

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
FILE NO: 500-11-033561-081

SUPERIOR COURT
Commercial Division
Designated tribunal under the CCAA¹

IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF
MAAX CORPORATION AND VARIOUS
SUBSIDIARIES AND AFFILIATES AS
LISTED IN SCHEDULE "A"

PETITIONERS

- and -

ALVAREZ & MARSAL CANADA ULC
MONITOR

SECOND REPORT OF THE MONITOR – JULY 9, 2008

INTRODUCTION

1. On June 12, 2008, this Court issued an order (the "**Initial Order**") at the request of MAAX Corporation ("**MAAX Corp.**") and certain of its direct and indirect subsidiaries, as listed on **Schedule "A"**, attached hereto (collectively, the "**Petitioners**" or the "**Companies**"), declaring that the Petitioners are debtor companies to which the CCAA applies, granting certain relief to the Companies while they consider any opportunities to advance a viable plan of arrangement pursuant to the CCAA, appointing Alvarez & Marsal Canada ULC as monitor ("**A&M**" or the "**Monitor**") and extending the benefit of the Court-ordered stay of proceedings to the Affiliates of the Petitioners, which includes the Additional Petitioners (as defined below).
2. This Second Report of the Monitor ("**Report**") is provided to the Court:
 - as an update in respect of the activities of the Petitioners and certain events occurring since the date of the First Report of the Monitor dated June 25, 2008 (the "**First Report**"); and
 - in support of the Petitioners' Motion for an Order Extending CCAA Protection to Additional Petitioners (the "**Motion for Additional Petitioners**") which seeks to add to these CCAA proceedings the affiliates of the Petitioners that are incorporated in the United States of America and to fully extend the protections and benefits of the Initial Order to those U.S. affiliates.
3. The content of this Report is presented in the following categories:
 - Terms of Reference;
 - CCAA Proceedings;
 - General Stakeholder Update;

¹ *Companies' Creditors Arrangement Act* ("**CCAA**"), R.S.C. 1985, c. C-36, as amended.

- Actual Cash Flow Results Relative to Forecast;
- Support Agreement;
- Request to Add Additional Petitioners; and
- Monitor's Conclusions and Recommendations.

TERMS OF REFERENCE

4. In preparing this Report, the Monitor has relied upon unaudited financial information, Petitioners' records, Petitioners' prepared financial information and projections, discussions with management and employees of the Petitioners, and information from various other sources. A&M has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, A&M expresses no opinion or other form of assurance in respect of such information.

Certain of the information referred to in this Report consists of forecasts and/or projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future oriented financial information referred to in this Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

We have requested that management bring to our attention any significant matters which were not addressed in the course of our specific inquiries. Accordingly, this Report is based solely on the information (financial or otherwise) made available to us.

This Report has been prepared for the use of this Court, as general information on the status of the Companies' CCAA proceedings. Given the nature of this matter, this information is subject to change as the matter progresses.

5. All references to dollars in this Report are in Canadian currency unless otherwise noted.
6. Capitalized terms not defined in this Report are as defined in the Initial Order or in the First Report.

CCAA PROCEEDINGS

7. On June 12, 2008, this Court issued the Initial Order at the request of the Petitioners which *inter alia*:
 - declared that the Petitioners are debtor companies to which the CCAA applies and granted certain relief to the Petitioners while they consider any opportunities to advance one or more viable plans of arrangement pursuant to the CCAA;

