



No. S209201
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

IN THE MATTER OF 1077 HOLDINGS CO-OPERATIVE (FORMERLY, MOUNTAIN EQUIPMENT
CO-OPERATIVE) AND 1314625 ONTARIO LIMITED

PETITIONERS

**FIFTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

January 12, 2021

TABLE OF CONTENTS

1.0	INTRODUCTION.....	- 3 -
2.0	PURPOSE.....	- 4 -
3.0	TERMS OF REFERENCE	- 5 -
4.0	OPERATIONAL UPDATE.....	- 5 -
5.0	CLAIMS PROCESS – STATUS UPDATE	- 7 -
6.0	ACTUAL CASH FLOW RESULTS COMPARED TO THE SECOND CASH FLOW FORECAST	- 7 -
7.0	UPDATED CASH FLOW FORECAST	- 9 -
8.0	STAY OF EXTENSION	- 11 -
9.0	RECOMMENDATIONS.....	- 11 -

APPENDICES

Appendix A – Third Cash Flow Forecast for the Period January 11, 2021 to April 9, 2021

1.0 INTRODUCTION

- 1.1 On September 14, 2020 (the “**Filing Date**”), Mountain Equipment Cooperative (subsequently renamed 1077 Holdings Co-operative) and 1314625 Ontario Limited (together, the “**Petitioners**” or “**1077**”) were granted an initial order (the “**Initial Order**”) by the Supreme Court of British Columbia to commence proceedings (the “**CCAA Proceedings**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Among other things, the Initial Order afforded 1077 an initial stay of proceedings up to and including September 24, 2020 (the “**Stay Period**”) and appointed Alvarez & Marsal Canada Inc. (“**A&M**”) as monitor of 1077 (the “**Monitor**”) during the CCAA Proceedings.
- 1.2 On September 22, 2020, the Petitioners filed an application (the “**Comeback Application**”) principally to seek an amended and restated initial order (the “**ARIO**”) and sale approval and vesting order (the “**SAVO**”) to approve the sale transaction (the “**Sale Transaction**”) contemplated by the asset purchase and sale agreement between the Petitioners and 1264686 B.C. Ltd. (the “**Original Purchaser**”) dated September 11, 2020 (the “**APA**”) for the sale of the Purchased Assets and to vest all of the Purchased Assets in the Original Purchaser’s permitted assignee free and clear of any Encumbrances other than Permitted Encumbrances, as such capitalized terms are defined in the APA.
- 1.3 On September 24, 2020, this Honourable Court granted an extension of the Stay Period from September 24, 2020 to September 28, 2020 to allow for the Comeback Application to be heard on September 28, 2020.
- 1.4 On October 2, 2020, this Honourable Court granted the ARIO, which included, among other things, an extension of the Stay Period to November 3, 2020, and the SAVO sought by the Petitioners.
- 1.5 On October 21, 2020, this Honourable Court granted an assignment order to assign all of the rights and obligations of the Petitioners under certain contracts to the Original Purchaser’s assignee, 1266524 B.C. Ltd. (subsequently renamed MEC Canada Inc. and referred hereinafter as the “**Purchaser**”). A second assignment order assigning all of the rights and obligations of the Petitioners under a certain property lease to the Purchaser was granted on October 28, 2020, along with an order (the “**Stay Extension Order**”) further extending the Stay Period through to January 20, 2021.
- 1.6 The Sale Transaction was subsequently closed on October 30, 2020 (the “**Closing Date**”).

