

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

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

I IN THE MATTER OF THE PLAN OF COMPROMISE
OF:
7098961 CANADA INC. (formerly known as BEYOND
THE RACK ENTERPRISES INC.)

Debtor

-and-

RICHTER ADVISORY GROUP INC.

Monitor

UPDATED REPORT OF THE MONITOR
ON THE STATE OF THE DEBTOR'S AFFAIRS AND THE PLAN OF ARRANGEMENT
August 3, 2016

INTRODUCTION

1. On June 15, 2016, Richter Advisory Group Inc. ("Richter"), the Court-appointed monitor (the "Monitor"), made available on its website its Report on the State of the Debtors' Affairs and the Amended Plan of Compromise and on June 16, 2016 made available an updated version of said report in order to provide information on Beyond the Rack Enterprises Inc. (the "Debtor") and to assist the Creditors and the Court in their review and assessment of the Amended Plan of compromise (the "Amended Plan").
2. The present Report of the Monitor provides an update on the following:
 - Amended Claims Process;
 - Estimated distribution to Creditors under the Amended Plan; and
 - Analysis of transactions prior to the issuance of the Initial Order.

3. **We refer the Creditors to the Monitor's Report dated June 16, 2016 for a comprehensive review of the Debtor's financial affairs and of the Amended Plan as this Report deals only with the above-mentioned specific matters.**
4. Please note that substantially all the assets of the Debtor have been sold to the 9721444 Canada Inc. (the "Purchaser") on May 25, 2016 and that the Debtor no longer has any employees or management. The Purchaser, who is also the Plan Sponsor, has retained some of the former employees of the Debtor and they have been providing information to the Monitor as needed.
5. It should be noted that the Monitor has not conducted an audit or investigation of the books and records of the Debtor and that accordingly, no opinion is expressed regarding the accuracy or completeness of the information contained herein. The present information emanates from the Debtor's books and records that have been made available to the Monitor, as well as from discussions with its former employees and management who are now employed by the Purchaser.
6. All amounts are stated in Canadian dollars unless otherwise noted. Capitalized terms used herein and not defined herein shall have the meaning ascribed to them in the Amended Plan.

UPDATE ON CLAIMS PROCESS

7. On June 13, 2016, the Court issued the Amended Claims and Meetings Procedure Order, providing for a Claims Bar Date of July 18, 2016 at 5:00 pm (Montréal time) or, for a Creditor with a Restructuring Claim, the latest of (a) 5:00 pm (Montréal time) on July 18, 2016 and (b) 10 days after the date of receipt of the notice giving rise to the Restructuring Claim.
8. With the assistance of former employees of the Debtor and the Plan Sponsor, the Monitor has reviewed the major claims filed by the Creditors and communicated with same in order to:
 - Have the Creditors amend their claims when major discrepancies existed as compared to the Debtor's books and records, or alternatively;
 - Transmit Notices of Revision or Disallowance or value the claims for voting purposes and notify the Creditors accordingly.

9. As of the Bar Date, 612 Affected Customers completed the on-line form to file a Claim. The Monitor conducted a comparison of the amounts claimed with the information per the books and records of the Debtor provided by the Plan Sponsor, and noted that certain Customers had multiple entries for the same transaction. The Monitor adjusted the amount of those Claims accordingly but did not notify the Affected Customers for the following reasons:
- The amount of each Customer Claim does not impact the amount that will be distributed to each Affected Customer;
 - These adjustments did not have any impact on the result of the votes received from the Affected Customers; and
 - There were too many adjustments and notifying each Affected Customer for which an adjustment was made would have been too cumbersome.
10. Amended Claims, Notices of Revision or Disallowance issued by the Monitor before the Meeting of Creditors and the valuation adjustments of certain claims for voting purposes are summarized as follows:

7098961 Canada Inc. Claims	Creditors			
	Affected Customers		Affected Non-Customers	
	Nb.	\$	Nb.	\$
Claims as filed or amended			324	53,307,223
- Customers	677	143,790		
- By subrogation	4	7,350,819		
Notice of Revision or Disallowance		-	(1)	(19,607,500)
Adjustments (Multiple entries) Customers	(65)	(51,653)		-
	616	7,442,956	323	33,699,723
Valuation adjustments for voting purposes by subrogation	(3)	(7,160,545)	(7)	(9,866,960)
Claims for voting purposes	613	282,411	316	23,832,762
<i>Customers</i>	<i>612</i>	<i>92,137</i>		
<i>By subrogation</i>	<i>1</i>	<i>190,273</i>		
	613	282,411		

11. It is important to note that the Creditors for which Notices of Revision or Disallowance have been issued by the Monitor or for which their Claims have been adjusted for voting purposes can contest the Monitor's position for purpose of distribution.

12. The Plan Sponsor and the Monitor have not completed the review and reconciliation of all Claims filed. **Therefore, the quantum of the Proven Claims will vary depending on the final results of the Claims Process.**

UPDATE ON ESTIMATED DISTRIBUTION TO CREDITORS

13. In the event the Creditors reject the Amended Plan, the only realistic alternative is bankruptcy, which would result in no recovery to the Affected Creditors.
14. The following table illustrates the revised estimated recovery under the Amended Plan which may be realized by the Creditors based on the information available as of the date of this Updated Report in comparison to the initial estimate as per the Report dated June 16, 2016:

7098961 Canada Inc.				
Estimated Distribution per the Amended Plan		Initial estimate	Low	High
Basket Amount		\$ 310,000	\$ 310,000	\$ 310,000
Less:				
Professional fees		(68,000)	(68,000)	(68,000)
Government Priority Claims		-	-	-
Available for Affected Claims	A	242,000	242,000	242,000
Estimated Affected Customer Claims			7,442,956	282,411
Estimated Affected Non-Customer Claims			33,699,723	23,832,762
Estimated Affected Claims	B	\$ 41,368,365	\$ 41,142,679	\$ 24,115,173
Estimated recovery	A/B	0.58%	0.59%	1.00%

15. As shown in the above table, the revised estimated recovery under the Amended Plan is estimated to range between 0.59% and 1.00% of the total Proven Claims, which compares favorably to the initial estimate. **It is important to note that the final distribution under the Amended Plan will vary depending on the final results of the Claims Process.**

ANALYSIS OF PREFERENTIAL PAYMENTS

16. In the event the Amended Plan is approved, Creditors are deemed to have waived the recourses provided for in section 36.1 of the *Companies' Creditors Arrangement Act*. These recourses deal with the possibility of recovering certain amounts in the event there are reviewable transactions, preferential payments and/or dispositions of assets by the Debtor.

17. The Monitor has conducted a cursory review of the main transactions which have taken place over the three (3) month period (with parties at arm's length) and the 12-month period (for major transactions with parties not at arm's length) preceding the issuance of the Initial Order (March 24, 2016). Following our review of these transactions, it appears that they were entered into in the normal course of business according to the terms of payment offered by the Creditors to the Debtor and/or according to the historical payment trend observed.

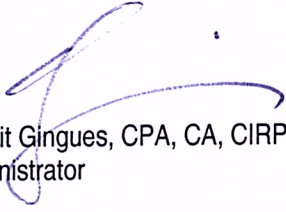
CONCLUSION AND RECOMMENDATION

18. The Monitor is still of the opinion that if the Amended Plan is not approved by the Creditors, there would not be any recovery to the Creditors.
19. **The Monitor therefore maintains its recommendation to vote in favor of the Amended Plan.**

Dated at Montreal, this 3rd day of August 2016.

Richter Advisory Group Inc.

Court-Appointed Monitor



Benoit Gingues, CPA, CA, CIRP
Administrator