or Computer Operating Systems to the extent such Records or Computer Operating Systems are within their possession; and (ii) neither the Receiver nor the Debtor, nor anyone else with notice of this Order shall destroy, delete, or otherwise modify any Records within their possession.

NO PROCEEDINGS AGAINST THE RECEIVER

16. **THIS COURT ORDERS** that no proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTOR OR THE PROPERTY

17. **THIS COURT ORDERS** that no Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

18. **THIS COURT ORDERS** that all rights and remedies against the Debtor, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "eligible financial contract" as defined in the BIA, and further provided that nothing in this paragraph shall: (i) empower the Receiver or the Debtor to carry on any business which the Debtor is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtor from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

19. **THIS COURT ORDERS** that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtor, without written consent of the Receiver or leave of this Court.

CONTINUATION OF SERVICES

20. **THIS COURT ORDERS** that all Persons having oral or written agreements with the Debtor or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtor are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Debtor and/or Receiver, and that the Debtor and/or Receiver shall be entitled to the continued use of the Debtor's current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid in accordance with normal payment practices of the Debtor or such other practices as may be agreed upon by the supplier or service provider and the Debtor or as may be ordered by this Court.

NO PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

21. **THIS COURT ORDERS** that no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Debtor with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Debtor whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, without first obtaining leave of the Court on not less than seven days' notice to the Service List in these proceedings.

RECEIVER TO HOLD FUNDS

22. **THIS COURT ORDERS** that all Treasury Assets received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the Sale, the APA or the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into (i) one or more of the Receiver's new accounts to be opened by the Receiver (the "**Post Receivership Accounts**"); or (ii) one of the Debtor's existing accounts with TD which accounts shall be swept on a daily basis, or as soon as practicable, and the proceeds deposited into the Post Receivership Accounts, and

the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

EMPLOYEES

23. **THIS COURT ORDERS** that all employees of the Debtor shall remain the employees of the Debtor until such time as the Debtor may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including, any successor employer liabilities as provided for in section 14.06(1.2) of the BIA.

D&O CHARGE

24. **THIS COURT ORDERS** that the Debtor shall indemnify its directors and officers (the "D&O") against obligations and liabilities that they may incur as D&O of the Debtor after the commencement of the within proceedings, except to the extent that, with respect to any D&O, the obligation or liability was incurred as a result of the D&O's gross negligence or wilful misconduct.

25. **THIS COURT ORDERS** that the D&O shall be entitled to the benefit of and are hereby granted a charge (the "D&O Charge") on the Property, which charge shall not exceed an aggregate amount of \$150,000.00, as security for the indemnity provided in paragraph 24 of this Order. The D&O Charge shall have the priority set out in paragraphs 34 and 36 herein.

26. **THIS COURT ORDERS** that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) the D&O shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any D&O insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 24 of this Order.

PIPEDA

27. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Debtor and Receiver shall be authorized to disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sale. Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of a sale, and if it does not complete a sale, shall return all such information to the Debtor or

Receiver, as the case may be, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

28. **THIS COURT ORDERS** that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

LIMITATION ON THE RECEIVER'S LIABILITY

29. **THIS COURT ORDERS** that the Receiver shall incur no liability or obligation as a result of its appointment, the carrying out of the provisions of this Order, or arising from the Debtor's operation of the Business, including any liability or obligation in respect of taxes, withholdings, interest, penalties or other like claims, save and except for any gross negligence or wilful misconduct on its part, and it shall have no obligations under sections 81.4(5) or 81.6(3) of the BIA. Nothing in this Order shall derogate from the protections afforded to the Receiver by section 14.06 of the BIA or by any other applicable legislation.

RECEIVER'S ACCOUNTS

30. **THIS COURT ORDERS** that the Receiver, counsel to the Receiver, and counsel to the Debtor shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges unless otherwise ordered by the Court on the passing of accounts, and that the Receiver, counsel to the Receiver and counsel to the Debtor shall be entitled to and are hereby granted a charge (the

"Administration Charge") on the Property, which charge shall not exceed the amount of \$400,000.00 in the aggregate unless further ordered by the Court, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 34 through 37. For clarity, counsel to the Debtor's access to the Administration Charge is solely for fees incurred and accrued on and after the date of this Order.

31. **THIS COURT ORDERS** that the Receiver and its legal counsel shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

32. **THIS COURT ORDERS** that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the standard rates and charges of the Receiver or its counsel and counsel to the Debtor, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

FUNDING OF THE RECEIVERSHIP

33. **THIS COURT ORDERS** that the Receiver, in consultation with the Applicant shall be at liberty and it is hereby empowered to utilize the funds in the Post Receivership Accounts from time to time for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, and funding the Debtor's operations.

VALIDITY AND PRIORITY OF CHARGES

34. **THIS COURT ORDERS** that the priorities of the Administration Charge and the D&O Charge, as between them, shall be as follows:

First — the Administration Charge up to \$400,000.00

Second — the D&O Charge up to \$150,000.00

35. **THIS COURT ORDERS** that the filing, registration, or perfection of the Administration Charge and the D&O Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

36. **THIS COURT ORDERS** that each of the Charges shall constitute a charge on the Property in priority to any security interests of the Applicant as well as all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise, which are properly perfected security interests as of the date of this Order in favour of any other Person except for security maintained by TD against the Debtor in certain cash collateral in the maximum amount of \$71,500, but subject to sections 14.06(7), 81.4(4) and 81.6(2) of the BIA.

37. **THIS COURT ORDERS** that any Charge created by this Order over Leases of real property in Canada shall only be a Charge in the Debtor's interest in such Lease.

SERVICE AND NOTICE

38. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "Protocol") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scypractice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL <http://www.richter.ca/Folder/Insolvency-Cases/S/Strellmax-Ltd>

39. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Receiver is at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof, by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the intended recipient at their respective addresses as last shown on the records of the Debtor and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

40. **THIS COURT ORDERS** that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder and is hereby authorized and empowered, but not obligated, to cause the Debtor to make an assignment in bankruptcy and that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.

41. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United Kingdom or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

42. **THIS COURT ORDERS** that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, Or the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

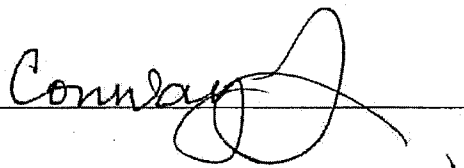
43. **THIS COURT ORDERS** that the Applicant shall have its costs of this application, up to and including entry and service of this Order, provided for by the terms of the Applicant's security or, if not so provided by the Applicant's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.

44. **THIS COURT ORDERS** that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

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Schedule "A"
Sale Guidelines

The following procedures shall apply to the sale ("Sale") to be conducted at the Closing Stores (as defined below) of Strellmax Ltd. (the "Debtor").

1. Except as otherwise expressly set out herein, and subject to: (i) the Appointment Order or any further Order of the Court; (ii) any subsequent written agreement between the Debtor or Richter Advisory Services Inc., solely in its capacity as court-appointed Receiver of the Debtor (the "Receiver") and the applicable landlord(s) (individually, a "Landlord" and, collectively, the "Landlords"); or (iii) as otherwise set forth herein, the Sale shall be conducted in accordance with the terms of the applicable leases/or other occupancy agreements (individually, a "Lease" and, collectively, the "Leases") for the following stores:

- (a) 170 Bloor Street West, Toronto, Ontario;
- (b) 3401 Dufferin Street, Toronto, Ontario;
- (c) 2901 Bayview Avenue, Toronto, Ontario;
- (d) 50 Rideau Street, Unit E304, Ottawa, Ontario; and
- (e) 1108 Alberni Street, Vancouver, British Columbia.

(collectively the "Closing Stores", each a "Closing Store")

2. However, nothing contained herein shall be construed to create or impose upon the Debtor or the Receiver any additional restrictions not contained in the applicable Lease or other occupancy agreement.

3. The Sale shall be conducted so that each of the Closing Stores remain open during their normal hours of operation provided for in the respective Leases for the Closing Stores. The Sale at the Closing Stores shall end by no later than October 31, 2017. Any Rent payable under the respective Leases shall be paid as provided in the Appointment Order.

4. The Sale shall be conducted in accordance with applicable federal, provincial and municipal laws and regulations, unless otherwise ordered by the Court.

5. All display and hanging signs used by the Debtor in connection with the Sale shall be professionally produced and all hanging signs shall be hung in a professional manner. The Debtor may advertise the Sale at the Closing Stores as a "store closing", "everything on sale", "everything must go", or similar theme sale at the Closing Stores (provided however that no signs shall advertise the Sale as a "bankruptcy", a "going out of business" sale or a "liquidation" sale it being understood that the French equivalent of "clearance" is "liquidation" and is permitted to be used). Forthwith upon request from a Landlord, the Landlord's counsel or the Receiver, the Debtor shall provide the proposed signage packages along with the proposed dimensions and number of signs by e-mail or

facsimile to the applicable Landlords or to their counsel of record and the applicable Landlord shall notify the Debtor of any requirement for such signage to otherwise comply with the terms of the Lease and/or these Sale Guidelines and where the provisions of the Lease conflicts with these Sale Guidelines, these Sale Guidelines shall govern. The Debtor shall not use neon or day-glow or handwritten signage (unless otherwise contained in the sign package, including "you pay" or "topper" signs). In addition, the Debtor shall be permitted to utilize exterior banners/signs at stand alone or strip mall Closing Stores or enclosed mall Closing Stores with a separate entrance from the exterior of the enclosed mall; provided, however, that where such banners are not permitted by the applicable Lease or the Landlord requests in writing that the banner are not to be used, no banner shall be used absent further Order of the Court, which may be sought on an expedited basis on notice to the Landlord. Any banners used shall be located or hung so as to make clear that the Sale is being conducted only at the affected Closing Store and shall not be wider than the premises occupied by the affected Closing Store. All exterior banners shall be professionally hung and to the extent that there is any damage to the facade of the premises of a Closing Store as a result of the hanging or removal of the exterior banner, such damage shall be professionally repaired at the expense of the Debtor. If a Landlord is concerned with "store closing" signs being placed in the front window of a Closing Store or with the number or size of the signs in the front window, the Debtor and the Landlord will discuss the Landlord's concerns and work to resolve the dispute.