- 1.7 On November 12, 2020, an application was filed by a former employee on behalf of certain other former employees of 1077 to be heard on November 24, 2020 (the “**Former Employees’ Application**”) seeking an order from this Honourable Court approving the appointment of Victory Square Law Office (“**VSLO**”) as representative counsel to former employees of 1077 in the CCAA Proceedings and granting a charge of \$85,000 over the property of the Petitioners in respect of VSLO’s anticipated fees, among other things. On December 21, 2020, the Former Employees’ Application was dismissed.
- 1.8 On November 27, 2020, this Honourable Court granted an order enhancing the powers of the Monitor and an order (the “**Claims Process Order**”) setting a claims process (the “**Claims Process**”) by which creditors may confirm or prove their claims against 1077 arising prior to the Filing Date.
- 1.9 On January 12, 2021, the Monitor filed a notice of application with this Honourable Court, returnable on January 15, 2021, seeking an extension of the Stay Period through to April 9, 2021.
- 1.10 Further information regarding these CCAA Proceedings, including the Initial Order, the ARIO, affidavits, reports of the Monitor and all other Court-filed documents and notices are available on the Monitor’s website at www.alvarezandmarsal.com/mec (the “**Monitor’s Website**”).

2.0 PURPOSE

- 2.1 This fifth report (the “**Fifth Report**”) has been prepared by the Monitor to provide information to this Honourable Court in respect of the following:
- a) an update of the Petitioners’ operations since the Fourth Report dated November 23, 2020 (the “**Fourth Report**”);
 - b) a status update of the Claims Process;
 - c) a comparison of the actual cash receipts and disbursements compared to the cash flow forecast (the “**Second Cash Flow Forecast**”) as appended to the third report of the Monitor dated October 27, 2020; and
 - d) an updated cash flow forecast for the period January 11, 2021 to April 9, 2021 and comments in respect of same.
- 2.2 Background information, including capitalized terms not defined herein, are contained in the Initial Order, the ARIO, the SAVO, and the Monitor’s previous reports, and have not been repeated herein.

3.0 TERMS OF REFERENCE

- 3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to it, by certain former management of the Petitioners (“**Management**”). Although this information has been subject to review, A&M has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Petitioners or other third parties. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this Fifth Report, or otherwise used to prepare this Fifth Report.
- 3.2 Certain of the information referred to in this Fifth Report consists of financial forecasts and/or projections prepared by the Monitor and certain former Management. An examination or review of financial forecasts and projections and procedures as outlined by the Chartered Professional Accountants of Canada has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from those forecasts and/or projected and the variations could be significant.

4.0 OPERATIONAL UPDATE

Former Head Office Premises – 1077 Great Northern Way, Vancouver

- 4.1 Pursuant to the terms of the TSA, the Petitioners/Monitor provided the Purchaser with full access and use of the leased head office premises located at 1077 Great Northern Way, Vancouver, British Columbia (the “**Head Office**”) through to December 31, 2020 to allow the Purchaser sufficient time to relocate certain administrative functions and certain office equipment to new office space. A disclaimer was issued by the Monitor to the landlord of the Head Office on November 27, 2020 and following a final walkthrough with the property manager representing the landlord, the Head Office was vacated on December 31, 2020.

Books and Records

- 4.2 Pursuant to the terms of the APA and applicable provincial privacy legislation, select data held by the Petitioners is not permitted to be accessed by or made available to the Purchaser, including but not limited to, certain data related to the members, Excluded Employees, Board of Directors minutes and related materials and the sale and investment solicitation process (collectively, the “**Prohibited Data**”). Accordingly, the Monitor, in consultation with the Petitioners and its legal counsel, identified the Prohibited Data and in coordination with the Purchaser and the Petitioners,

arranged to segregate the Prohibited Data onto a cloud-based platform. Access to the platform has been provided to the Monitor, the Petitioners' counsel, and certain Transitional Employees (who have executed non-disclosure agreements) whose assistance is necessary to complete the bifurcation of data. Once the segregation of data is complete and all Prohibited Data has been uploaded, the Monitor and its legal counsel will retain sole control and access and all other users' access will be removed.

- 4.3 In addition to digital records, the Monitor has secured the Petitioners' physical books and records which were to be maintained pursuant to the APA, statutory and other requirements and the records have been relocated to a third-party off-site storage facility controlled by the Monitor. The Monitor and Purchaser identified certain books and records that were not required to be maintained, which consisted primarily of significantly aged records that did not pertain to governance matters or assets sold as part of the Sale Transaction, and they were destroyed by a document destruction service.

