

Court File No.: \_\_\_\_\_

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

**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 MASTERMIND GP INC.**

**PRE-FILING REPORT OF THE PROPOSED MONITOR  
ALVAREZ & MARSAL CANADA INC.**

**NOVEMBER 22, 2023**

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## 1.0 INTRODUCTION

- 1.1 Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Proposed Monitor**”) understands that Mastermind GP Inc. (“**Mastermind GP**” or the “**Applicant**”) intends to make an application to the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) for an order (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), among other things, declaring that Mastermind GP is a debtor company to which the CCAA applies, extending the protections, authorizations, restrictions and benefits of the Initial Order and the CCAA to Mastermind LP (together with Mastermind GP, the “**Mastermind Entities**”), granting a stay of proceedings in favour of the Mastermind Entities and appointing A&M as monitor of the Mastermind Entities (in such capacity, the “**Monitor**”). The proceedings to be commenced by the Applicant under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 Mastermind LP is a Canadian toy retailer, with 66 stores and approximately 800 employees across the country. Mastermind LP’s stores operate in Ontario, Alberta, British Columbia, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador. Mastermind LP also operates an e-commerce platform that accounts for approximately 10% of its chain-wide sales.
- 1.3 Mastermind GP and Mastermind LP are incorporated and established, respectively, under the laws of Ontario, each with its registered head office in Toronto, Ontario. Mastermind GP is Mastermind LP’s general partner and holds all of the Class B limited partnership units in Mastermind LP. Mastermind GP does not have any operations and exists solely for

the purpose of serving as Mastermind LP's general partner. The ultimate parent company of Mastermind GP is Birch Hill Equity Partners Management Inc. ("**BHEPMI**"), which is not an Applicant in the CCAA Proceedings.

- 1.4 Over the past several years, Mastermind LP has experienced material net losses and financial strain, primarily resulting from an increasingly competitive toy retail industry, declining sales and margins, and a highly levered balance sheet resulting from incremental debt that was used to fund losses incurred due to the COVID-19 pandemic.
- 1.5 In April 2023, Mastermind LP, together with Alvarez & Marsal Canada Securities Inc. ("**A&M Corporate Finance**") acting as financial advisor, commenced an out-of-Court sale process that ultimately resulted in a proposed transaction pursuant to which a strategic bidder would acquire Mastermind LP on a going concern basis. However, as described in further detail in the First Milanovich Affidavit (as defined below), the proposed transaction was subject to mandatory pre-merger notification under the *Competition Act*, R.S.C. 1985, c. C-34. After a lengthy review process with the Competition Bureau, which involved both Mastermind LP and the proposed purchaser responding to extensive information requests and making numerous submissions (including a submission in support of Mastermind LP's "failing firm" status), the Competition Bureau issued a Supplementary Information Request ("**SIR**") necessitating a further and lengthy diligence process to advance the proposed transaction.
- 1.6 In light of the material cost and length of time that would have been required to respond to the SIR, and due to Mastermind LP's liquidity crisis, the uniquely challenging circumstances it faced, and the critically important upcoming holiday sales season, the

Mastermind Entities commenced these CCAA Proceedings. The principal purpose of the CCAA Proceedings is to provide a platform to allow the Mastermind Entities to pursue an expedient restructuring, with the intention of maximizing realizations for the benefit of all the Mastermind Entities' creditors.

- 1.7 The Mastermind Entities' restructuring plan entails commencing an immediate liquidation and store closure process for a sub-set of underperforming store locations while simultaneously exploring whether an alternative going-concern transaction for the remaining stores can be implemented with a new potential purchaser who has been in accelerated negotiations with the Mastermind Entities and A&M Corporate Finance in recent weeks.
- 1.8 If a transaction with such purchaser materializes, it is the Mastermind Entities' intention to conduct a holiday sale for continuing stores in the normal course. If the proposed transaction is not finalized imminently, the Mastermind Entities will have no choice but to commence a full liquidation of all 66 of their retail locations.
- 1.9 No relief is being requested in the proposed Initial Order by the Mastermind Entities in respect of the above proposed inventory sale or transaction. Rather, the Mastermind Entities are seeking limited relief and a stay of proceedings to provide the breathing room and stability necessary to advance their potential restructuring initiatives in the coming days, including determining whether a going concern transaction can be completed.