6. The Debtor shall be permitted to utilize sign walkers and street signage, provided, however, such sign walkers and street signage shall not be located on any applicable shopping centre or mall premises.
7. Conspicuous signs shall be posted in the cash register areas of each Closing Store to the effect that all sales are "final".
8. The Debtor shall not distribute handbills, leaflets or other written materials to customers outside of any of the Closing Stores on any Landlord's property, unless permitted by the applicable Lease or, if distribution is customary in the shopping centre in which the Closing Store is located. Otherwise, the Debtor may solicit customers in the Closing Stores themselves. The Debtor shall not use any giant balloons, flashing lights or amplified sound to advertise the Sale or solicit customers, except as permitted under the applicable Lease, or agreed to by the Landlord.
9. At the conclusion of the Sale in each Closing Store, the Debtor shall arrange that the premises for each Closing Store are in "broom swept" and clean condition, and shall arrange that the Closing Stores are in the same condition as on the commencement of the Sale, ordinary wear and tear excepted. No property of any Landlord of a Closing Store shall be removed or sold during the Sale. No permanent fixtures (other than the FF&E (as defined below)) may be removed without the Landlord's written consent unless otherwise provided by the applicable Lease. Any fixtures or personal property left in a Closing Store after its lease has been repudiated by the Receiver and vacated by the Debtor shall be deemed abandoned, with the applicable Landlord having the right to dispose of the

same as the Landlord chooses, without any liability whatsoever on the part of the Landlord.

10. Subject to the terms of paragraph 9 above, the Debtor may sell furniture, trade fixtures and equipment owned by the Debtor ("**Owned FF&E**"), located in the Closing Stores during the Sale. The Debtor may advertise the sale of Owned FF&E consistent with these guidelines on the understanding that any Landlord may require that such signs be placed in discreet locations within the Closing Stores acceptable to the Landlord, acting reasonably. Additionally, the purchasers of any Owned FF&E sold during the Sale shall only be permitted to remove the Owned FF&E either through the back shipping areas designated by the Landlord or through other areas after regular store business hours or through the front door of the Closing Store during business hours if the Owned FF&E can fit in a shopping bag, with Landlord's supervision as required by the Landlord. The Debtor shall repair any damage to the Closing Stores resulting from the removal of any and all furniture, trade fixtures and equipment, including the Owned FF&E (collectively "**FF&E**") by the Debtor or by third party purchasers of Owned FF&E from the Debtor.
11. The Debtor shall not make any alterations to interior or exterior Closing Store lighting, except as authorized pursuant to the applicable Lease. The hanging of exterior banners or other signage, where permitted in accordance with the terms of these guidelines, shall not constitute an alteration to a Closing Store.
12. The Debtor hereby provides notice to the Landlords of the Debtor's intention to sell and remove FF&E from the Closing Stores. The Debtor will arrange with each Landlord represented by counsel on the service list or directed by the Landlord and with any other Landlord that so requests, a walk through with the Debtor to identify the FF&E subject to the sale. The relevant Landlord shall be entitled to have a representative present in the Closing Store to observe such removal. If the Landlord disputes the Debtor's entitlement to sell or remove any FF&E under the provisions of the Lease, such FF&E shall remain on the premises and shall be dealt with as agreed to between the Receiver, the Debtor and such Landlord, or by further Order of the Court upon a motion by the Receiver on at least two (2) days' notice to such Landlord. If the Debtor or the Receiver has repudiated the Lease governing such Closing Store in accordance with the Appointment Order, it shall not be required to pay rent under such Lease pending resolution of any such dispute (other than rent payable for the notice period provided for in the Appointment Order), and the repudiation of the Lease shall be without prejudice to the Receiver's or the Debtor's claim to the FF&E in dispute.
13. If a notice of repudiation is delivered pursuant to the Appointment Order to a Landlord while the Sale is ongoing and the Closing Store in question has not yet been vacated, then: (a) during the notice period prior to the effective time of the repudiation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Debtor and the Receiver 24 hours' prior written notice; and (b) at the effective time of the repudiation, the relevant Landlord shall be entitled to take possession of any such Closing Store without waiver of or prejudice to any claims or rights such landlord may have against the Debtor in respect of such Lease or Closing

Store, provided that nothing herein shall relieve such Landlord of its obligation to mitigate any damages claimed in connection therewith.

14. The Debtor and, where appropriate, the Receiver, shall not conduct any auctions of merchandise or FF&E at any of the Closing Stores.
15. If a Landlord and the Debtor are unable to resolve any dispute that may arise in connection with these Sale Guidelines or the Sale more generally, between themselves, the Landlord or the Receiver shall have the right to schedule a "status hearing" before the Court on no less than two (2) days written notice to the other party or parties, during which time the Debtor shall cease all activity in dispute other than activity expressly permitted herein, pending the determination of the matter by the Court; provided, however, that if a banner has been hung in accordance with these Sale Guidelines and is thereafter the subject of a dispute, the Debtor shall not be required to take any such banner down pending determination of the dispute.
16. Nothing herein is, or shall be deemed to be a consent by any Landlord to the sale, assignment or transfer of any Lease, or to grant to the Landlord any greater rights than already exist under the terms of any applicable Lease.
17. These Sale Guidelines may be amended by written agreement between the Debtor, the Receiver, and any applicable Landlord (provided that such amended Sale Guidelines shall not affect or bind any other Landlord not privy thereto without further Order of the Court approving the amended Sale Guidelines).

B E T W E E N:

STRELLSON AG
Applicant

- and -

STRELLMAX LTD.
Respondent

APPLICATION UNDER section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. c-43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)
(PROCEEDING COMMENCED AT TORONTO)

ORDER
(Appointing Receiver)

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Barristers & Solicitors
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LAWYERS FOR THE APPLICANT, STRELLSON AG

APPENDIX “B”



THE HONOURABLE
JUSTICE CONWAY

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

) FRIDAY, THE 7th DAY
) OF JULY, 2017

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended and section 101 of the Courts of Justice Act, R.S.O. 1990, c. c-43, as amended

APPROVAL AND VESTING ORDER

THIS APPLICATION made by Strellson AG (the "**Applicant**") for: (i) an Order 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 appointing Richter Advisory Group Inc. as receiver (the "**Receiver**") without security, of the assets, undertakings and properties of Strellmax Ltd. (the "**Debtor**") comprising, acquired for, or used in relation to, the business carried on by the Debtor; and (ii.) an Order approving a sale transaction (the "**Transaction**") in respect of certain assets (the "**Purchased Assets**") of the Debtor contemplated by an asset purchase agreement (the "**APA**"), to be entered into between the Company, the Applicant (in such capacity, the "**Purchaser**"), Strellson Canada Ltd. (the "**Buyer**") and the Receiver, in the form appended to the Pre-Appointment Report of the Receiver dated July 5, 2017 (the "**Pre-Appointment Report**"), and vesting in the Buyer the Debtor's right, title and interest in and to the Purchased Assets, was heard this day at 330 University Avenue, Toronto, Ontario.

1. **ON READING** the affidavit of Marcel Braun sworn June 30, 2017, and the Exhibits thereto (collectively, the "**Braun Affidavit**"), and the Pre-Appointment Report and the Appendices thereto, and on hearing the submissions of counsel for the Applicant, counsel for the proposed Receiver, counsel for

the Debtor, and those other parties listed on the counsel slip, no one appearing for any other person although duly served as appears from the affidavit of service of Thomas Gertner sworn July 4, 2017, filed,

2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the APA by the Receiver is hereby authorized and approved, with such minor amendments as the Receiver may deem necessary. The Receiver is hereby authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets to the Buyer.

3. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Receiver's certificate to the Purchaser substantially in the form attached as Schedule "A" hereto (the "**Receiver's Certificate**"), all of the Debtor's right, title and interest in and to the Purchased Assets described in the APA shall vest absolutely in the Buyer, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "**Claims**") including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Order of the Honourable Justice Conway dated July 7, 2017 (the "**Appointment Order Charges**"); and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system. Notwithstanding the foregoing, save and except with respect to the Appointment Order Charges, this Paragraph 3 of this Order shall not apply to any Claims that are determined by the Court to be in priority to the Purchaser's claim in these proceedings or in any subsequent bankruptcy proceedings in respect of the Debtor.

4. **THIS COURT ORDERS AND DIRECTS** the Receiver to file with the Court a copy of the Receiver's Certificate, forthwith after delivery thereof.

5. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver is authorized and permitted to disclose and transfer to the Buyer all human resources and payroll information in the Company's records pertaining to the Debtor's past and current employees. The Buyer shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.

6. **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the BIA in respect of the Debtor and any bankruptcy order issued pursuant to any such applications;
and
- (c) any assignment in bankruptcy made in respect of the Debtor;

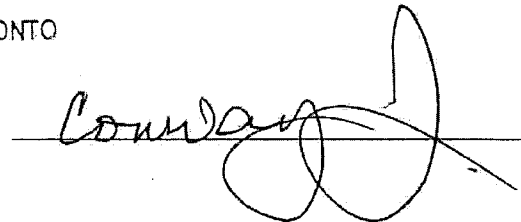
the vesting of the Purchased Assets in the Buyer pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtor and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

7. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:

JUL 07 2017

PER / PAR:



Schedule A – Form of Receiver’s Certificate

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

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

THE HONOURABLE) FRIDAY, THE 7th DAY
JUSTICE CONWAY) OF JULY, 2017

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended and section 101 of the Courts of Justice Act, R.S.O. 1990, c. c-43, as amended

RECEIVER’S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Justice Conway of the Ontario Superior Court of Justice [Commercial List] (the "Court") dated July 7, 2017, Richter Advisory Group Inc. was appointed as the receiver (the "Receiver") of the undertaking, property and assets of Strellmax Ltd. (the "Debtor").