Other Activities

- 4.4 The Monitor continue to focus on other activities in these proceedings, including, among other things:
- a) attending to the Claims Process as further detailed in section 5.0;
 - b) making disbursements as required to fund operating and other costs;
 - c) attending to the collection of any outstanding receipts and refunds, including the Canada Emergency Wage Subsidy and other government relief;
 - d) preparing weekly variance reporting on an ongoing basis and attending to cash management matters generally;
 - e) assisting with the determination of the net working capital adjustment relating to the Sale Transaction. The Final Statement setting out the calculation of the Final Working Capital was provided by the Purchaser on December 29, 2020. A 45-day dispute resolution period is provided for under the APA following the delivery of the Final Statement;
 - f) obtaining advice and direction with respect to distribution of member lists containing personal contact information of the 1077 co-operative members in due course;
 - g) attending to all remaining matters such as reconciling and filing of GST returns and corporate tax returns, completing statutory audits, resolving outstanding letters of credit and any other related matters; and
 - h) completing tasks necessary in the overall administration of the CCAA Proceedings.

5.0 CLAIMS PROCESS – STATUS UPDATE

- 5.1 Capitalized terms used but not defined in this section of the Fifth Report have the meaning ascribed to them in the Claims Process Order.
- 5.2 Pursuant to the Claims Process Order granted by this Honourable Court on November 27, 2020, the Monitor commenced the Claims Process on December 11, 2020 by mailing Claims Packages and Employee Claims Packages to all known Claimants and Employee Claimants, as well as posting the Claims Package and the Claims Process Order on the Monitor's Website.
- 5.3 On December 14 and 18, 2020, notices to creditors were published in the Globe and Mail (National Edition) and The Vancouver Sun.
- 5.4 The Claims Bar Date and the Restructuring Period Claims Bar Date are February 10, 2021.
- 5.5 As at January 11, 2021, the Monitor has received 4 proofs of claims totaling approximately \$95,000, all of which are pre-filing claims from trade creditors. No proofs of claim have been received from landlords of disclaimed realty leases nor Employee Claimants.
- 5.6 Since December 11, 2020, the Monitor has received 69 inquiries relating to the Claims Process, of which 1 were from a trade creditor, 1 from a landlord of a disclaimed realty lease, and 67 were from Employee Claimants. As at January 11, 2021, the Monitor has responded to all of the inquiries received.

6.0 ACTUAL CASH FLOW RESULTS COMPARED TO THE SECOND CASH FLOW FORECAST

- 6.1 Consistent with the ongoing oversight and monitoring of the business and financial affairs of the Petitioners, the Monitor has established a weekly cash flow review protocol to compare actual cash flows against the Second Cash Flow Forecast.
- 6.2 The Petitioners' actual cash receipts and disbursements compared to the Cash Flow Forecast during the period from September 15, 2020 to January 10, 2021 (the "**Reporting Period**") is summarized in the table below:

1077 Holdings Co-operative (formerly Mountain Equipment Co-operative)
Statement of Cash Receipts and Disbursements
For the period September 15, 2020 to January 10, 2021