## 2.0 PURPOSE OF THIS REPORT

2.1 The purpose of this pre-filing report (this “**Report**”) is to provide the Court with information, and where applicable, the Proposed Monitor’s views on:

- (i) A&M’s qualifications to act as Monitor (if appointed);
- (ii) the Mastermind Entities’ business and financial circumstances;
- (iii) the Mastermind Entities’ 10-week cash flow forecast;
- (iv) the Mastermind Entities’ proposed payments during the CCAA Proceedings;
- (v) the Mastermind Entities’ intended next steps in the CCAA Proceedings;
- (vi) the opinions of counsel to the Proposed Monitor, and its counsel’s local provincial agents, regarding the validity and enforceability of the security granted by the Mastermind Entities in favour of their senior secured lender, Canadian Imperial Bank of Commerce (“**CIBC**”);
- (vii) the Court-ordered Charges (as defined below) over the property and assets of the Mastermind Entities (collectively, the “**Property**”) sought in the proposed Initial Order; and
- (viii) the Proposed Monitor’s conclusions and recommendations in connection with the foregoing.

### 3.0 TERMS OF REFERENCE AND DISCLAIMER

3.1 In preparing this Report, A&M, in its capacity as the Proposed Monitor, has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Mastermind Entities and has held discussions with management of the Mastermind Entities and their legal counsel, as well as certain individuals at BHEPMI (collectively, the “**Information**”). Except as otherwise described in this Report in respect of the Mastermind Entities’ cash flow forecast:

- (i) the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

3.2 Future oriented financial information referred to in this Report was prepared based on the Mastermind Entities’ 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.

3.3 This Report should be read in conjunction with the Affidavit of Lucio Milanovich, the Interim Chief Financial Officer of Mastermind LP, sworn November 22, 2023 (the “**First Milanovich Affidavit**”), and filed in support of the Applicant’s application for relief under the CCAA. Capitalized terms used and not defined in this Report have the meanings given to them in the First Milanovich Affidavit.

3.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

#### **4.0 A&M’S QUALIFICATIONS TO ACT AS MONITOR**

4.1 Alvarez & Marsal Canada ULC and A&M Corporate Finance were originally engaged to act as a consultant to Mastermind LP on March 8, 2023, to assist the Mastermind Entities in assessing their financial performance and reviewing strategic alternatives, including the commencement of the sale process discussed above (and detailed in the First Milanovich Affidavit).<sup>1</sup> As such, the Proposed Monitor is familiar with the business and operations of the Mastermind Entities, their personnel and the key issues and stakeholders in these CCAA Proceedings.

4.2 A&M is related to Alvarez & Marsal Holdings LLC, which is an independent international professional services firm, providing, among other things, bankruptcy, insolvency and

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<sup>1</sup> Under these engagements, Alvarez & Marsal Canada ULC and A&M Corporate Finance billed at their standard hourly rates, and not on a success fee or contingent basis.

restructuring services. The senior A&M professional personnel with carriage of this matter include experienced insolvency and restructuring practitioners who are Chartered Professional Accountants (Chartered Accountants), Chartered Insolvency and Restructuring Professionals, and Licensed Insolvency Trustees, and who have previously acted in CCAA matters of a similar nature and complexity in Canada.

4.3 A&M is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 and is not subject to any of the restrictions on who may be appointed as monitor set out in subsection 11.7(2) of the CCAA.

4.4 The Proposed Monitor has retained Bennett Jones LLP to act as its independent legal counsel.

4.5 A&M has consented to act as Monitor of the Mastermind Entities should the Court grant the proposed Initial Order.

## **5.0 BACKGROUND INFORMATION**

5.1 More extensive background information on the Mastermind Entities is set out in the First Milanovich Affidavit. Certain key points are summarized below.

5.2 Mastermind LP is the largest independent specialty toy and children's book retailer in Canada, operating 66 retail stores in power centres, plazas and malls across eight provinces. Since establishing its first stores in 1984, Mastermind LP has grown substantially, peaking at 69 store locations in 2019.

5.3 For the 12-month period ended October 31, 2023, Mastermind LP generated revenue of \$111.6 million and earnings before interest, taxes, depreciation, and amortization (“EBITDA”) of negative \$7.2 million. Over the course of 2023 to date, same stores sales have declined materially, trending approximately 22% below prior year results. Mastermind LP’s declining financial performance has resulted in a significant working capital deficit and liquidity crisis for the business.

Stores & Employees

5.4 Mastermind LP’s store locations by province, each of which are leased, can be summarized as follows:

<b>Stores by Province</b>	
Ontario	35
Alberta	13
British Columbia	6
Saskatchewan	3
New Brunswick	3
Nova Scotia	3
Manitoba	2
Newfoundland	1
<b>TOTAL</b>	<b>66</b>

5.5 For the most part, Mastermind LP’s stores are located in power centres and retail plazas, with only a small group of locations located in malls. On average, Mastermind LP’s stores are approximately 5,000 square feet.