B. Pursuant to an Order of the Court dated July 7, 2017, the Court approved an asset purchase agreement made as of July 7, 2017 (the "APA") between the Debtor, the Receiver, Strellson AG (the "Purchaser") and Strellson Canada Ltd. (the "Buyer") and provided for the vesting in the Buyer of the Debtor’s right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Receiver to the Purchaser of a certificate confirming (i) the satisfaction by the Purchaser of the Purchase Price; (ii) that the conditions to Closing as set out in section 4.01 of the APA have been satisfied or waived by the Buyer, the Receiver and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Receiver.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the APA.

THE RECEIVER CERTIFIES the following:

1. The Receiver confirms that the Purchaser has satisfied the Purchase Price for the Purchased Assets due on the Closing Date pursuant to the APA by effecting the Credit Bid and by assuming the Assumed Obligations.
2. The conditions to Closing as set out in section 4.01 of the APA have been satisfied or waived by the Buyer, the Receiver and the Purchaser; and
3. The Transaction has been completed to the satisfaction of the Receiver.
4. This Certificate was delivered by the Receiver at _____ [TIME] on _____ [DATE].

**Richter Advisory Group Inc., in its capacity as
Receiver of the assets, undertakings and
properties of Strellmax Ltd., and not in its
personal capacity**

Per: _____

Name:

Title:

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

B E T W E E N:

STRELLSON AG
Applicant

- and -

STRELLMAX LTD.
Respondents

APPLICATION UNDER section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. c-43, as amended

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)
(PROCEEDING COMMENCED AT TORONTO)

APPROVAL AND VESTING ORDER

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LAWYERS FOR THE APPLICANT, STRELLSON AG

APPENDIX “C”

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

STRELLMAX LTD.

REPORT OF THE PROPOSED RECEIVER

JULY 5, 2017

**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**

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

JULY 5, 2017

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I. INTRODUCTION

1. An application returnable July 7, 2017 was filed with the Ontario Superior Court of Justice (Commercial List) (the "**Court**") by Strellson AG ("**Strellson**" and in its capacity as holder of the assigned TD Debt and Security (as hereinafter defined), the "**Creditor**") for an order (the "**Receivership Order**"), among other things: (a) appointing Richter Advisory Group Inc. ("**Richter**") as receiver to exercise the powers and duties set out in the Receivership Order, 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**"); and (b) approving the Liquidation Plan and the Sale Guidelines (each as hereinafter defined). The Creditor is also seeking an order (the "**Approval and Vesting Order**") approving a proposed sale of certain Property of the Company, which is not subject to the Liquidation Plan, on the terms of an agreement of purchase and sale (the "**APA**") between Strellson (in such capacity, the "**Purchaser**"), Strellson Canada Ltd. (the "**Buyer**"), Strellmax and the Receiver, and authorizing and directing the Receiver to execute the APA and to take the necessary steps to complete the transaction contemplated therein (the "**Proposed Transaction**").
2. Richter was previously retained by Strellson to assist in exploring strategic alternatives in which Strellson could provide support to Strellmax in light of the Company's liquidity situation, working directly with the Company on financial forecasting, as appropriate, and later consulting with Strellson regarding the Proposed Transaction.
3. Richter is a licensed insolvency trustee within the meaning of section 2 of the BIA and has consented to act as Receiver in these proceedings. We are writing this report in Richter's capacity as proposed receiver of the Property of Strellmax (in such capacity, the "**Proposed Receiver**").

II. PURPOSE OF REPORT

4. The purpose of this report (the "**Report**") is to:
 - a) Provide this Court with:
 - (i) certain background information concerning Strellmax, including the Company's financial performance, debt structure and financial position; and
 - (ii) information regarding the proposed Administration Charge and the D&O Charge (each as hereinafter defined).

- b) Summarize the terms of the APA, for the sale of certain Strellmax assets to be acquired by the Purchaser for the go-forward wholesale business of the Strellson brand, subject to the approval of this Court;
- c) Outline the key aspects of the Company's liquidation plan with respect to certain assets related to its retail business (the "Liquidation Plan");
- d) Summarize the mandate and powers that are being sought for the Receiver under the Receivership Order; and
- e) Recommend that, in the event this Court appoints Richter as Receiver, the Court issue the Receivership Order and the Approval and Vesting Order:
 - (i) Approving the Proposed Transaction, and authorizing and directing the Receiver to execute the APA and to take the necessary steps to complete the Proposed Transaction;
 - (ii) Approving the Liquidation Plan and the Sale Guidelines (as hereinafter defined); and
 - (iii) Approving the terms of the Administration Charge and the D&O Charge, and the proposed priority rankings of such charges.

III. QUALIFICATIONS

- 5. In preparing this Report, the Proposed 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 Creditor (collectively, the "Information").
- 6. In accordance with industry practice, except as described in this 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 Canadian Institute of Chartered Accountants 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 Accountant 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 report, or relied upon by Richter in preparing this report.

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

IV. BACKGROUND

9. Reference is made to the Affidavit of Marcel Braun, sworn June 30, 2017 (the "**Braun Affidavit**") filed in support of the Creditor's application for the Receivership Order and the Approval and Vesting Order, contained in the Applicant's Application Record dated June 30, 2017. While this Report summarizes some of the information set out in the Braun Affidavit for context, readers are directed to the Braun Affidavit for a more detailed explanation of the grounds for the Creditor's application. Further background information about Strellmax, including the causes of its financial difficulties and insolvency, is provided in the Braun Affidavit.

COMPANY OVERVIEW

10. Strellmax operates as a wholesaler and retailer of 'Strellson' brand menswear in North America. The Company sells in Canada through its wholesale channel, predominantly to large retailers and independent menswear stores, and through its retail channel comprising five (5) standalone retail locations. Strellmax also operates a store-in-store concession (the "**Concession Location**") inside the Hudson's Bay Company (Yorkdale Mall location). The United States ("**US**") market is served through its Canadian wholesale channel to large US department store retailers.
11. The Company distributes under the 'Strellson' brand, pursuant to a licence agreement with Strellson, as licensor, dated June 26, 2012, as amended from time to time (the "**Licence Agreement**"), and pays royalty fees to Strellson in connection with the Licence Agreement. The Proposed Receiver understands that 'Strellson' brand goods are either purchased directly from Strellson (representing approximately 60% of total purchases) pursuant to a distribution agreement (the "**Distribution Agreement**") dated September 22, 1998, as amended and replaced from time to time, or purchased from overseas third party manufacturers.
12. As outlined in the Braun Affidavit, the Strellmax head office and distribution centre is located at 3725 Chesswood Drive, Toronto, Ontario, Canada (the "**Headquarters**"). As at June 30, 2017, Strellmax employed approximately 45 individuals across Canada, comprising 29 employees at its Concession Location and five (5) retail locations in Ontario and British Columbia ("**B.C.**"), and 16 employees at the Headquarters. The Company's workforce is not unionized and Strellmax does not maintain a pension plan.

13. Strellmax was incorporated under the *Business Corporations Act* (Ontario) in 1990. Strellmax is indirectly 100% owned by its President, Mark Altow ("Altow"), through related entities which Altow controls, including Adamray Investments Inc. ("Adamray").
14. As detailed below, the Company had outstanding unsecured indebtedness owing to Strellson for royalty fees and merchandise deliveries, in the aggregate amount of approximately \$3.6 million as at June 30, 2017.

CAUSES OF FINANCIAL DIFFICULTIES

15. The Proposed Receiver understands that, since 1997, Strellmax has operated a wholesale "Strellson" business and that it opened a flagship retail location in 2012 on Bloor Street in Toronto. From 2014 through 2016, the Company expanded its retail footprint, opening 4 additional standalone stores across Canada.
16. The Company's current standalone retail locations are 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.
17. The Proposed Receiver understands that, in order to assist in funding the capital expenditures required to support the Company's retail expansion, the Company relied upon its existing cash flows and the TD Facility along with a related party loan from Adamray, which provided a secured Shareholder Loan (as hereinafter defined) to Strellmax in the amount of \$1,150,000.
18. As outlined in the Braun Affidavit, the Company has been operating with limited liquidity on the TD Facility for several months, and Strellson has provided numerous accommodations to Strellmax by allowing the trade payables owing to it for merchandise deliveries and royalties earned to go into significant arrears (in the amount of approximately \$1.4 million of the \$3.6 million total outstanding), and further increasing Strellson's exposure by continuing to ship new merchandise on credit notwithstanding certain defaults on the terms of the Licence Agreement and the Distribution Agreement, and continuing to fund certain marketing costs during that same time.
19. As detailed in the Braun Affidavit, the Company and Strellson have been in negotiations since January 2017 to develop a strategy to support the Company's liquidity needs and to informally restructure the business.

20. The Proposed Receiver understands that as the parties worked through these negotiations, the Company's sales continued to underperform, and as further detailed below, its financial position continued to deteriorate.
21. The Proposed Receiver understands that the Company's retail business was experiencing operating losses and that Strellmax had engaged a real estate consultant to assist in negotiating rent concessions from the landlords of the most unprofitable retail locations in order to improve store profitability. Despite meetings and discussions with these landlords, to date, the Company has been unsuccessful in obtaining rent concessions or other lease accommodations.
22. The Proposed Receiver understands that in February 2017, in light of the continued deterioration in the Company's financial position (as further detailed later in this Report), Strellmax engaged Pernica Advisory Services Inc. ("Pernica") as financial advisor to assist in evaluating its restructuring alternatives and continuing dialogue with Strellson.
23. As outlined in the Braun Affidavit, in light of the Company's continued poor financial performance and other defaults, Strellson is in the process of terminating the Licence Agreement and the Distribution Agreement.
24. As further detailed below, Strellson took an assignment of the TD Debt and Security on June 30, 2017. As outlined in the Braun Affidavit, in view of certain defaults thereunder, the Creditor demanded payment of all obligations owing to it by the Company by way of letter dated June 30, 2017 (the "Demand Letter"), and on that same day also issued its Notice of Intention to Enforce Security pursuant to section 244(1) of the BIA to the Company. Strellmax shortly thereafter consented in writing to the transfer of the TD Debt and Security, and the immediate enforcement by the Creditor of its security.