- extended the stay of proceedings to the Petitioners and their Affiliates (which includes the Additional Petitioners), and their respective directors and officers;
 - approved the Incentive Plan pertaining to the Petitioners and their affiliates;
 - ordered that the Petitioners are entitled but not required to pay and fulfill the following expenses and obligations whether incurred prior to or after the date of the Initial Order:
 - all outstanding and future wages, salaries, employee and pension benefits, vacation pay, bonuses, and expenses payable on or after the date of the Initial Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
 - all outstanding and future trade obligations or related expenses incurred in the ordinary course of business and other amounts related to the preservation of the Property or the Business, including without limitation obligations to customers, suppliers, sales agents, independent contractors, governmental and taxation authorities, or other third parties;
 - the fees and disbursements of any Assistants retained or employed by the Petitioners in respect of these proceedings, at their standard rates and charges; and
 - such other amounts and obligations as agreed to by the Petitioners and BBLF; and
 - authorized the Petitioners to borrow under the Amended Credit Agreement, which provides the Petitioners with approximately \$30 million of Interim Financing, and ordered that advances made pursuant to the Interim Financing be secured by the Interim Lenders' Charge.
8. On June 11, 2008, concurrent with the filing of the Motion for Initial Order, the Petitioners filed with this Court the Motion for the Approval of the Sale of Assets and Vesting Order (the "**Sale Approval Motion**") which seeks the approval of the Asset Purchase Agreement between, *inter alia*, the Petitioners and Brookfield Bridge Lending Fund Inc. ("**BBLF**") made as of June 11, 2008 (the "**Purchase Agreement**"). A copy of the Purchase Agreement was filed with this Court by the Petitioners as Exhibit R-7 of the Motion for Initial Order and as Exhibit R-6 of the Sale Approval Motion. The Sale Approval Motion was presentable on June 26, 2008.
 9. On June 23, 2008, a Contestation of the Sale Approval Motion (the "**Contestation**") was filed with this Court by U.S. Bank National Association (the "**Indenture Trustee**"), acting in its capacity as trustee under the Indenture dated June 4, 2004 among MAAX Corp., as issuer, certain affiliates of MAAX Corp., as guarantors, and the Indenture Trustee (the "**Indenture**"). As described in the Motion for Initial Order, pursuant to the Indenture, MAAX Corp. had issued 9.75% unsecured senior subordinated notes due in 2012 in the aggregate principal amount of US\$150 million (the "**Senior Subordinated Notes**").
 10. With the concurrence of BBLF and the Indenture Trustee, the Sale Approval Motion did not proceed on June 26, 2008, as the Petitioners reported to the Court on that date that discussions were being advanced amongst legal counsel to the MAAX Group, the Indenture

Trustee and BBLF. The parties agreed to return to this Court the following day to report on the status of the discussions. On June 26, 2008, there was also a motion for the extension of the Initial Order which was presentable. With the consent of the Indenture Trustee, this Court issued the Extending Stay Period Order on that date, which extended the Stay Period and Stay Termination Date up to and including September 5, 2008.

11. On June 27, 2008, this Court postponed the hearing in connection with the Sale Approval Motion to July 3, 2008. On July 3, 2008, it was reported to this Court that settlement discussions as between the MAAX Group, BBLF and the Indenture Trustee had further advanced since the June 27, 2008 Court attendance, and that a draft Support Agreement had been distributed amongst the parties. At the request of the Petitioners, this Court further postponed the hearing for the Sale Approval Motion to July 10, 2008, under reserve of all parties' rights and subject to the Indenture Trustee being able to argue on July 10, in the event that the matter of the Contestation was not settled by that date, that the hearing should be further postponed to July 14, 2008.
12. As described in the Motion for Additional Petitioners, a Support Agreement dated July 2, 2008 (the "**Support Agreement**") has been executed amongst the MAAX Group, BBLF, the Indenture Trustee and the Significant Opco Noteholder, such that, subject to certain conditions, each noteholder that executes the Support Agreement (a "**Consenting Noteholder**"), thereby authorizes, directs and instructs the Indenture Trustee to *inter alia*: (i) withdraw the Contestation; and (ii) provide for active support for any motion, proceeding or other argument for the approval of any applicable Court having jurisdiction over the MAAX Group companies of any step or other action to close and implement the Purchase Agreement or another transaction where substantially all of the assets of the MAAX Group are assigned and transferred to BBLF (or its assignees and designees) free and clear of all encumbrances (other than specified assumed liabilities) (the "**Transaction**"). Any process or proceeding by which the Transaction is effectuated must be acceptable to BBLF. A copy of the Support Agreement has been filed with this Court by the Petitioners as Exhibit R-3 of the Motion for Additional Petitioners.
13. The Monitor has made available various materials relating to these proceedings on its website, at www.alvarezandmarsal.com/maax. The Monitor will continue to promptly post Canadian court orders, motion materials and Monitor's reports on the website throughout these proceedings. The Monitor has received several requests from creditors seeking a copy of various Court-filed documents. The Monitor has promptly provided such documentation and responded to any related questions and will continue to do so as this matter moves forward.