5.6 Mastermind LP's current approximate employee count by province is as follows:

<b>Employees by Province</b>	
Ontario (store level)	385
Ontario (head office)	105
Alberta	138
British Columbia	50
Saskatchewan	34
New Brunswick	28
Nova Scotia	27
Manitoba	23
Newfoundland	10
<b>TOTAL</b>	<b>800</b>

5.7 Mastermind LP's employees are enrolled in a health benefits program providing medical, dental, life insurance and disability programs. None of Mastermind LP's employees are unionized and there are no registered pension plans or RRSPs.

#### Inventory

5.8 Mastermind LP sells a curated selection of toys, books and baby products with a focus on toys geared towards science, technology, robotics, education, arts and math. Mastermind also carries a private label brand with over 400 unique SKUs.

5.9 Merchandise is purchased from a variety of vendors across Canada, the U.S. and Asia. Key merchandise vendors include Lego, Mattel, Hasbro, Spin Master and Ravensburger.

5.10 Warehousing, distribution and e-commerce fulfillment services are all performed from Mastermind LP's leased head office and distribution centre in Scarborough. During the holiday season, Mastermind LP utilizes a third-party warehouse provider for a small amount of overflow inventory.

- 5.11 As at October 31, 2023, Mastermind LP had approximately \$35.0 million of inventory at cost across its store network, distribution centre and third-party warehouse provider.
- 5.12 As a result of its recent financial hardships and current liquidity position, and more recently following the termination of the prior going-concern transaction, Mastermind LP took necessary steps to reduce its purchasing, reduce costs and preserve liquidity.

#### Unsecured Creditor Profile

- 5.1 Based on the Mastermind Entities' books and records, as at October 31, 2023, amounts payable to unsecured trade creditors were approximately \$22.2 million, consisting of:
- (i) approximately \$19.6 million owing to merchandise vendors; and
  - (ii) approximately \$2.6 million owing to logistics and other vendors.
- 5.2 In addition to the accounts payable and accrued liabilities included above, the Mastermind Entities also have approximately \$5.6 million in outstanding gift card liabilities, net of a provision for estimated breakage.

#### Primary Causes of Financial Difficulty

- 5.3 The primary causes of the Mastermind Entities' financial difficulty include the following:
- (i) *Negative Sales Trend:* Over the course of the last 12 months, Mastermind LP has experienced a significant reduction in sales, trending approximately 22% below prior year, and 25% below 2021, which benefited from a robust period of sales following the mandated store closures during the COVID-19 pandemic;

- (ii) *Operating Losses:* Over the past three fiscal years, Mastermind LP has expended significant effort to reduce its cost structure and improve performance. Certain of these initiatives have included, capital investments to the in-store shopping experience, closure of unprofitable stores, employee rationalizations at both the store and head office levels, optimizations to freight and warehousing processes, and a significant investment in the Mastermind LP's e-commerce platform. However, these steps have not been sufficient to offset against the negative trends recently experienced in the retail industry and the highly competitive nature of the toy retail space. In fiscal 2022 and for the trailing twelve-month period ended October 31, 2023, Mastermind LP reported EBITDA of negative \$4.0 million and negative \$7.2 million, respectively, and a net loss in each of its past six fiscal years (with the exception of 2021); and
- (iii) *Highly Leveraged Balance Sheet:* Like many other retailers, Mastermind LP incurred significant losses from government mandated store closures during the COVID-19 pandemic and in the months thereafter. To fund these losses and provide incremental liquidity, Mastermind LP applied for and obtained a \$6.25 million term loan under the Business Credit Availability Program (“**BCAP**”). While this BCAP term loan provided much needed liquidity during 2021 and 2022, Mastermind LP has not generated sufficient cash flow to pay down the debt, saddling Mastermind LP with a highly leveraged balance sheet.

## 6.0 SECURED CREDITORS

### CIBC

- 6.1 CIBC is the main operating and senior secured lender to the Mastermind Entities pursuant to a credit agreement dated October 24, 2014 (as amended, the “**CIBC Credit Agreement**”), among, Mastermind LP, as borrower, Mastermind GP, as guarantor, the lenders party thereto from time to time (collectively, the “**Lenders**”), and CIBC, as administrative agent to the Lenders. Pursuant to the CIBC Credit Agreement, CIBC and the Lenders committed a revolving loan facility in an amount of up to \$30 million (the “**CIBC Revolving Loan Facility**”) and a term loan facility in the principal amount of \$6.25 million (the “**BCAP Term Loan Facility**”).
- 6.2 As of October 31, 2023, Mastermind LP’s secured obligations owing to CIBC were approximately \$25.7 million, comprised of approximately \$19.5 million owing under the CIBC Revolving Loan Facility, and \$6.25 million owing under the BCAP Term Loan Facility.
- 6.3 The maximum amount available for borrowing under the CIBC Revolving Loan Facility is derived from a borrowing base formula based on Mastermind LP’s credit card receivables, inventory on hand and inventory in-transit (less certain priority payables such as wages, worker’s compensation and certain taxes). Mastermind LP has no letters of credit outstanding.
- 6.4 The obligations under the CIBC Credit Agreement are guaranteed by Mastermind GP pursuant to a guarantee dated October 24, 2014 made by Mastermind GP in favour of CIBC (the “**Guarantee**”). The obligations of Mastermind LP and Mastermind GP under the

CIBC Credit Agreement and the Guarantee, respectively, are secured by a general security between CIBC and Mastermind LP dated October 24, 2014, and a general security agreement between CIBC and Mastermind GP dated October 24, 2014 (together, the “**Security**”).