	For the 17 Weeks Ended January 10, 2021		
	Actual	Forecast	Variance
Receipts			
Sales	\$ 41,176	\$ 41,068	\$ 108
Canada Emergency Wage Subsidy	8,317	7,848	469
Other receipts	275	-	275
Total receipts	49,767	48,916	851
Disbursements			
Merchandise and/or vendor prepayments	33,507	33,877	370
Freight and other non-merchandise	3,142	3,463	321
Wages and salary	11,646	11,885	239
SG&A	3,001	3,299	298
Insurance	19	114	95
Rent and property taxes	4,373	4,370	(3)
Sales tax	3,592	4,176	584
Total disbursements	59,279	61,183	1,905
Net operating cash flow	(9,511)	(12,267)	2,756
Other disbursements			
KERP payments	507	778	271
Professional fees	3,174	3,405	231
Debt service	986	850	(137)
Contingency	574	764	190
Total other disbursements	5,241	5,797	555
Net proceeds from Sale Transaction	22,905	19,000	3,905
Net Cash Flow	\$ 8,153	\$ 936	\$ 7,217
Opening Cash Balance (*)	4,707	4,606	101
Net Cash Flow	8,153	936	7,217
Net Draws on Existing and Interim Facilities	9,481	9,150	331
Ending Cash Balance	\$ 22,341	\$ 13,414	\$ 8,927
Opening Borrowing Balance (*)	\$ 69,725	\$ 71,040	\$ (1,315)
Net draws on Existing and Interim Facilities	9,481	9,150	331
Repayments upon closing	(79,206)	(80,190)	984
Ending Borrowing Balance	-	-	-
LC / LG Utilization	2,204	2,371	(167)
Repayments upon closing	(2,204)	(2,371)	167
Ending Borrowing Exposure	\$ -	\$ -	\$ -

(*) Opening borrowing balances were previously presented net of cash on hand. The cash on hand has been separately presented in the table above.

- 6.3 During the Reporting Period, the Petitioners experienced a net favorable cash flow variance of \$7.2 million primarily as a result of a positive variance relating to the wage subsidies received, lower than anticipated operating costs, as well as greater than forecast net proceeds from the

closing of the Sale Transaction. Specific variances in respect of the reported cash receipts and disbursements are as follows:

- a) net proceeds from the Sale Transaction were \$3.9 million higher than forecast as a result of lower than anticipated bank borrowings as at the Closing Date;
- b) total operating receipts were approximately \$851,000 higher than forecast due to higher than anticipated amounts received under the Canada Emergency Wage Subsidy program; and
- c) total operating disbursements were approximately \$1.9 million lower than forecast primarily due to lower than anticipated merchandise, freight, and other operating costs leading up to the Closing Date.

- 6.4 On the Closing Date, the proceeds from the Sale Transaction allowed the Petitioners to repay in full the total borrowings of \$79.2 million, consisting of the Existing Credit Facility totaling \$18.1 million and Interim Financing Facility totaling \$61.2 million, as well as related debt servicing fees, professional fees, and payment of cash collateral to Dentons Canada LLP (as escrow agent for the Lenders) relating to issued and outstanding letters of credit.
- 6.5 Pursuant to the APA, the net proceeds paid to the Petitioners of approximately \$22.9 million does not include the required escrow amount under the APA of \$7.5 million which is being held in trust by the Monitor's legal counsel (as escrow agent) pending the review of the final accounting of net working capital balances.
- 6.6 Since the Fourth Report, the Monitor has continued to review the cash receipts and disbursements of the Petitioners and has been involved in the weekly review and approval of disbursements and variance reporting. Nothing has come to the attention of the Monitor that causes the Monitor to believe that there have been material adverse changes in the cash flow of the Petitioners or that would financially prejudice the stakeholders of the Petitioners.

7.0 UPDATED CASH FLOW FORECAST

- 7.1 An updated cash flow forecast (the "**Third Cash Flow Forecast**") has been prepared by the Monitor for the period from January 11, 2021 to April 9, 2021 (the "**Forecast Period**"). The Third Cash Flow Forecast is attached herewith as Appendix "**A**" along with accompanying notes and assumptions. A summary of the Third Cash Flow Forecast is tabled below:

1077 Holdings Co-operative (formerly Mountain Equipment Co-operative)
Third Cash Flow Forecast
For the 13 week period ending on April 9, 2021
(in CAD 000s)

	<u>Forecast Period</u>
Receipts	
Other receipts	\$ 1,205
Total receipts	1,205
Disbursements	
General & administrative	367
Insurance	145
Property taxes and other property liabilities	170
Total disbursements	682
Net operating cash flow	523
Other disbursements	
Professional fees	830
Contingency	75
Total other disbursements	905
Net cash flow	\$ (382)
Opening cash balance	\$ 22,341
Net cash flow	(382)
Ending cash balance	\$ 21,959