V. FINANCIAL POSITION

HISTORICAL OPERATING RESULTS

25. Set out below is a summary of the Company's operating loss according to its most recent income statement for the year-to-date ("YTD") seven (7) month period ended May 31, 2017:

Strellmax Ltd.	
Income Statement	
(\$000's)	7 Months Ended May 2017
Sales	\$ 6,570
Cost of goods sold	(3,962)
Other cost of sales	(152)
Gross margin	2,456
Personnel	(1,538)
Occupancy	(1,088)
Selling, marketing, and administrative	(765)
Interest and financing	(358)
Strellson reimbursement of costs	332
Operating expenses	(3,417)
Operating Loss	\$ (961)

26. The fiscal 2017 YTD income statement above reflects a significant operating loss in the amount of approximately \$960,000, prior to approximately \$500,000 in non-recurring restructuring costs, depreciation, and other non-cash expenses. The Proposed Receiver understands that the operating loss is attributed to:

- a) softer than anticipated retail sales coupled with lower than forecast gross margin generated, which have been insufficient to cover the store-level personnel and occupancy costs; and
- b) despite certain cost reduction initiatives and reimbursement of costs by Strellson, the Company has been unable to sufficiently reduce its operating costs to offset the sales shortfall in both the retail and wholesale channels.

27. The Proposed Receiver understands that the Company experienced an operating loss in fiscal 2016 in excess of \$1 million, and projects operating losses for fiscal 2017 through 2019, absent any funding of costs by Strellson and/or additional accommodations from Strellson.

28. Set out below is a summary of the Company's unaudited balance sheet as at May 31, 2017:

Strellmax Ltd.	
Balance Sheet	
(\$000's)	As at May 2017
<u>Assets</u>	
Cash	\$ 407
Accounts receivable	1,580
Inventory	2,132
Prepays & other	61
Current Assets	4,180
Fixed assets	3,100
Total Assets	\$ 7,280
<u>Liabilities & Shareholder's Equity</u>	
Revolving Credit Facility	2,740
Accounts payable & accrued liabilities	5,119
Related party advances & other	20
Current Liabilities	7,879
Deferred rent & other occupancy-related	705
Loans from related parties	1,159
Term Loan	869
Long-term Liabilities	2,733
Deficit & Shareholder's Equity	(3,332)
Total Liabilities & Shareholder's Equity	\$ 7,280

29. The Company's internal balance sheet as at May 31, 2017 reflects that:

- a) the book value of current liabilities (approximately \$7.9 million) significantly exceeds the book value of current assets (approximately \$4.2 million). Even if the Company's outstanding secured indebtedness to the Creditor were excluded, Strellmax would still have a negative working capital position of approximately \$1 million;
- b) the Company had an accumulated retained earnings deficit of approximately \$3.3 million; and
- c) the Company is insolvent on a balance sheet basis.

ABILITY TO CONTINUE AS A GOING CONCERN

30. The Proposed Receiver understands that the Company's ongoing financial results continue to be a concern. The Proposed Receiver is of the view that Strellmax will be challenged to continue to operate as a going concern due to the following:
- a) the Company's projections indicate that over the next 24 months, nearly all of the retail locations are forecast to suffer significant operating losses absent continued support from Strellson, and that if it continues to operate at status quo, the wholesale business is also forecast to suffer significant operating losses;
 - b) the Proposed Receiver understands that the Creditor is not prepared to advance further funds to the Company, and is anticipated to suffer a shortfall on its security position under any realistic realization scenario; and
 - c) as noted above, the Proposed Receiver understands that Strellmax is in default of certain of the terms of the Licence Agreement and the Distribution Agreement, and that Strellson is unwilling to continue providing merchandise to the Company, without which it would be unable to operate, even if additional financing could be secured subordinate to the Creditor.

VI. CREDITORS

ASSIGNMENT OF TD BANK DEBT TO STRELLSON AG

31. The Toronto-Dominion Bank ("TD") provided certain credit facilities to Strellmax commencing in 2012, including most recently a \$2.2 million (subsequently increased to \$2.7 million) revolving asset-based facility, and a \$1.2 million term facility to Strellmax 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").
32. As detailed in the Braun Affidavit, TD assigned certain of its rights and obligations under the TD Debt and Security and associated security held by TD Bank 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.
33. The Proposed Receiver understands that, per the Demand Letter, the amount outstanding under the TD Facility on June 30, 2017 was approximately \$3.7 million.

34. The Proposed Receiver understands that, in order to continue the use of the Company's existing cash management arrangements with TD, Strellson has provided cash collateral in the amount of \$71,500 to secure the corporate credit card facility.

SECURITY OPINION

35. As set out above, TD assigned certain of its rights and obligations under the TD Facility and certain of the associated security to Strellson pursuant to the Assignment Agreement. The Proposed Receiver has received an opinion on Strellson's security from its independent legal counsel, WeirFoulds LLP ("WeirFoulds") dated July 4, 2017. The security opinion provides that, subject to the customary qualifications and assumptions, the security interest granted to Strellson pursuant to the assigned security over certain of the personal property, assets and undertakings of Strellmax located in Ontario is valid and enforceable as against a trustee in bankruptcy of Strellmax.
36. 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 under the Ontario PPSA (which are summarized in the security opinion) 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.
37. Only one Ontario PPSA registration, in favour of National Leasing Inc. ("National") 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.
38. 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 that appears in the B.C. PPSA search.

OTHER SECURED CREDITORS

39. The Proposed 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 which is contractually and temporally subordinate to the interests of TD assigned to the Creditor.
40. Accord Financial Ltd. ("Accord") provides factoring services to the Company on its Canadian credit sales, pursuant to a letter agreement dated June 1, 2010, as amended from time to time. On March 1, 2016,

Accord provided an irrevocable letter of credit in favour of Strellson (the "Accord LOC") for purchases of merchandise made by the Company, to a maximum of \$500,000.

41. In connection with the Accord LOC, documentation was executed subordinating the claims of Adamray against the Company (in respect of the Shareholder Loan) to the claims of Accord, and assigning its indebtedness to Accord until Accord is paid in full. In further support of the Accord LOC, Strellmax agreed not to incur additional secured debt other than with TD. The Proposed Receiver understands that no draw has been made on the Accord LOC as at the date of this Report.

OTHER PPSA REGISTRANTS

42. In addition to the secured claims of Strellson, Adamray, and Accord noted above, the search report prepared by the Proposed Receiver's legal counsel setting out registrations filed under the applicable Personal Property Security Registries indicated that the only other Ontario or B.C. PPSA Registration against Strellmax is the one in favour of National referenced above.

POTENTIAL PRIORITY CLAIMS

43. Based on information provided by the Company, the Proposed Receiver understands that the Company has liabilities that rank, or may rank, in priority to the secured claim of Strellson at the date of the Receivership Order, including:
 - a) Approximately \$50,000 owed to Strellmax employees, in respect of vacation pay;
 - b) Wages and source deduction payments in the aggregate amount of approximately \$50,000, representing wages accrued since the payment of the last payroll period ended June 30, 2017 (the "Stub Period Wages"); and
 - c) Approximately \$30,000 owed to Canada Revenue Agency in respect of sales taxes.
44. The Proposed Receiver understands that, with the exception of the Stub Period Wages, the Company was current on all payments to government authorities for sales taxes and source deductions that were due and payable as at the date of this Report.
45. If appointed as Receiver, the Proposed Receiver will comply with the provisions of the Wage Earner Protection Program Act subsequent to its appointment.

UNSECURED TRADE CREDITORS

46. The Proposed Receiver understands that the Company had total unsecured trade payables owing of approximately \$5.1 million as at May 31, 2017, of which the majority related to amounts owing to Strellson. As outlined in the Braun Affidavit, approximately \$3.6 million is owed to Strellson pursuant to the Licence Agreement and the Distribution Agreement as at June 30, 2017.
47. The Proposed Receiver understands that the Company was current in respect of obligations to its landlords through July 2017, except for certain landlords where monthly rent is based on a percentage of sales and which has not been reconciled by the Company at the date of this Report.

VII. THE PROPOSED TRANSACTION

48. The Company, the Purchaser and their respective counsel (in consultation with the Proposed Receiver) have negotiated the terms and provisions of the APA, a copy of which is attached as **Appendix "A"** hereto.
49. The material terms of the APA as between the Purchaser, the Receiver (the "**Vendor**") and the Company, include the following (all terms not otherwise defined herein shall have the meanings as defined in the APA):

- a) the purchased assets include all of the assets which the Purchaser desires to have the Buyer acquire in order to continue the wholesale business of the Company (the "**Purchased Assets**"). Specifically, the Purchased Assets include, but are not limited to, the following:

- (i) certain inventory owned by the Company at closing (the "**Wholesale Inventory**"), that will comprise:

- inventory that is located at the Concession Location; and
- In Season Inventory located at the Distribution Centre.

The Proposed Receiver understands that the Wholesale Inventory on hand has a book value on the Company's books and records of approximately \$600,000 as at June 30th.