6.5 Since October 2022, Mastermind LP has been in default of the CIBC Credit Agreement as a result of its failure to maintain a specified fixed charge coverage ratio required thereunder. Since April 2023, Mastermind LP has also been in default of the CIBC Credit Agreement for failure to maintain the minimum EBITDA covenant required thereunder. On November 13, 2023, counsel for CIBC sent notice of such defaults to Mastermind LP and indicated that CIBC was reserving all of its rights with respect to such defaults.

6.6 In light of the existing events of default under the CIBC Credit Agreement and in anticipation of the commencement of the CCAA Proceedings, the Lenders, CIBC and the Mastermind Entities intend to enter into a forbearance agreement prior to the Comeback Hearing (the “**Forbearance Agreement**”). In the interim period and subject to the granting of the proposed Initial Order, the Mastermind Entities will continue to use the CIBC Revolving Loan Facility in the ordinary course.

6.7 If the proposed Initial Order is granted, the Mastermind Entities intend to seek approval of the Forbearance Agreement and the Lender’s Charge at the Comeback Hearing.

#### BHEPMI Facility

6.8 In addition to the Mastermind Entities’ obligations under the CIBC Credit Agreement, as at October 31, 2023, Mastermind LP is indebted to BHEPMI in the approximate amount

of \$1.7 million (inclusive of accrued interest) under a secured facility provided by BHEPMI pursuant to grid promissory notes (the “**BHEPMI Facility**”).

- 6.9 The BHEPMI Facility is interest bearing at a rate per annum equal to 10%. Interest on the BHEPMI Facility accrues daily and is payable in arrears on December 31 of each year. At each fiscal year end on December 31, the interest outstanding on the BHEPMI Facility is payable in kind by issuing a new non-interest bearing promissory note in the principal amount of the unpaid interest.
- 6.10 BHEPMI has subordinated and postponed its security interests granted by Mastermind LP in connection with the BHEPMI Facility in favour of CIBC pursuant to a subordination and postponement agreement dated as of June 11, 2020.

#### Security Review

- 6.11 The Proposed Monitor requested that its counsel, and its counsel’s local provincial agents, conduct a review of the security granted by the Mastermind Entities in favour of CIBC in respect of the CIBC Credit Agreement. Subject to the customary qualifications and assumptions set out therein, the Proposed Monitor’s counsel, and its counsel’s local provincial agents, have provided written opinions to the Proposed Monitor (collectively, the “**Opinions**”), that the security granted by the Mastermind Entities in respect of the CIBC Credit Agreement constitutes valid security, enforceable in accordance with its terms, and perfected by registration in the provinces of Ontario, Alberta, British Columbia, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador to the extent capable under applicable law. The Opinions will be made available to the Court upon request.

## 7.0 CASH FLOW FORECAST

7.1 Mastermind LP has prepared a weekly cash flow forecast (the “**Cash Flow Forecast**”) for the 10-week period from November 23, 2023 to January 28, 2024 (the “**Cash Flow Period**”). A copy of the Cash Flow Forecast, together with a summary of assumptions (the “**Cash Flow Assumptions**”) and Management’s report on the cash-flow statement required by subsection 10(2)(b) of the CCAA are attached hereto as **Appendices “A”** and **“B”**, respectively.

7.2 The following table provides a summary of the Cash Flow Forecast, including the “Initial Period” prior to the Comeback Hearing:

<b>Cash Flow Forecast</b>	<b>\$000’s</b>	
	<u>Initial Period</u>	<u>10-Wk Period<sup>2</sup></u>
<b>Receipts</b>		
Sales	5,842	41,824
Sales tax collections	757	4,463
<b>Total Receipts</b>	6,599	46,287
<b>Disbursements</b>		
Merchandise vendors	--	--
Non-merchandise vendors	(1,913)	(4,622)
Rent	(683)	(2,607)
Payroll & benefits	(996)	(5,066)
Proposed KERP	--	(485)
Restructuring professional fees	--	(2,462)
Consultant fees	(700)	(2,519)
Sales tax remittances	(1,119)	(5,211)
Other expenditures	(286)	(1,133)
<b>Total Disbursements</b>	(5,696)	(24,105)
<b>Net cash flow</b>	<b>903</b>	<b>22,182</b>

<sup>2</sup> Balances included in the 10-Week Period are inclusive of those included in the Initial Period.