- 7.2 Under the assumption that there will not have been any distributions made under the Claims Process prior to April 9, 2021, the Third Cash Flow Forecast indicates that the ending cash available is projected to be \$22.0 million by the end of the Forecast Period. The Third Cash Flow Forecast does not include any recoveries from the \$7.5 million currently held in escrow by the escrow agent in respect of the final settlement of the net working capital pursuant to the terms of the APA.
- 7.3 The Monitor's summary comments with respect to the Third Cash Flow Forecast are as follows:
- forecast receipts of \$1.2 million consist primarily of the anticipated release of cash collateral for certain letters of credit held in escrow upon the surrender or expiry in accordance with the terms of the letter of credit; and
 - forecast disbursements of \$1.6 million (consisting of \$680,000 of operating disbursements and \$905,000 of other disbursements) consist of the following:
 - general and administrative costs of approximately \$370,000 include prepayments for records storage and destruction, accrued and estimated contractor payments for the retention of former employees to assist with wind-down matters, utilities, and costs relating to the vacating of the Head Office;

- ii. insurance of approximately \$145,000 for the extension of property, commercial general liability, and umbrella insurance policies to December 31, 2020 and run-offs for the directors' and officers' and cyber insurance policies;
- iii. property taxes other property liabilities of \$170,000 include accruals for property taxes and other accruals relating to the post-filing occupancy period of the leased Head Office; and
- iv. professional fees of approximately \$905,000 for services provided by the Petitioners' legal counsel and the Monitor and its legal counsel.

7.4 The Third Cash Flow Forecast has been prepared solely for the purpose described in Note 1 on the face of the Third Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes.

8.0 STAY OF EXTENSION

8.1 Pursuant to the Stay Extension Order dated October 28, 2020, the Stay Period will expire on January 20, 2021. The Monitor is seeking an extension of the Stay Period to April 9, 2021.

8.2 The Monitor believes this extension is reasonable for the following reasons:

- a) during the proposed extension of the Stay Period, the Monitor will have an opportunity to:
 - i. continue the Claims Process with the purpose of determining the distribution to affected creditors and/or a potential plan of compromise and/or arrangement which may be presented to the creditors and stakeholders of the Petitioners; and
 - ii. attend to any remaining activities relating to the wind-down of 1077's operations and business as outlined in section 4.4;
- b) the Third Cash Flow Forecast indicates that there is sufficient liquidity to continue operating during the requested extension of the Stay Period; and
- c) no creditor or any stakeholders of the Petitioners would be materially prejudiced by the extension of the Stay Period.

9.0 RECOMMENDATIONS

9.1 The Monitor respectfully recommends that this Honourable Court grant the extension of the Stay Period until April 9, 2021.

All of which is respectfully submitted to this Honourable Court this 12th day of January, 2021.

**Alvarez & Marsal Canada Inc.,
in its capacity as Monitor of
1077 and not in its personal or corporate capacity**

A handwritten signature in black ink, appearing to read 'Todd M. Martin', with a stylized flourish at the end.

Todd M. Martin
Senior Vice President

Appendix A
Third Cash Flow Forecast

1077 Holdings Co-operative (formerly Mountain Equipment Co-operative)

Third Cash Flow Forecast (Note 1)

For the 13 week period ending on April 9, 2021

(Unaudited, in 000s CAD)