- (ii) other inventory (the "**Designated Inventory**", and together with the Wholesale Inventory, the "**Purchased Inventory**") to be designated by the Purchaser no later than three (3) business days prior to closing, and in any case the Designated Inventory is not to be less than \$100,000 and not more than \$300,000 of the book value on the Company's books and records;

- (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 accounts receivable, the inventory other than the Purchased Inventory, and furniture, fixtures, and equipment (the "**FF&E**") which will be subject to the Liquidation Plan (as discussed later in this Report);
- c) subject to the terms of the APA, the Buyer agrees to assume certain liabilities of the Company (the "**Assumed Obligations**"), including the following:
 - (i) the liabilities, at closing, in respect of the unfulfilled Wholesale Customer Contracts;
 - (ii) the liabilities, at closing, in respect of the unfulfilled Wholesale Purchase Orders;
 - (iii) certain liabilities in connection with the IT Systems.
- d) The purchase price (the "**Purchase Price**") for the Purchased Assets at closing will be the aggregate amount of:
 - (i) 100% of the book value of the Purchased Inventory on the Company's books and records (being the "**Prescribed Inventory Amount**"), net of amounts still owing on inventory delivered in connection with the Wholesale Purchase Orders, which will be 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) will be satisfied at closing as follows:
 - (i) by a credit bid by the Purchaser of a portion of the TD Facility in an amount equal to the Prescribed Inventory Amount plus the IT Systems Credit Bid Amount; and
 - (ii) by the Buyer's assumption of the Assumed Obligations, effective at closing.
- f) the Proposed Transaction is subject to certain conditions, the following of which are material closing conditions to the transaction:

- (i) the Court's issuance of the Approval and Vesting Order on or before July 14, 2017, and such Approval and Vesting Order shall not have been stayed, vacated, or varied;
- (ii) the appointment of the Receiver on or before July 14, 2017;
- (iii) the Buyer having entered into supply arrangements with the Wholesale Customers satisfactory to the Buyer prior to the Closing Date (the "**Wholesale Customers Condition**");
- (iv) the Buyer having entered into an agreement for transition services (the "**Support Services Agreement**") with Strellmax and the Vendor, including as it relates to the allocation of space at the Company's Headquarters, 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. The APA contemplates that the Purchaser will provide consideration to the Vendor in respect of the assistance to be provided by the Company, and that the Support Services Agreement shall terminate no later than the Receiver's discharge; and
- (v) there shall have been no material adverse change to the Purchased Assets prior to closing.

50. The Closing Date shall occur one (1) business day following the day on which the Wholesale Customers Condition is waived or satisfied, but in no case later than August 15, 2017. The Proposed Receiver understands that the delay in closing is required by the Purchaser in order to, among other things, secure arrangements with the Wholesale Customers in respect of go-forward supply.

51. The Buyer is acquiring the Purchased Assets on an "as is, where is" basis, representing substantially all of the Company's wholesale business and assets. The APA contemplates that the Buyer may, but is not obligated to, offer employment to certain of the Company's employees, in order to continue the Company's wholesale business. The Proposed Receiver further understands that the Buyer may be interested in acquiring certain of the Company's assets remaining after the Liquidation Plan is completed; as at the date of this Report, the Proposed Receiver is not aware of the form, likelihood or potential value of the foregoing.

52. In the view of the Proposed Receiver, the Proposed Transaction is reasonable in the circumstances, and the best alternative to a complete liquidation of the Company's assets, for the following reasons:

- a) as noted above, the Proposed Receiver understands that the majority of the Company's merchandise is supplied by Strellson pursuant to the Licence Agreement and the Distribution Agreement which are not assignable by their terms, and that Strellson would not support the sale and/or otherwise transfer of these agreements to any third party purchaser. As such, the only reasonable alternative to the Proposed Transaction is the liquidation of the Company's assets;
- 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, and a lesser factor thereof for merchandise from previous seasons. The APA contemplates that the Prescribed Inventory Amount, at 100% of the Company's book value, will be at least the amount of the Repurchase Price;
- c) the Proposed Transaction would be more beneficial to the Company's creditors than the liquidation alternative. The Proposed Receiver has consulted with the Liquidator (as defined below), specializing in retail liquidations, and understands that in the Liquidator's view, net realizations on a liquidation of the Purchased Inventory would be less than the Company's book value, even if liquidated through the Company's retail channel. This view is consistent with Richter's experience with liquidation values in similar retail insolvencies. The Proposed Receiver further understands from the Company and the Liquidator, that the amount of the Company's inventory on hand is in excess of that which could be liquidated in an orderly manner through its limited retail channel, and as such significant discounts would be required to liquidate all of the Company's inventory; and
- d) the Proposed Transaction provides the greatest benefit to all stakeholders (including customers, suppliers, etc.) as it results in the continuation of the Company's wholesale operations, which benefits will include the preservation of employment for a material portion of the Company's head office and warehouse employees.

VIII. THE RETAIL LIQUIDATION PLAN

- 53. As noted above, the retail stores have been suffering operating losses in fiscal 2016 and fiscal 2017 YTD, and are forecast to continue to suffer operating losses through fiscal 2019, absent Strellson's support, and as such, the only alternative for the assets which are not subject to the Proposed Transaction is liquidation.
- 54. The Company, with the assistance of its advisor Pernica has engaged the services of HyperAMS, LLC (the "**Consultant**"). The Company, with the assistance of the Consultant, has developed a Liquidation Plan in

order to enable the Company to conduct an orderly liquidation (the "Sale") of the Company's inventory and FF&E not subject to the Proposed Transaction (the "Excluded Assets").

55. The Company has engaged the Consultant, pursuant to an agreement dated June 28, 2017 (the "Liquidation Plan Consulting Agreement") between the Consultant and Strellmax, where the Consultant will advise Strellmax in respect of the liquidation of the Excluded Assets. The Proposed Receiver was afforded an opportunity to review the terms of the Liquidation Plan Consulting Agreement prior to its execution, and does not have any reason to believe that the terms of the agreement are not consistent with other engagements in respect of retail insolvencies of a similar size to Strellmax. The Proposed Receiver understands that the Consultant has extensive experience with retail insolvencies and is well positioned to provide the advice to Strellmax required for the effective conduct of the Sale.
56. The Proposed Receiver understands that, in order to facilitate the Liquidation Plan, Strellson has agreed to grant the use of the Strellson brand licence on a limited basis during the Sale.
57. Below is a summary of the key terms of the Liquidation Plan Consulting Agreement and the Liquidation Plan:
 - a) the Consultant will advise the Company in conducting a "store closing" or similar-themed Sale in locations at the Company's discretion, which will commence on July 7, 2017 (the "Sale Commencement Date"), to end no later than September 30, 2017 (the "Sale Termination Date", the period from the Sale Commencement Date through the Sale Termination Date being the "Liquidation Period"). The Proposed Receiver understands that the Sale will be conducted at the five (5) standalone retail locations, and may continue at the Bloor Street retail location beyond the Sale Termination Date, if determined by the Company, with the assistance of the Consultant, to be appropriate;
 - b) the Company is responsible for all reasonable costs and expenses in connection with the Sale, which have been determined and forecast in consultation with the Consultant;
 - c) in consideration of its services, the Consultant will earn a fee of \$6,000 United States dollars ("USD") for the first week of its engagement, and \$3,000 USD per week during the Liquidation Period thereafter;
 - d) the Consultant may also advise Strellmax in selling any owned FF&E in the stores. The Consultant will earn a fee of fifteen percent (15%) of the gross proceeds from the sale of the FF&E located in the stores, only if it assists with the sale or disposal of the FF&E at the request of the Company; and
 - e) the terms of the Liquidation Plan Consulting Agreement shall survive any formal or court-supervised insolvency proceedings commenced by or against Strellmax.

58. Upon Court approval of the Liquidation Plan and the Receiver's appointment, the Sale will continue under the oversight of the Receiver. As noted later in this Report, the Receivership Order contemplates that the Receiver will control the treasury assets of the Company, and will have the power and authority, but not the obligation, to act in respect of the Property;
59. The sale guidelines (the "**Sale Guidelines**") surrounding store operations and closings are governed by Schedule "A" to the Receivership Order. In the Proposed Receiver's view, the Sale Guidelines are in a form consistent with recent Canadian retail liquidations. The Sale Guidelines shall include that:
- a) the Sale will be conducted in accordance with the terms of the applicable leases or other occupancy agreements, except as provided for in the Receivership Order or any further Order of the Court, or any written agreement between the Company or Receiver and the applicable landlord;
 - b) the Sale shall be conducted so that each of the stores remain open during their normal hours of operation provided in their respective leases;
 - c) the Sale shall end by no later than the Sale Termination Date, with the exception of the Bloor Street location where the Sale may extend past the Sale Termination Date to the expiry of the lease;
 - d) all display and hanging signs used by the Company in connection with the Sale shall be professionally produced and all hanging signs shall be hung in a professional manner. No signs shall advertise the Sale as a "bankruptcy", a "going out of business" or a "liquidation" sale;
 - e) at the conclusion of the Sale in each Closing Store, the Company shall arrange that the premises for each Closing Store (as defined in the Sale Guidelines) is in "broom-swept" and clean condition, and shall arrange for the Closing Stores to be in the same condition as they were on the Sale Commencement Date, ordinary wear and tear excepted; and
 - f) the Company and, where appropriate, the Receiver, shall not conduct any auctions of inventory or FF&E at any of the Closing Stores.
60. The form of Receivership Order provides that the Company is authorized to market and sell the Excluded Assets through the Sale, in accordance with the Sale Guidelines attached to the Receivership Order.
61. Based on the experience of the Proposed Receiver with other retail insolvency liquidations, it is the view of the Proposed Receiver that the Liquidation Plan, the terms and conditions of the Liquidation Plan Consulting Agreement, and the related terms of Receivership Order are consistent with the market in similar situations.

IX. COURT-ORDERED CHARGES

ADMINISTRATION CHARGE

62. The proposed Receivership Order provides for a first ranking charge in favour of the Receiver, the Receiver's counsel, and counsel to the Company (the "Insolvency Professionals") in an amount not to exceed \$400,000, subject to further Order of the Court, charging all of the Property as security for the professional fees and disbursements incurred both before and after the date of these receivership proceedings (the "Administration Charge").

D&O CHARGE

63. As noted in the Braun Affidavit, the proposed Receivership Order leaves a large degree of control over the Company to the current directors and officers to effect the proposed Liquidation Plan, and the interim period prior to the closing of the Proposed Transaction.

64. The proposed Receivership Order provides for a charge in the maximum amount of \$150,000 subject to further Order of the Court charging the assets of the Company to indemnify its directors and officers for liabilities incurred by the Company that result in post-filing claims against the directors and officers in their personal capacities (the "D&O Charge").

65. The amount of the D&O Charge was determined by taking into consideration employee payroll and related expenses (including source deductions), vacation pay and sales taxes. As noted in the Braun Affidavit, the Creditor supports the D&O Charge.

SUMMARY AND PROPOSED RANKING OF THE COURT ORDERED CHARGES

66. It is contemplated that the priorities of the charges sought by the Creditor (collectively, the "Charges") will be as follows:

- a) First – Administration Charge; and
- b) Second – the D&O Charge.