- 7.3 During the Initial Period, total disbursements of approximately \$5.7 million are projected to be sufficiently funded by Mastermind LP's sales and collections of accounts receivable (credit card balances in transit), and accordingly, the Mastermind Entities are projected to reduce their exposure under the CIBC Revolving Loan Facility by approximately \$903,000.
- 7.4 During the entirety of the Cash Flow Period, due primarily to the anticipated liquidation of a sub-set of stores and the planned holiday sales across the Mastermind Entities' remaining locations, together with the fact that the Mastermind Entities are not purchasing additional inventory or planning to pay any pre-filing merchandise vendors, net cash flows are projected to be positive \$22.2 million. This positive cash flow is projected to fully satisfy the \$15.3 million of outstanding obligations owing under the CIBC Revolving Loan Facility at the commencement of the CCAA Proceedings, and result in a positive cash balance of approximately \$5.9 million as at January 28, 2024.
- 7.5 The Proposed Monitor also notes the following with respect to the Cash Flow Forecast:
- (i) receipts reflect forecasts of sales from both retail stores and e-commerce and are based on planned sales and anticipated mark-downs during the holiday shopping period;
  - (ii) the Mastermind Entities are not currently purchasing additional inventory and accordingly no merchandise payments have been included during the Forecast Period;

- (iii) non-merchandise vendors primarily include logistics, warehousing and transportation services, credit and debit card processing services, information technology services, and certain other store-level and corporate operating costs, all of which are forecast to be paid in the ordinary course; and
- (iv) the Consultant Fees include: (a) the Consultant's commission fee calculated at 2% of total sales at liquidating stores during the Forecast Period; and (b) a provision for costs related to marketing, signage, labour and other expenses the Consultant will incur in connection with the planned liquidation and holiday sales it will lead during the CCAA Proceedings.

7.6 Based on the Proposed Monitor's review,<sup>3</sup> nothing has come to its attention that causes it to believe, in all material respects that: (i) the Cash Flow Assumptions are not consistent with the purpose of the Cash Flow Forecast; (ii) as at the date of this Report, the Cash Flow Assumptions are not suitably supported and consistent with the plans of the Mastermind Entities or do not provide a reasonable basis for the Cash Flow Forecast, given the Cash Flow Assumptions; or (iii) the Cash Flow Forecast does not reflect the Cash Flow Assumptions.

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<sup>3</sup> The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor under subsection 23(1)(b) of the CCAA. Subsection 23(1)(b) of the CCAA requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of management. The Proposed Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast.

7.7 The Cash Flow Forecast has been prepared solely for the purpose and subject to the assumptions described above, and readers are cautioned that it may not be appropriate for other purposes.

## **8.0 CASH MANAGEMENT SYSTEM**

8.1 As described in the First Milanovic Affidavit, Mastermind LP's cash management system is operated through various accounts with CIBC (the "**Cash Management System**"). The Cash Management System is administered by the Mastermind Entities' finance department.

8.2 Mastermind LP utilizes four primary bank accounts, of which two are deposit accounts and two are disbursement accounts. These accounts are denominated in CAD and USD. In addition to these primary bank accounts, Mastermind LP also utilizes a number of store level bank accounts, which are swept to the primary CAD deposit account on a daily basis.

8.3 Pursuant to the proposed Initial Order, Mastermind LP seeks approval of its continued use of the Cash Management System in substantially the same manner as before the commencement of the CCAA Proceedings, including the daily sweeping of Mastermind LP's Canadian dollar deposit account in repayment of the CIBC Revolving Loan Facility. Given the Opinions, the scale and nature of the Mastermind Entities' operations and the volume of transactions that are processed daily within the Cash Management System, the Proposed Monitor is of the view that the continued use of the existing Cash Management System is required and appropriate during the CCAA Proceedings.

## **9.0 CRITICAL SUPPLIERS**

9.1 The Mastermind Entities are requesting as part of the proposed Initial Order the authority (but not the requirement) to pay pre-filing amounts with the consent of the Proposed Monitor to certain suppliers, including: (i) providers of credit, debit and gift card processing related services; (ii) logistics, warehouse or supply chain providers, such as transportation providers, customs brokers and freight forwarders; (iii) providers of information, internet and other technology, including ecommerce providers and related services; and (iv) other suppliers or service providers if, in the opinion of the Mastermind Entities, following consultation with the Proposed Monitor, such payment is necessary to maintain the uninterrupted operations of the Mastermind Entities' business.