Week		<i>Week 1</i>	<i>Week 2</i>	<i>Week 3</i>	<i>Week 4</i>	<i>Week 5</i>	<i>Week 6</i>	<i>Week 7</i>	<i>Week 8</i>	<i>Week 9</i>	<i>Week 10</i>	<i>Week 11</i>	<i>Week 12</i>	<i>Week 13</i>	13 Week
Week Ending	Notes	Jan 17	Jan 24	Jan 31	Feb 7	Feb 14	Feb 21	Feb 28	Mar 7	Mar 14	Mar 21	Mar 28	Apr 4	Apr 9	Total
Receipts															
Other receipts	2	11	-	-	542	-	-	652	-	-	-	-	-	-	1,205
Total receipts		11	-	-	542	-	-	652	-	-	-	-	-	-	1,205
Disbursements															
General & administrative	3	39	245	46	-	9	-	9	15	-	-	-	4	-	367
Insurance	4	145	-	-	-	-	-	-	-	-	-	-	-	-	145
Property taxes and other property liabilities	5	-	-	170	-	-	-	-	-	-	-	-	-	-	170
Total disbursements		184	245	216	-	9	-	9	15	-	-	-	4	-	682
Net operating cash flow		(173)	(245)	(216)	542	(9)	-	643	(15)	-	-	-	(4)	-	523
Other disbursements															
Professional fees	6	-	41	-	-	305	-	-	-	275	-	-	-	209	830
Contingency	7	-	-	-	-	50	-	-	-	15	-	-	-	10	75
Total other disbursements		-	41	-	-	355	-	-	-	290	-	-	-	219	905
Net cash flow		\$ (173)	\$ (286)	\$ (216)	\$ 542	\$ (364)	\$ -	\$ 643	\$ (15)	\$ (290)	\$ -	\$ -	\$ (4)	\$ (219)	\$ (382)
Opening cash balance		\$ 22,341	\$ 22,168	\$ 21,882	\$ 21,666	\$ 22,208	\$ 21,844	\$ 21,844	\$ 22,487	\$ 22,472	\$ 22,182	\$ 22,182	\$ 22,182	\$ 22,178	\$ 22,341
Net cash flow		(173)	(286)	(216)	542	(364)	-	643	(15)	(290)	-	-	(4)	(219)	(382)
Ending cash balance		\$ 22,168	\$ 21,882	\$ 21,666	\$ 22,208	\$ 21,844	\$ 21,844	\$ 22,487	\$ 22,472	\$ 22,182	\$ 22,182	\$ 22,182	\$ 22,178	\$ 21,959	\$ 21,959

1077 Holdings Co-operative (formerly Mountain Equipment Co-operative)

Third Cash Flow Forecast

Notes and Assumptions

- ¹ The weekly cash flow projection of 1077 Holdings Co-operative ("1077") has been prepared by the Monitor to set out the cash flow of 1077 (the "Third Cash Flow Forecast") during the Companies' Creditors Arrangement Act proceedings (the "CCAA Proceedings").

The Third Flow Forecast has been prepared and is based on unaudited financial information and estimates of 1077's projected receipts and disbursements. Readers are cautioned that since the estimates are based on future events and conditions that are not ascertainable, the actual results achieved will vary, even if the assumptions materialize, and such variations may be material. 1077 makes no representations, warranties or other assurances that any of the estimates, forecasts, or projections will be realized.

The Third Cash Flow Forecast reflects estimates and assumptions summarized below with respect to operations most notably, that 1077 continues to operate within the protections afforded under the CCAA and the Amended and Restated Initial Order granted on October 2, 2020 during the CCAA Proceedings. The CCAA Cash Flow Forecast may be updated from time to time.

- 2 Other receipts include the release of cash collateral for certain letters of credit held in escrow upon the surrender by the beneficiary or expiry in accordance with the terms of the letter of credit.
- 3 General and administrative costs include prepayments for records storage and destruction, utilities, accrued and ongoing contractor payments for the retention of former employees to assist with wind-down matters, and other costs related to vacating the former head office located in Vancouver, British Columbia.
- 4 Insurance costs include premiums for the extension of property, commercial general liability, and umbrella insurance policies to December 31, 2020 and run-offs for the directors' and officers' and cyber insurance policies.
- 5 Property taxes and other property liabilities include accruals for property taxes and other accruals relating to the post-filing occupancy period of the leased head office.
- 6 Professional fees are estimates of the professional services expected to be provided during the CCAA Proceedings and include fees of 1077's legal counsel, the Monitor and its legal counsel, and the legal counsel for 1077's former directors and officers.
- 7 Contingency costs are included to account for any unexpected expenses and represent 5% of disbursements.