GENERAL STAKEHOLDER UPDATE

14. To date, the MAAX Group has continued to provide the Monitor with full co-operation and unrestricted access to its premises, books and records. As indicated in the First Report, the Monitor and the MAAX Group have implemented procedures for the daily monitoring of receipts and disbursements, and the weekly analysis of actual cash flow results as compared to the cash flow forecast filed with this Honourable Court at the time of the Motion for Initial Order (the "**CCAA Cash Flow Forecast**"). The Monitor has also continued to assist the Companies in compiling the weekly and other reporting required by BBLF pursuant to the Amended Credit Agreement.

15. Since the issuance of the Initial Order, the Petitioners have focused on minimizing any potential disruptions to their businesses resulting from these proceedings, including taking proactive steps to communicate with the Companies' stakeholders and employees. Management has informed the Monitor that, to date, it is not aware of any material changes to the Companies' operations since the commencement of these proceedings.
16. Paragraph 21 of the Initial Order provides the Companies with the ability to pay and fulfill, *inter alia*, all outstanding and future employee, customer and trade supplier obligations, whether incurred prior to or after the date of the Initial Order. Management has informed the Monitor that the Petitioners have experienced little disruption to their business following the issuance of the Initial Order.

Banking / Central Cash Management System

17. The Initial Order provides for the continued use of the Companies' Cash Management System. Management has informed the Monitor that the Companies' Cash Management System continues to operate in the same manner as it had prior to the commencement of these proceedings.

Customers

18. Immediately upon the issuance of the Initial Order, the Companies implemented a communication plan to notify customers of the Purchase Agreement and CCAA filing, and to advise customers that the Initial Order provides the Companies with the ability to pay and fulfill all outstanding and future customer obligations.
19. The Companies continue to be in regular contact with key customers to assure them that all regular policies and services remain in effect, and that the Companies would continue to fulfill their obligations to customers, including co-op advertising, volume rebates and warranty-related liabilities.

Suppliers and Other Vendors

20. Immediately upon the issuance of the Initial Order, the Companies implemented a communication plan to notify suppliers and vendors of the Purchase Agreement and CCAA filing, and to advise such parties that the Initial Order provides the Companies with the ability to pay and fulfill all outstanding and future trade obligations and related expenses incurred in the ordinary course of business, whether incurred prior to or after the date of the Initial Order.
21. Management has informed the Monitor that suppliers have generally continued to provide goods and services on the same terms as those provided prior to the commencement of these proceedings. The Companies continue to be in regular contact with key suppliers and continue to pay for goods and services in the ordinary course of business. The Monitor has also responded to numerous inquiries from suppliers and vendors seeking various Court documents and information related to the past and future supply of goods and services. In general, the supply of goods and services to the Companies has continued without interruption.

Inter-Company Transactions

22. Inter-company transactions have been limited to the Cash Management System and normal course activities among the MAAX Group companies.

Employees

23. Management has informed the Monitor that the Companies continue to enjoy the support of their workforce. The Companies have not experienced any increase in employee turnover since the commencement of these proceedings.

ACTUAL CASH FLOW RESULTS RELATIVE TO FORECAST

24. The MAAX Group's cash receipts and disbursements for the four-week period to July 4, 2008 are summarized below and are compared to the first four weeks of the CCAA Cash Flow Forecast.

<i>(Unaudited, in dollars)</i>	For the Four-Week Period to July 4, 2008		
	Projected	Actual	Variance
Canada (in \$Cdn)			
Receipts	13,060,186	17,627,666	4,567,480
Disbursements			
Payments – materials, supplies, and operating expenses	(16,863,998)	(12,949,755)	3,914,243
Salaries, wages, commissions, and benefits	(4,135,962)	(4,695,669)	(559,707)
Capital expenditures	(550,000)	-	550,000
Total Disbursements	(21,549,960)	(17,645,424)	3,904,536
Net Cash Flow (Canada)	(8,489,774)	(17,758)	8,472,016
US (in \$US)			
Receipts	14,498,477	15,791,722	1,293,245
Disbursements			
Payments – materials, supplies, and operating expenses	(14,556,544)	(9,736,338)	4,820,206
Salaries, wages, commissions, and benefits	(3,734,183)	(3,376,716)	357,467
Capital expenditures	(550,000)	-	550,000
Total Disbursements	(18,840,727)	(13,113,054)	5,727,673
Net Cash Flow (US)	(4,342,250)	2,678,668	7,020,918
Professional fees	(2,350,000)	(1,342,267)	1,007,733
Interest and forbearance extension fees	(2,928,949)	(3,085,586)	(156,637)
Total Net Cash Flow	(18,110,973)	(1,766,943)	16,344,030