9.2 The Proposed Monitor is of the view that the above relief is reasonable and appropriate in the circumstances, taking into account the Mastermind Entities' goal of implementing a successful restructuring and maximizing value for their stakeholders.

## **10.0 STAY OF PROCEEDINGS**

10.1 The proposed Initial Order contemplates the granting of an initial 8-day stay of proceedings in respect of the Applicant, its business and the Property. Further, the proposed Initial Order contemplates the extension of the stay of proceedings, together with the benefits, protections, authorizations and restrictions under the proposed Initial Order and the CCAA to Mastermind LP.

10.2 In the circumstances, the Proposed Monitor is of the view that the stay of proceedings, including its extension to Mastermind LP, is appropriate and is in the best interests of the Mastermind Entities and their stakeholders given that:

- (i) the proposed stay of proceedings will provide the breathing room required by the Mastermind Entities to stabilize their business and advance their restructuring initiatives;
- (ii) the commencement of enforcement steps against either the Applicant or Mastermind LP would be detrimental to the stability and success of the CCAA Proceedings;
- (iii) as the Mastermind Entities' principal operating company, the employer of their employees and the lessee of a substantial portion of their leased locations, Mastermind LP is integral to the Mastermind Entities' business; and
- (iv) the Mastermind Entities have acted, and continue to act, in good faith and with due diligence in commencing the CCAA Proceedings and seeking to preserve and maximize value for their stakeholders.

## **11.0 COURT-ORDERED CHARGES SOUGHT IN THE INITIAL ORDER**

11.1 The Proposed Initial Order seeks the granting of the Administration Charge and the D&O Charge (collectively, the "**Charges**") over the Property of the Mastermind Entities, as described below.

Administration Charge

- 11.2 The proposed Initial Order provides for an initial Administration Charge in an amount not to exceed \$750,000 in favour of the Monitor, counsel to the Monitor and counsel to the Mastermind Entities. The Proposed Monitor understands that the Mastermind Entities intend to seek an increase in the amount of the Administration Charge to \$1 million at the Comeback Hearing.
- 11.3 The Proposed Monitor assisted the Mastermind Entities with the calculation of the Administration Charge and is of the view that the amount of the charge for the initial 8-day stay period is reasonable and appropriate in the circumstances, having regard to the nature of the CCAA Proceedings, the anticipated professional costs to be incurred during the initial 8-day stay period, the size of charges approved in similar CCAA proceedings, and the fact that the proposed beneficiaries of the Administration Charge do not have retainers.

D&O Charge

- 11.4 The proposed Initial Order provides that the Mastermind Entities shall indemnify their directors and officers against obligations and liabilities that they may incur as directors and officers of the Mastermind Entities after the commencement of the CCAA Proceedings, except to the extent that any such obligation or liability arises as a result of an officer's or director's gross negligence or wilful misconduct. The proposed Initial Order grants a charge over the Mastermind Entities' Property in the amount of \$4.0 million in favour of the Mastermind Entities' directors and officers as security for any such obligations or liabilities arising after the commencement of the CCAA Proceedings. The Mastermind

Entities intend to seek an increase in the amount of the D&O Charge to \$7.25 million at the Comeback Hearing.

11.5 The Proposed Monitor understands that the Mastermind Entities and BHEPMI hold directors' and officers' insurance policies that provide coverage for certain director and officer obligations. However, these policies contain certain exceptions, exclusions and carve-outs, and as a result, the policies may not provide adequate coverage to the Mastermind Entities' directors and officers during the CCAA Proceedings. The Mastermind Entities' directors and officers will only be entitled to the benefit of the D&O Charge to the extent they do not have coverage under directors' and officers' insurance policies or to the extent such coverage is insufficient to pay an indemnified amount.

11.6 The Proposed Monitor assisted the Mastermind Entities in the calculation of the initial quantum of the D&O Charge, taking into consideration the amount of the Mastermind Entities' payroll, vacation pay and federal and provincial sales tax liabilities during the initial 10-day stay period. The components that comprise the proposed D&O Charge are as follows:

<b>Proposed D&amp;O Charge</b>	<b>\$000's</b>
Provision for sales taxes (HST, GST, PST)	\$2,000
Provision for employee wages and source deductions	\$1,650
Provision for accrued vacation pay	\$120
Provision for employee benefits, EHT and other similar amounts	\$230
<b>Total</b>	<b>\$4,000</b>

11.7 The Proposed Monitor understands that the directors and officers of the Mastermind Entities have advised that they are not willing to continue in their current roles absent the

protection afforded to them under the D&O Charge. In the circumstances, the Proposed Monitor is of the view that the D&O Charge is required and reasonable.