67. The Receivership Order provides that the Charges will rank in priority to the security interests of the Creditor as well as all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise, which are properly perfected security interests as of the date of the Receivership Order.

68. The Proposed Receiver believes that the Charges and rankings are required and reasonable in the circumstances of these receivership proceedings in order to achieve an orderly and efficient realization of the Company's assets and accordingly, supports the granting and the proposed ranking of the Charges.

X. RECEIVER'S PROPOSED MANDATE AND POWERS UNDER THE RECEIVERSHIP ORDER

69. The proposed Receivership Order contemplates that the Receiver shall take possession and control over the Company's treasury assets and all amounts due to the Company pursuant to the Sale and the APA, and the Company shall remain in possession and control of the remaining assets, including the Excluded Assets. Further, the proposed Receivership Order contemplates that the operation and management of the Company will continue to be controlled by its current directors and officers during the receivership proceedings. The Creditor has requested this structure as the Company's employees have intimate knowledge of the Company's business and operations and are best positioned to transition the Company's wholesale business to the Purchaser with minimal interruption to the Wholesale Customers. As noted in the Braun Affidavit, the directors and officers of the Company are intimately familiar with the Company's business and operations and has a unique skill set and knowledge of the industry which will allow the Company, with the assistance of the Receiver and the Consultant, to conduct an orderly liquidation of the Company's assets and to complete the Proposed Transaction in the most efficient manner.

70. The Proposed Receiver notes that the proposed Receivership Order empowers and authorizes, but does not obligate, the Receiver to take an expanded role in keeping with the customary powers conferred in receiverships with a view to providing the Receiver with the flexibility to exercise its discretion and address issues and engage in activities in a timely fashion as requirements arise.

71. Provided the Receivership Order is granted, in addition to mailing notice of the Receiver's appointment pursuant to section 246(1) of the BIA, the Receiver will set up a website to post periodic updates and Court materials, as well as establish contact information in the event that creditors, suppliers, employees or other stakeholders require additional information with respect to these proceedings.

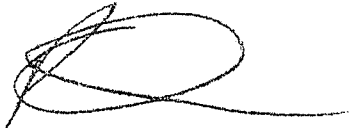
XI. RECOMMENDATION

72. Should the Court see fit to appoint a receiver in the circumstances, the Proposed Receiver recommends that this Court grant the Receivership Order and the Approval and Vesting Order for the following reasons:

- a) The Proposed Receiver understands that Strellson does not intend to continue the Licence Agreement or the Distribution Agreement, effectively foreclosing the possibility of any sort of going concern sale of the Company's business without the support of Strellson;
 - b) the terms of the Liquidation Plan Consulting Agreement are in line with the market and commercially reasonable given the limited scope of the Sale and the small number of retail locations in question;
 - c) as detailed above, in the circumstances, the Proposed Receiver is of the view that the Proposed Transaction, together with the Liquidation Plan, represent a reasonable and value-maximizing approach to realizing on the Property; and
 - d) both the Creditor and Adamray support the Proposed Transaction and the Liquidation Plan.
73. Provided this Court sees fit to issue the Receivership Order, upon the Receiver's appointment and issuance of the Approval and Vesting Order approving the APA, the Receiver shall forthwith enter into the APA and carry out the Proposed Transaction.

All of which is respectfully submitted on the 5th day of July, 2017.

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



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

Katherine Forbes
Katherine Forbes, CPA, CA
Vice-President

APPENDIX “D”

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE MR.) FRIDAY, THE 27th DAY
JUSTICE HAINEY) OF OCTOBER, 2017

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended and section 101 of the Courts of Justice Act, R.S.O. 1990, c. c-43, as amended

APPROVAL AND VESTING ORDER

THIS APPLICATION made by Richter Advisory Group Inc. ("**Richter**"), in its capacity as receiver (the "**Receiver**"), without security, of all of the assets, undertakings and properties of Strellmax Ltd. (the "**Debtor**") acquired for, or used in relation to a business carried on by the Debtor, for an Order, *inter alia*, approving the sale transaction (the "**Samples Transaction**") contemplated in the purchase agreement appended at Tab 3 of the Receiver's Motion Record in respect of certain assets (the "**Purchased Assets**") of the Debtor between, among others, the Receiver and Strellson AG (the "**Purchaser**"), authorizing and directing the Receiver to complete the Samples Transaction and vesting in the Purchaser, or such party as it directs, the Debtor's right, title and interest in and to the Purchased Assets, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING Richter's Pre-Filing Report dated July 5, 2017 and the Appendices thereto (the "**Pre-Filing Report**"), the First Report of the Receiver dated October 6, 2017 and the Appendices thereto (the "**First Report**") and on hearing the submissions of counsel for the Receiver and counsel for the

Purchaser, no one else appearing although duly served as appears from the affidavit of service of Danny M. Nunes sworn October 25, 2017, filed.

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and Motion Record in respect of this motion be and it is hereby abridged and that the motion is properly returnable today and that the service of the Notice of Motion and Motion Record herein as effected by the Receiver is hereby validated in all respects and this Court hereby dispenses with further service thereof.

APPROVAL OF REPORTS AND ACTIVITIES

2. **THIS COURT ORDERS** that the Pre-Filing Report, the First Report and the activities of Richter, as proposed receiver, and the Receiver, respectively, as described therein are hereby approved.

3. **THIS COURT ORDERS** that this Order is without prejudice to the rights of any party, including without limitation the Receiver, the Applicant and Accord Financial Ltd., to make whatever arguments (and in the case of the Receiver, recommendations) they wish with respect to the Receiver's motion for the authorization to disburse the Controlled Funds (as defined in the First Report).

APPROVAL OF SAMPLES TRANSACTION

4. **THIS COURT ORDERS AND DECLARES** that the Samples Transaction is hereby approved and the Receiver is hereby authorized and directed to execute such documents and take such steps as the Receiver may deem necessary or desirable for the completion of the Samples Transaction and for the conveyance of the Purchased Assets to the Purchaser.

5. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Receiver's certificate to the Purchaser substantially in the form attached as Schedule "A" hereto (the "**Receiver's Certificate**"), all of the Debtor's right, title and interest in and to the Purchased Assets shall vest absolutely in the Purchaser, or such party as it directs, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "**Claims**") including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Order of the Honourable Madam Justice Conway dated July 7, 2017 (the "**Receivership Order Charges**"); and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property

registry system (all of which are collectively referred to as the “**Encumbrances**”), and for greater certainty, this Court orders that all of the Claims affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

6. **THIS COURT ORDERS** that for the purposes of determining the nature and priority of Claims, the net proceeds from the sale of the Purchased Assets shall stand in the place and stead of the Purchased Assets, and that from and after the delivery of the Receiver’s Certificate, all Claims and Encumbrances shall attach to the net proceeds from the sale of the Purchased Assets with the same priority as they had with respect to the Purchased Assets immediately prior to their sale, as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to the sale.

7. **THIS COURT ORDERS AND DIRECTS** the Receiver to file with the Court a copy of the Receiver's Certificate, forthwith after delivery thereof.

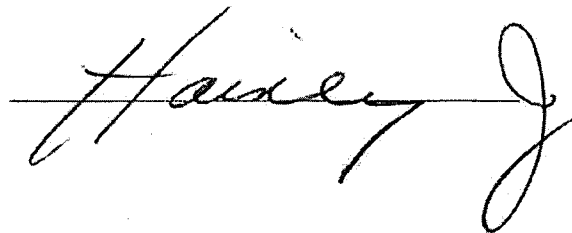
8. **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”) in respect of the Debtor and any bankruptcy order issued pursuant to any such applications; and
- (c) any assignment in bankruptcy made in respect of the Debtor;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtor and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

9. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide

such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

A handwritten signature in cursive script, appearing to read "Hainey J.", written over a horizontal line.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:

OCT 27 2017

PER / PAR:

Handwritten initials, possibly "pl", written in cursive.

Schedule A – Form of Receiver’s Certificate

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE MR.) FRIDAY, THE 27th DAY
JUSTICE HAINEY) OF OCTOBER, 2017

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended and section 101 of the Courts of Justice Act, R.S.O. 1990, c. c-43, as amended

RECEIVER’S CERTIFICATE

RECITALS

A. 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, Richter Advisory Group Inc. was appointed as the receiver (the "Receiver") of the assets, undertakings and properties of Strellmax Ltd. (the "Debtor").

B. Pursuant to the Order of the Honourable Mr. Justice Hainey dated October 27, 2017, the Court approved a transaction (the "Samples Transaction") between, among others, the Receiver and Strellson AG (the "Purchaser") for the sale of certain of the Debtor’s assets (the "Purchased Assets") and provided for the vesting in the Purchaser, or such party as it directs, of the Debtor’s right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Receiver to the Purchaser of a certificate confirming (i) the satisfaction by the Purchaser of the purchase price; (ii) that any conditions to closing of the Samples Transaction have been satisfied or waived by the Purchaser and the Receiver; and (iii) the Samples Transaction has been completed to the satisfaction of the Receiver.

THE RECEIVER CERTIFIES the following:

1. the Receiver confirms that the Purchaser has satisfied the purchase price for the Purchased Assets due on the closing date of the Samples Transaction;
2. the conditions to closing have been satisfied or waived by the Purchaser and the Receiver;
3. the Samples Transaction has been completed to the satisfaction of the Receiver; and
4. this Certificate was delivered by the Receiver at _____ [TIME] on _____ [DATE].

**Richter Advisory Group Inc., in its capacity as
Receiver of the assets, undertakings and
properties of Strellmax Ltd., and not in its
personal capacity**

Per: _____

Name:

Title:

B E T W E E N:

STRELLSON AG
Applicant

- and -

STRELLMAX LTD.
Respondents

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)
(PROCEEDING COMMENCED AT TORONTO)

APPROVAL AND VESTING ORDER

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Barristers & Solicitors
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Lawyers for the Receiver

APPENDIX “E”

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE MR.)

TUESDAY, THE 7TH

JUSTICE HAINES)

DAY OF NOVEMBER, 2017

STRELLSON AG

Applicant

- and -

STRELLMAX LTD.