Overall, through July 4, 2008, the MAAX Group experienced a positive net cash flow variance of approximately \$16.3 million, in aggregate, relative to the CCAA Cash Flow Forecast.

25. Receipts were approximately \$5.9 million ahead of the CCAA Cash Flow Forecast for the four-week period ended July 4, 2008 (\$4,567,480 in Canada and \$US 1,293,245 in the U.S.). Management attributes these variances largely to positive timing differences between actual and forecast collections from customers.
26. Disbursements were approximately \$10.5 million less than the CCAA Cash Flow Forecast (\$3,904,536 in Canada, \$US 5,727,673 in the U.S. and net \$851,096 in professional fees and interest and forbearance extension fees) for the four-week period ended July 4, 2008. Management attributes these variances primarily to certain payment assumptions underlying the CCAA Cash Flow Forecast. Management expects that these variances are, for the most part, permanent in nature and that such positive variances will likely carry forward for the balance of the initial thirteen-week period covered by the forecast. Management attributes the positive variance in professional fees experienced primarily to timing differences between actual and forecast payment of fees and expects such positive variance to reverse going forward.
27. In accordance with the terms of the Amended Credit Agreement, the MAAX Group continues to provide BBLF, on a weekly basis (two business days following the end of the previous week), with certain reporting relative to the CCAA Cash Flow Forecast. The most recent weekly reporting provided to BBLF was on July 8, 2008 and demonstrated that the MAAX Group was in compliance with the Permitted Variance threshold provided for in the Amended Credit Agreement through the week ended July 4, 2008. Further, the MAAX Group provided BBLF with additional required reporting on July 2, 2008 that showed compliance with the Minimum Monthly Sales requirement included in the Amended Credit Agreement for the month of June. The Companies continue to have access to available funding within the terms of the Amended Credit Agreement.

SUPPORT AGREEMENT

28. The Support Agreement provides, *inter alia*, as follows:
- the Consenting Noteholders agree, among other things, to vote or cause to be voted all of their Notes:
 - in favour of the transactions described in the Support Agreement, which include the transactions contemplated in the Purchase Agreement or another transaction pursuant to which substantially all of the assets of the MAAX Group are assigned and transferred to BBLF free and clear of all encumbrances, pursuant to a legal, equitable, statutory or court-based proceeding, action or process in Canada and/or the U.S.; and
 - against any action that would result in a breach of the MAAX Group's obligations to BBLF;
 - the Consenting Noteholders agree and direct the Indenture Trustee to abstain from any act that would interfere with or impede the Transaction and to waive any Events of Default under the Indenture pending implementation of the Transaction; and
 - BBLF or MAAX Corp. (if authorized by the Court) will pay or cause to be paid to the Indenture Trustee, for distribution to the Noteholders, US\$5 million, plus payment of the

Indenture Trustee's reasonable out-of pocket fees and expenses in connection with the CCAA Proceedings, the anticipated Chapter 15 Proceedings and the Support Agreement, up to \$150,000.