Priority of Charges Created by the Proposed Initial Order

11.8 The priorities of the Charges are proposed to be as follows:

- (i) First – Administration Charge (to the maximum amount of \$750,000); and
- (ii) Second – D&O Charge (to the maximum amount of \$4.0 million).

11.9 As set out above, the Proposed Monitor believes that the Charges are reasonable in the circumstances.

**12.0 INTENDED NEXT STEPS IN THE CCAA PROCEEDINGS**

12.1 The Proposed Monitor understands that, subject to obtaining the proposed Initial Order, during the period prior to the Comeback Hearing, the Mastermind Entities' intend to: (i) commence certain planning activities, with the assistance of the Consultant, for the planned liquidation sales at the sub-set of underperforming stores; and (ii) continue to advance discussions with the potential acquirer of the Mastermind Entities' business on a going concern basis, including the remaining locations.

12.2 At the Comeback Hearing, the Monitor understands that the Mastermind Entities expect to seek Court approval of:

- (i) the (a) Forbearance Agreement with CIBC to amend the current CIBC Credit Agreement and to provide financing during the CCAA Proceedings, and (b) the Lender's Charge;

- (ii) a consulting agreement with a consultant (the “**Consultant**”) who will serve as the exclusive consultant to the Mastermind Entities for the purpose of conducting a sale of Mastermind LP’s merchandise and furniture, fixtures and equipment, including the contemplated store closure sales at certain locations and the holiday shopping sales at the remaining locations;
- (iii) sale guidelines with respect to the liquidation of inventory and furniture, fixtures and equipment at stores that will be closed by the Mastermind Entities during the CCAA Proceedings;
- (iv) a key employee retention plan and a Court-ordered charge to secure amounts that may become payable thereunder;
- (v) an increase to the quantum of the Charges; and
- (vi) an extension to the stay of proceedings to January 28, 2024.

12.3 In addition to the above, Mastermind LP will also provide an update on the status of its discussions in connection with a proposed sale transaction for certain of Mastermind LP’s store locations together with the business and assets of the Mastermind Entities.

### **13.0 CONCLUSIONS AND RECOMMENDATIONS**

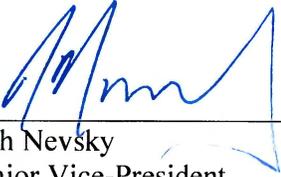
13.1 For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Mastermind Entities in the proposed Initial Order is reasonable, appropriate and necessary having regard to the Mastermind Entities’ current circumstances. As such, the Proposed Monitor supports the Mastermind Entities’ application for CCAA

protection and respectfully recommends that the Court grant the Initial Order containing the relief requested by the Mastermind Entities.

All of which is respectfully submitted to the Court this 22<sup>nd</sup> day of November, 2023.

**Alvarez & Marsal Canada Inc., in its capacity as  
Proposed Monitor of Mastermind GP Inc. and Mastermind LP,  
and not in its personal or corporate capacity**

Per: \_\_\_\_\_

  
Josh Nevsky  
Senior Vice-President

**APPENDIX A  
CASH FLOW FORECAST**

See attached.