Respondent

ORDER

THIS MOTION made by Richter Advisory Group Inc., in its capacity as receiver (the "**Receiver**"), without security, of all of the assets, undertakings and properties of Strellmax Ltd. (the "**Debtor**") acquired for, or used in relation to a business carried on by the Debtor, and the Cross Motion made by Accord Financial Ltd. ("**Accord**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the First Report of the Receiver dated October 6, 2017 and the appendices thereto (the "**First Report**") and the Affidavit of Jim Bates sworn October 27, 2017, and on hearing the submissions of counsel for the Receiver, counsel for Strellson AG (the "**Applicant**") and counsel for Accord, no one else appearing although duly served as appears from the affidavits of service of Danny M. Nunes sworn November 2, 2017, and Diane Ross sworn October 10, 2017, filed:

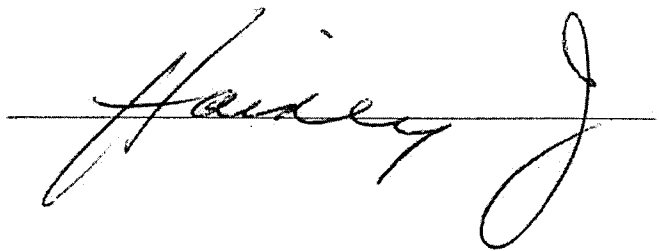
SERVICE

1. **THIS COURT ORDERS** that the time for service of the Receiver's Notice of Motion and the Motion Record, and Accord's Cross-Motion is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.
2. **THIS COURT ORDERS** that, unless otherwise defined, capitalized terms herein shall have the meaning ascribed to them in the First Report and the appendices thereto.
3. **THIS COURT ORDERS AND DIRECTS** on consent, Accord to immediately deliver to the Receiver all Controlled Funds in Accord's possession as of October 28, 2017, to be held by the Receiver pending the authorization and direction of the Court following the Court's determination of the Priority and Distribution Motion (as hereinafter defined).
4. **THIS COURT ORDERS AND DIRECTS** on consent, that Accord shall turn over to the Receiver all Controlled Funds deposited into the Controlled Account after October 28, 2017, within ten days of receipt of same by Accord.
5. **THIS COURT AUTHORIZES AND DIRECTS** the Receiver to bring a motion before Mr. Justice Hainey on a date to be to be agreed upon by counsel and arranged with the Commercial List Court office, during the latter half of January, 2018 (the "**Priority and Distribution Motion**"), for the determination by the Court of the relative priorities of the claims of the Applicant and the claims of Accord to the Controlled Funds and the other proceeds of realization of the assets of Strellmax in the Receiver's possession (together with the Controlled Funds, the "**Proceeds**"), and the advice and direction of the Court with respect to the Receiver's distribution of Proceeds, and that the timetable for the Priority and Distribution Motion set out in Schedule "A" to this Order is hereby approved.
6. **THIS COURT ORDERS** that the payments of the Controlled Funds by Accord to the Receiver shall be without prejudice to the rights of any party, including without limitation the Receiver, the Applicant and Accord, to make whatever arguments (and in the case of the

Receiver, recommendations) they wish to make with respect to the Priority and Distribution Motion.

7. **THIS COURT ORDERS** that the scheduling of the matters raised in subparagraphs 5(b) and (c) of the Notice of Cross Motion shall be set by the presiding Judge following the determination of Priority and Distribution Motion.

8. **THIS COURT ORDERS** that the costs of this Motion and the Cross Motion shall be reserved to the Judge determining the Priority and Distribution Motion.

A handwritten signature in cursive script, written in black ink, positioned above a horizontal line. The signature appears to be "Haidley J".

SCHEDULE "A"

TO NOVEMBER 7, 2017 ORDER

November 15, 2017 Receiver to deliver its Notice of Motion on Priority and Distribution Motion;

December 5, 2017 Accord and Strellson AG to deliver responding Affidavits;

December 7, 2017 Receiver to deliver its Report in respect of the Priority and Distribution Motion;

December 7-22, 2017 Accord cross examination of Strellson AG;

January 12, 2018 Strellson AG cross examination of Accord; Facts of Accord, Strellson AG and Receiver (if any) to be served;

January 15-31, 2018 Hearing of Motion on date agreed to by counsel or set by Court;

*RECORDS
COUNSEL
LETTER DATED
AUGUST 18/17
AS REFERRED TO
PRIORITY AND
DISTRIBUTION MOTION*

*MAILED BY
COURT
IN REG
OF NY
D. SACCHENT.*

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:

NOV 08 2017

PER / PAR:

STRELLSON AG

Applicant

STRELLMAX LTD.

Respondent

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

ORDER – NOVEMBER 7, 2017

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Lawyers for the Receiver

APPENDIX “F”

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

STRELLMAX LTD.

FIRST REPORT OF THE RECEIVER

OCTOBER 6, 2017

**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

- APPENDIX "A"** – ORDER OF THE ONTARIO SUPERIOR COURT OF JUSTICE (COMMERCIAL LIST) DATED JULY 7, 2017
(RECEIVERSHIP ORDER)
- APPENDIX "B"** – ORDER OF THE ONTARIO SUPERIOR COURT OF JUSTICE (COMMERCIAL LIST) DATED JULY 7, 2017
(APPROVAL AND VESTING ORDER)
- APPENDIX "C"** – REPORT OF THE PROPOSED RECEIVER DATED JULY 5, 2017 (WITHOUT EXHIBITS)
- APPENDIX "D"** – AMENDED ASSET PURCHASE AGREEMENT – NON LIQUIDATION ASSETS DATED JULY 7, 2017 (WITHOUT SCHEDULES)
- APPENDIX "E"** – SUPPORT SERVICES AND LIMITED AGENCY AGREEMENT
- APPENDIX "F"** – FIRST AMENDMENT TO SUPPORT SERVICES AND LIMITED AGENCY AGREEMENT
- APPENDIX "G"** – AGREEMENT BETWEEN ACCORD FINANCIAL LTD. AND STRELLMAX LTD., AS AMENDED
- APPENDIX "H"** – LETTER OF CREDIT AGREEMENT DATED MARCH 1, 2016
- APPENDIX "I"** – LETTER FROM ACCORD FINANCIAL LTD. DATED JULY 18, 2012
- APPENDIX "J"** – LETTER FROM JULIAN HELLER RE: ACCORD FINANCIAL LTD. DATED AUGUST 29, 2017
- APPENDIX "K"** – LETTER FROM WEIRFOULDS LLP RE: ACCORD FINANCIAL LTD. DATED AUGUST 31, 2017
- APPENDIX "L"** – LETTER FROM JULIAN HELLER RE: ACCORD FINANCIAL LTD. DATED SEPTEMBER 14, 2017
- APPENDIX "M"** – EMAIL FROM WEIRFOULDS LLP RE: ACCORD FINANCIAL LTD. DATED SEPTEMBER 18, 2017

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

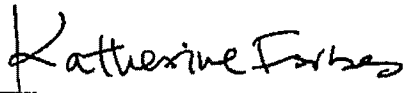
54. The Receiver recommends that this Court grant orders:
- a) approving the Samples Transaction and authorizing and directing the Receiver to complete same, and vesting, upon the closing of the Samples Transaction, all of the Company's right, title and interest in and to the Samples to the Buyer free 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**

APPENDIX “G”



July 18, 2012

The Toronto-Dominion Bank
1470 Don Mills Rd., 3rd Floor
Toronto, Ontario
M3B 2X9

Dear Sir/Madam,

Regarding our mutual client:

Strellmax Ltd.
3725 Chesswood Drive
Toronto, Ontario
M3J 2P6

Reference is made to the factoring agreement (the "Agreement") dated June 1, 2010 between Strellmax Ltd. ("Strellmax") and Accord Financial Ltd., pursuant to which we have been retained to manage and collect the accounts receivable of Strellmax and provide credit guarantees.

We hereby confirm that we do not hold a security interest in any assets of Strellmax, including, without limitation, the accounts receivable of Strellmax and will not take any security interest in the future in any of its assets without your prior written consent. Title to the accounts receivable of Strellmax will remain with Strellmax at all times, subject to any accounts which are assigned to us by Strellmax from time to time with your prior written consent.

We confirm that as per Paragraph 9 of the Agreement, we remit and will continue to remit cash credit balances to Strellmax on a daily basis subject to a \$2,500 minimum transfer.

We confirm that Paragraph 10 of the Agreement is hereby amended by substituting the reference therein to "HSBC Bank Canada" with "The Toronto-Dominion Bank", and effective today we have made the necessary changes to have all our remittances for Strellmax forwarded to you by way of electronic funds transfer at the branch noted above.

We further covenant not to amend the Agreement without your prior written consent.

Sincerely,

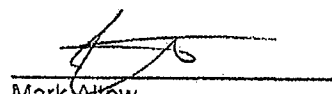
Acknowledged and Agreed by:

Accord Financial Ltd.

Strellmax Ltd.



Simon Hitzig
President



Mark Attow
President

APPENDIX “H”

Strellmax Ltd.
 Estimated Security Position - Working Analysis
 Receivership Date: July 7, 2017
 Updated to January 31, 2018
 DRAFT - For discussion purposes only
 Note: analysis is based on financial and other information provided by Strellmax Ltd. ("Strellmax"), and has not been independently verified by Richter Advisory Group Inc. ("Richter").