29. On July 2, 2008, the Indenture Trustee sent a letter to the Depository Trust Company ("DTC") for distribution to all Noteholders, which: (i) provides notice of the Sale Approval Motion and the vesting of the assets in BBLF; (ii) summarizes the terms of the Support Agreement; and (iii) indicates the Noteholders' entitlement to become a party to the Support Agreement. A copy of the letter to DTC was filed with this Court by the Petitioners as Exhibit R-4 of the Motion for Additional Petitioners.
30. At the time of the filing of the Motion for Additional Petitioners, Consenting Noteholders - being Noteholders holding approximately 86% in value, representing approximately 25 beneficial holders of the Notes - had executed the Support Agreement or the related Consent. The MAAX Group and the Indenture Trustee are continuing their efforts to contact any remaining Noteholders that have not executed the Support Agreement.
31. With the execution of the Support Agreement, there is now consensus among the MAAX Group, BBLF, the Indenture Trustee and the Consenting Noteholders (including the Significant Opco Noteholder) that, subject to the terms of the Support Agreement, BBLF shall acquire the Purchased Assets free and clear of encumbrances (other than Assumed Liabilities), including free and clear of the Notes and all guarantees in connection with the Notes.
32. The MAAX Group and its advisors have engaged in considerable discussions with BBLF and its advisors in Canada and the United States as to the most timely, efficient and effective means of closing and implementing the transactions contemplated by the Purchase Agreement. The MAAX Group and BBLF are of the view that the Transaction should be effected through some form of judicial proceedings and approval both in Canada and the U.S.
33. The Petitioners have decided to pursue the process outlined above due to its expedience and efficacy in effectuating the Transaction, and based on their view that Canada is the appropriate principal jurisdiction in which to pursue and implement the Transaction.

UPDATE ON SECURITY OPINIONS

34. As indicated in the First Report, some of the written opinions in relation to US real estate had not yet been received by the Monitor at the date of the First Report. As indicated by the Monitor's legal counsel during the June 26, 2008 Court hearing, all written opinions were received prior to the commencement of that hearing.

REQUEST TO ADD ADDITIONAL PETITIONERS

35. In the Motion for Additional Petitioners, the Initial Petitioners are requesting that this Honourable Court, *inter alia*, issue:
 - an Order declaring that the following Additional Petitioners are companies to which the CCAA applies (collectively, the "**Additional Petitioners**");

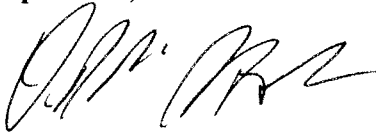
- MAAX KSD LLC;
 - Aker Plastics Company Inc.;
 - MAAX Spas (Arizona), Inc.;
 - MAAX-Hydro Swirl Manufacturing Corp.;
 - MAAX Midwest, Inc.; and
 - Pearl Baths LLC;
- an Order declaring that, from the date thereof, all provisions of the Initial Order, as amended or extended from time to time including by Order rendered by this Honourable Court on June 26, 2008, shall apply to the Additional Petitioners, *mutatis mutandi*.

MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

36. In the First Report, the Monitor provided its support for, and recommended that this Court approve, the Purchase Agreement. This Honourable Court's approval of the Petitioners' request to add the Additional Petitioners to these CCAA proceedings would allow the MAAX Group to continue to pursue the approval and closing of the Purchase Agreement.
37. The Monitor recommends that this Honourable Court grant the Motion for Additional Petitioners and issue:
- an Order declaring that the Additional Petitioners are companies to which the CCAA applies; and
 - an Order declaring that, from the date thereof, all provisions of the Initial Order, as amended or extended from time to time including by Order rendered by this Honourable Court on June 26, 2008, shall apply to the Additional Petitioners, *mutatis mutandi*.

All of which is respectfully submitted this 9th day of July, 2008.

ALVAREZ & MARSAL CANADA ULC
In its capacity as the Monitor appointed by
the Court in the matter of the proposed arrangement of
MAAX Corporation, et al.



Per: Douglas R. McIntosh
 Managing Director

SCHEDULE « A »

SCHEDULE "A"

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
MAAX CORPORATION, *ET AL***

CANADIAN SUBSIDIARIES AND AFFILIATES SUBJECT TO THE INITIAL APPLICATION

MAAX Canada Inc.

MAAX Spas (Ontario) Inc.

4200217 Canada Inc.

MAAX Cabinets Inc.

No. 500-11-033561-081

S U P E R I O R C O U R T
(Commercial Division)
District of Montréal

**IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF:**

**MAAX CORPORATION,
MAAX CANADA INC.,
MAAX SPAS (ONTARIO) INC.,
4200217 CANADA INC.,
MAAX CABINETS INC.**

Petitioners

and

ALVAREZ & MARSAL CANADA ULC

Monitor

SECOND REPORT OF THE MONITOR
– JULY 9, 2008

ORIGINAL

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