Appendix A – Cash Flow Forecast for the 10-Week Period Ending January 28, 2024

Mastermind

10-Week Cash Flow Forecast ending January 28, 2024

Unaudited \$CAD 000's

Cash Flow Week: Week Ending:	Notes	Week 1 26-Nov-23	Week 2 03-Dec-23	Week 3 10-Dec-23	Week 4 17-Dec-23	Week 5 24-Dec-23	Week 6 31-Dec-23	Week 7 07-Jan-24	Week 8 14-Jan-24	Week 9 21-Jan-24	Week 10 28-Jan-24	10-Week Total
<b>Receipts</b>												
Sales	1	890	4,951	5,665	6,936	8,247	7,124	3,937	1,957	1,018	1,099	41,824
Sales tax collections		138	619	746	951	897	500	252	112	125	123	4,463
<b>Total Receipts</b>		<b>1,028</b>	<b>5,571</b>	<b>6,411</b>	<b>7,887</b>	<b>9,144</b>	<b>7,624</b>	<b>4,189</b>	<b>2,069</b>	<b>1,142</b>	<b>1,222</b>	<b>46,287</b>
<b>Disbursements</b>												
Merchandise vendors		-	-	-	-	-	-	-	-	-	-	-
Non-merchandise vendors	2	(461)	(1,452)	(1,182)	(627)	(250)	(250)	(100)	(100)	(100)	(100)	(4,622)
Rent	3	-	(683)	-	(683)	-	-	(683)	-	(558)	-	(2,607)
Payroll & benefits	4	-	(996)	-	(1,103)	-	(1,103)	-	(1,047)	-	(818)	(5,066)
Proposed KERP	5	-	-	-	-	-	-	-	(485)	-	-	(485)
Restructuring professional fees	6	-	-	(511)	-	(496)	-	-	(480)	-	(976)	(2,462)
Consultant fees	7	-	(700)	(99)	(363)	(139)	(415)	(142)	(329)	(39)	(292)	(2,519)
Sales tax remittances		(34)	(1,085)	-	(6)	-	-	(3,223)	-	-	(864)	(5,211)
Other expenditures		(20)	(266)	(20)	(20)	(20)	(20)	(646)	(20)	(20)	(81)	(1,133)
<b>Total Disbursements</b>		<b>(515)</b>	<b>(5,182)</b>	<b>(1,812)</b>	<b>(2,802)</b>	<b>(904)</b>	<b>(1,788)</b>	<b>(4,794)</b>	<b>(2,461)</b>	<b>(717)</b>	<b>(3,130)</b>	<b>(24,105)</b>
<b>Net Cash Flow</b>		<b>514</b>	<b>389</b>	<b>4,599</b>	<b>5,085</b>	<b>8,239</b>	<b>5,836</b>	<b>(605)</b>	<b>(392)</b>	<b>425</b>	<b>(1,908)</b>	<b>22,182</b>
<b>Pre-Filing Revolver</b>												
Opening revolver position		15,298	14,680	9,110	2,698	-	-	-	-	-	-	15,298
Total receipts		(1,028)	(5,571)	(6,411)	(2,698)	-	-	-	-	-	-	(15,708)
Total disbursements		411	-	-	-	-	-	-	-	-	-	411
<b>Ending Pre-Filing Revolver</b>		<b>14,680</b>	<b>9,110</b>	<b>2,698</b>	<b>-</b>	<b>-</b>						
<b>Post-Filing Revolver</b>												
Opening revolver position		-	-	6,207	8,019	5,633	(2,606)	(8,443)	(7,810)	(7,418)	(7,844)	-
Total receipts		-	-	-	(5,189)	(9,144)	(7,624)	(4,189)	(2,069)	(1,142)	(1,222)	(30,578)
Total disbursements		-	5,182	1,812	2,802	904	1,788	4,794	2,461	717	3,130	23,590
Interest and fees		-	1,025	-	-	-	-	27	-	-	-	1,053
<b>Ending Post-Filing Revolver</b>		<b>-</b>	<b>6,207</b>	<b>8,019</b>	<b>5,633</b>	<b>(2,606)</b>	<b>(8,443)</b>	<b>(7,810)</b>	<b>(7,418)</b>	<b>(7,844)</b>	<b>(5,935)</b>	<b>(5,935)</b>

## Appendix A – Cash Flow Forecast for the 10-Week Period Ending January 28, 2024

### Mastermind 10-Week Cash Flow Forecast ending January 28, 2024 Assumptions

#### Disclaimer

*In preparing this illustrative cash flow forecast (the “Forecast”), Mastermind has relied upon unaudited financial information and has not attempted to further verify the accuracy or completeness of such information. The Forecast reflects assumptions including those discussed below with respect to the requirements and impact of a potential filing in Canada under the Companies’ Creditors Arrangement Act (“CCAA”). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved will vary from the Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.*

*The Forecast is presented in thousands of Canadian dollars.*

#### **Note 1 Sales**

Includes receipts from the sale of goods through the Applicants' bricks-and-mortar store network, net of a provision for inventory shrinkage and anticipated gift card redemptions.

#### **Note 2 Non-merchandise vendors**

Non-merchandise vendors are forecast based on historical run-rates and include logistics, software, store level expenses, overhead costs and other similar expenses.

#### **Note 3 Rent**

Rent includes disbursements for all store locations as well as the corporate office. Disbursements are inclusive of monthly rent, CAM and utilities.

#### **Note 4 Payroll & benefits**

Payroll & benefits include salaries, wages, remittances and employee benefits for salaried and part-time employees across the Company's store network, head office and warehouse.

#### **Note 5 Proposed KERP**

Payments to key personnel retained by the Company, in accordance with a proposed Key Employee Retention Program.

#### **Note 6 Restructuring professional fees**

Professional fees disbursements include fees paid to the Applicant's legal counsel; the Monitor and its legal counsel; and the Lender's/DIP Lender's counsel.

#### **Note 7 Consultant fees**

Includes estimated commissions as well as advertising and sale supervision costs to be reimbursed to the Consultant during the sale period.

**APPENDIX B**  
**MANAGEMENT'S REPRESENTATION LETTER**  
**REGARDING CASH FLOW FORECAST**

See attached.



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

Court File No.: \_\_\_\_\_

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
MASTERMIND GP INC.**

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**  
Proceeding commenced at Toronto

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**PRE-FILING REPORT OF THE  
PROPOSED MONITOR**

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