(\$000's CDN)	NBV ⁽¹⁾	Estimated Realization		Realization to date	% of NBV	Comments
		Low	High			
Current Assets						
Cash	-	57	57	57	0%	0% Includes ~\$54k cash recovered from non-TD bank account of which Receiver was not aware at filing.
Cash Collateral - Visa Facility	72	60	60	83%	81%	81% Realization reflects refund of cash collateral (\$71.5k), net of pre-filing credit card charges incurred.
Trade Accounts Receivable	1,002	831	831	83%	83%	83% Collection of pre-receivership accounts receivable is complete.
Receivable from Strellson AG	265	-	0%	-	0%	0% \$3.5 million trade debt payable to Strellson AG exceeds amount receivable by Strellmax.
Duty Drawback Receivable, net of direct costs ⁽²⁾	88	60	100	115%	-4%	-4% ~\$3k costs incurred to date. ~\$100k refund of import duties paid is anticipated by the Company, timing TBD.
Inventory ⁽³⁾	2,402	2,278	2,282	95%	95%	95% NBV reflects landed inventory and GIT as at Jul. 5/17. See detailed inventory analysis.
Prepaid expenses ⁽²⁾	13	-	1	10%	0%	0% Nominal estimated refundable deposits.
Income tax refund	100	-	100	100%	0%	0% Based on estimate provided by Strellmax management. Richter as not reviewed supporting documentation.
Other proceeds	-	49	49			Includes \$22k pre-filing insurance claim proceeds received to date - potential further amount receivable from co-insurer. (max. \$30k) is uncertain - and \$25k credit bid consideration re. SSA Amendments.
Fixed Assets⁽²⁾	3,942	3,335	3,480	88%	83%	
Leasehold improvements	2,508	-	-	0%	0%	0% No proceeds generated from any immovable leasehold improvements ("LI"). Any proceeds from movable LI's are captured in furniture & fixtures (below).
Furniture & fixtures	164	87	87	53%	53%	53% Reflects aggregate purchase price for the FF&E Sales.
Software, computer & equipment ⁽³⁾	428	50	50	12%	12%	12% \$50k IT Systems Credit Bid per the APA.
	3,100	137	137	4%	4%	
Estimated Priority Claims						
30-day Goods Claims	(70)	-	-	0%	0%	0% No claims filed by creditors for recently delivered merchandise.
Source Deductions	(25)	(20)	(20)	80%	80%	80% Estimated pre-filing portion of source deductions paid after filing.
Stub Period Wages and Vacation Pay	(90)	(70)	(65)	72%	48%	48% NBV estimate was based upon a maximum of \$2,000 per employee (45 employees), prior to detailed analysis. Realizations to date reflect only Stub Period Wages paid thus far in receivership.
Excise Taxes (HST/PST/QST)	(35)	(35)	(35)	100%	100%	100% Estimated pre-filing portion of HST paid after filing.
	(220)	(125)	(98)	57%	45%	
Estimated Realization Costs (not directly attributed to liquidation sales)						
Head office payroll	(120)	(87)	(87)	73%	73%	73% Estimated realization costs initially based on average 90-day liquidation period.
Head office & DC rent	(30)	(9)	(9)	29%	29%	29% Payment of head office payroll and benefits is complete.
Vacation Incentive	(20)	(7)	(7)	35%	35%	35% 1 month of rent was paid prior to Aug. 1/17 closing of APA transaction.
Company advisor	(15)	(33)	(33)	223%	223%	223% Company's advisor engaged directly by Strellmax through closing of SNAL Transaction.
Other wind-down costs	(114)	(114)	(100)	87%	83%	83% Includes IT, office, utilities, external staffing, SNAL Transaction closing costs, tax preparer fees, and equipment lease payments.
	(299)	(251)	(236)	79%	77%	
Restructuring Professionals Fees						
	n/a	(700)	(600)			Fees incurred to date reflect receiver's fees and the fees of its counsel through Dec. 31/17, and the fees of Strellmax's restructuring counsel (Aird & Berlis) through Nov. 15/17.
Net Estimated Realizations		2,396	2,661			
Strellson AG Secured Debt	(4,707)	(4,707)	(4,707)			Includes ~\$934k of realizations satisfied by way of credit bid of Secured Creditor's debt.
Estimated Surplus (Shortfall) to Strellson AG		(2,311)	(2,046)			Includes principal, accrued interest, and fees & expenses charged to date.

Notes:

(1) Based on unaudited information provided by Strellmax. Except where otherwise stated, amounts were reported by Strellmax as at June 30, 2017.

(2) 'Estimated Realization' represents the Receiver's best estimate of net proceeds on the Property as of September 2017, updated for realizations to date.

(3) Values reported on the May 31, 2017 internal financial statements. Richter understands any changes since May 31, 2017 would not have a material impact on estimated realization value.

(4) The APA was entered into on July 7, 2017 for the sale of certain of (i) Strellmax's inventory, (ii) IT-related software and equipment, and (iii) other assets to the Buyer. The SNAL transaction closed Aug. 1/17.

Strellmax Ltd.
Estimated Inventory Realization
Updated to January 31, 2018

(\$000's)	Notes	Inventory	Estimated Realization (% NBV)				Realization	%
		NBV	Low	%	High	%	to date ⁽¹⁾	NBV
Retail Liquidation:								
Net Sales (Retail)							1,381	106%
Store-level costs							(287)	-22%
Liquidation consultant fees							(36)	-3%
Retail Liquidation Net Proceeds	(2)	1,299	1,058	81%	1,058	81%	1,058	81%
APA:								
APA Purchase Price - Inventory	(3)	920	920	100%	920	100%	920	
Suppliers & freight-in paid in receivership		(187)	(187)	100%	(187)	100%	(187)	
		733	733	100%	733	100%	733	100%
Samples Transaction	(4)	38	38	100%	38	100%	38	100%
Sales to wholesale customers in receivership:								
Sales	(5)	409	566	139%	570	140%	566	139%
Suppliers & freight in paid in receivership		(76)	(76)	100%	(76)	100%	(76)	
Freight out		-	(41)		(41)		(41)	
		333	449	135%	453	136%	450	135%
		2,402	2,278	95%	2,282	95%	2,278	95%

Notes:

⁽¹⁾ Realization to date is on a cash basis.

⁽²⁾ Retail liquidation sales are complete, although a minimal amount of incidental costs have not yet been paid. Realizations on retail liquidation inventory represent a net orderly liquidation value (i.e. net of store-level liquidation costs), reflecting discounts through retail store (5 locations) liquidation sales.

⁽³⁾ Reflects \$920k purchase price for inventory purchased per the APA (100% of the book value on Strellmax's books and records), less the portion of purchased inventory paid for in the receivership. The SNAL Transaction was completed Aug. 1/17.

⁽⁴⁾ The Samples APA was entered into on October 27, 2017 following the Court's approval. The Samples Transaction closed on November 28, 2017.

⁽⁵⁾ \$626k of sales (@ selling price) were invoiced to wholesale customers in the receivership; estimated realizations reflect collections, net of customary chargebacks from customers. The majority of sales have now been collected.

APPENDIX “I”

Strellmax Ltd.**Cash Flow Statement (Presented in Canadian Dollars)****For the period July 7, 2017 to January 31, 2018**

Receipts	Notes	
Retail sales	1	\$ 1,540,389.13
Accounts receivable collections	2	830,977.57
Wholesale sales	3	619,000.00
Advance from Secured Creditor		192,480.41
Release of cash collateral (TD)		69,481.85
Insurance claim and other receipts		23,806.00
Support Services Agreement - net amount payable to Buyer	4	73,281.89
Total Receipts		\$ 3,349,416.85
Disbursements		
Payroll & benefits	5	295,710.19
Professional fees - Receiver	6	206,406.51
Sales taxes remitted	7	194,726.95
Freight/duty on post-filing purchases		170,508.08
Rent	5	148,329.22
Supplier payments for post-filing merchandise purchases		133,021.27
Professional fees - Receiver's counsel	6	103,109.17
Professional fees - Company advisor		37,723.92
Liquidation Consultant		35,556.28
Professional fees - Company's counsel	8	36,481.54
Credit card fees on sales in receivership		28,911.82
Other expenses	9	122,018.82
Total Disbursements		\$ 1,512,503.76
Net Cash Flow		\$ 1,836,913.09
Opening Cash on hand		2,308.52
Net transfers to the Receiver	10	(1,758,070.05)
Foreign exchange loss on conversion of cash on hand		(3,204.49)
Ending Cash on Hand		\$ 77,947.06
Reconciliation to Receiver's Statements of Receipts and Disbursements		
Net Proceeds from Strellmax (CAD)		\$ 1,859,672.73
Receiver's funding of the Business (CAD)		(259,322.48)
Net Proceeds from Strellmax (USD)		125,472.75
FX on USD Net Proceeds (@ 1.2293)		28,770.90
Total Net Proceeds from Strellmax (in CAD)	11	\$ 1,754,593.90
Net transfers to the Receiver (per above)		(1,758,070.05)
FX translation adjustments and fees on transfers		3,476.00
Difference		\$ -

Disclaimer: This Company Cash Flow was compiled by the Receiver, based on the cash transactions posted in the Company's bank accounts, and supporting documentation provided by the Company. 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.

Strellmax Ltd.

Cash Flow Statement (Presented in Canadian Dollars)

For the period July 7, 2017 to January 31, 2018

Notes:

¹ Net sales from Liquidation Sale at the Closing Stores, including sales taxes.

² Collections of accounts receivable from sales made to wholesale customers prior to the date of the Receivership Order.

³ Collections of accounts receivable from sales made to wholesale customers since the Receivership Order. Breakdown of collections between AR and wholesale sales is estimated as collections have not been fully reconciled by invoice date.

⁴ Amount owed by the Buyer to Strellmax for reimbursable costs pursuant to the SSA Amendment.

⁵ Total post-filing retail and head office payroll & benefits, and rent (non-reimbursable by Buyer).

⁶ Fees of the Receiver and Receiver's counsel incurred as part of these receivership proceedings, paid directly by Strellmax.

⁷ Includes ~\$35,000 of pre-filing sales taxes paid.

⁸ Fees of the Company's counsel incurred as part of these receivership proceedings.

⁹ Other expenses include IT, office, utilities, external staffing, SNAL Transaction closing costs, tax preparer fees, and equipment lease payments and equipment lease payments.

¹⁰ Possession and control of Treasury Assets by the Receiver.

¹¹ Total net proceeds obtained from Strellmax as presented on the Interim R&D.

BETWEEN:

STRELLSON AG

Applicant
-and-

STRELLMAX LTD.

Respondent

APPLICATION UNDER section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended and section 101 of the *Courts of Justice Act*, R.S.O., c. c-43, as amended

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

SECOND REPORT OF THE RECEIVER

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