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 MOUNTAIN EQUIPMENT COOPERATIVE AND
1314625 ONTARIO LIMITED

PETITIONERS

**THIRD REPORT OF THE MONITOR**

**ALVAREZ & MARSAL CANADA INC.**

**OCTOBER 27, 2020**

ALVAREZ & MARSAL

**TABLE OF CONTENTS**



**APPENDICES**

## 1.0 INTRODUCTION

1.1 On September 14, 2020, Mountain Equipment Cooperative and 1314625 Ontario Limited (together, the "**Petitioners**" or "**MEC**") 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 MEC 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 MEC (the "**Monitor**") during the CCAA Proceedings.

1.2 On September 22, 2020, the Petitioners filed an application (the "**Comeback Application**") to, among other things, 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 During the period from September 28, 2020 through to October 1, 2020, in addition to hearing the Comeback Application of the Petitioners, the Court heard applications by Plateau Village Properties Inc. and Midtown Plaza Inc. (together, the "**Landlords' Application**"), Kevin Harding and Save MEC (together, the "**Members' Application**"), and the BC Co-op Association and Mutuals Canada (the "**Public Intervenors' Application**").

1.5 On October 2, 2020, this Honourable Court dismissed the Landlords' Application, Members' Application and Public Intervenors' Application and 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.

1.6 On October 21, 2020, this Honourable Court granted an assignment order (the "**Assignment Order**") to assign all of the rights and obligations of the Petitioners under certain Remaining Contracts (subsequently defined) to the Original Purchaser's assignee, 1266524 B.C. Ltd. (recently renamed MEC Canada Inc. and referred herein as the "**Purchaser**"). As a condition of the assignment of the Remaining Contracts, all monetary defaults are to be paid by the Purchaser to the counterparties to the Remaining Contracts (the **"Cure Costs"**).

1.7 On October 26, 2020, the Petitioners filed an application seeking the following:

a) an order extending the Stay Period through to January 20, 2021; and
b) an assignment order (the **"Second Assignment Order"**) assigning all of the rights and obligations of the Petitioners under the Remaining Lease (defined below) to the Purchaser.

1.8 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 Third Report has been prepared by the Monitor to provide information to this Honourable Court in respect of the following:

a) an overview of the assignment of the Remaining Lease (subsequently defined) that the Petitioners are pursuing by way of this Second Assignment Order;
b) an updated cash flow forecast for the period October 19, 2020 to January 20, 2021 (the **"Second Cash Flow Forecast"**) and comments in respect of same; and
c) the recommendations of the Monitor in respect of the foregoing, as applicable.

2.2 The Third Report should be read in conjunction with the fourth affidavit of Philippe Arrata affirmed on October 26, 2020 (the **"Fourth Arrata Affidavit"**). 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 senior management of MEC (**"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 Third Report, or otherwise used to prepare this Third Report.

3.2 Certain of the information referred to in this Third Report consists of financial forecasts and/or projections prepared by 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 LEASE ASSIGNMENT

4.1 Pursuant to the APA, the Petitioners are to use commercially reasonable efforts, in cooperation with the Purchaser, to obtain written consent of the counterparties to the assignment of various contracts, including the Real Property Leases, to the Purchaser.

4.2 To the extent that consent cannot be obtained by the Petitioners, the Petitioners are required to make an application for an assignment order assigning all the counterparties' respective rights and obligations under these contracts to the Purchaser and compelling or deeming the applicable consents to have been provided.

4.3 As described in the Fourth Arrata Affidavit, the Purchaser has indicated that it will be maintaining 21 of MEC's retail locations, including 15 leased retail locations. The Purchaser has confirmed agreements to amend all 15 of the real property leases, with the exception of the retail store located at 101 East 2nd Ave in Vancouver, British Columbia (the "**Remaining Lease**").

4.4 Select key terms of the Remaining Lease are summarized in the table below:

| | |
|---|---|
| **Landlord** | Beedie Development Limited Partnership |
| **Property Address** | 101 East 2nd Avenue<br>Vancouver, B.C. V5T 1B4 |
| **Size of Leased Premises (s.f)** | 57,799 |
| **Term of Lease** | October 18, 2019 to October 31, 2039<br>(20 years) |
| **Basic Annual Rent** | Basic Annual Rents for the Lease Periods:<br>Years 1 to 5 $2,208,000<br>Years 6 to 10 $2,428,000<br>Years 11 to 15 $2,671,680<br>Years 16 to 20 $2,938,84 |
| **Other Charges** | Additional Rent including Taxes (such as all real property taxes, rates, local improvement taxes, water taxes, duties, among others) and all other amounts payable by the Tenant to the Landlord.<br><br>Management fee of $4,000 per month. |
| **Rent Arrears** | $0.00 |

4.5 The Monitor is of the opinion that the assignment of the Remaining Lease is appropriate and commercially reasonable in the circumstances when considering the factors referenced in s. 11.3 of the CCAA. In particular, the Monitor highlights the key considerations underlying its approval of the assignment of the Remaining Lease, which remains subject to approval by this Honourable Court:

a) the Remaining Lease is critical to MEC's ongoing operations and is one of MEC's largest and flagship stores in a major city, and will be utilized in the Purchaser's operations to generate substantial revenue for the enterprise;
b) the assignment of the Remaining Lease would satisfy the APA and is necessary for the timely closure of the transaction and along with the other retail stores being maintained, will provide continued employment and/or retention of approximately 91% of active employees and 21 of 22 retail stores;
c) the Purchaser and their management team will include or be comprised of a significant number of former employees of MEC which will further its efforts to maintain the MEC business as a going concern and honour the on-going obligations under the Remaining Lease;
d) a $10 million deposit has been provided by the Purchaser and is currently held in trust with the Monitor's legal counsel (in its capacity as Escrow Agent under the APA) and the Purchaser has provided various MEC counterparties including the lessor-landlord of the Remaining Lease with confidential financial information in respect of its forecast business plan and liquidity post-closing indicating the Purchaser's ability and financial wherewithal to perform its obligations under the Remaining Lease;
e) the Monitor understands that the Cure Costs relating to the Remaining Lease are negligible but in any event, the Assignment Order sought includes a requirement that the Purchaser honour all Cure Costs as required under the CCAA; and
f) the Petitioners, in conjunction with the Purchaser, have been working diligently and in good faith to effect the closing of the Sale Transaction within the timelines contemplated by the APA.

4.6 For the reasons above, the Monitor approves the assignment of the Remaining Lease subject to this Honourable Court's approval and granting of the Second Assignment Order.

## 5.0 UPDATED CASH FLOW FORECAST

5.1 The Petitioners have prepared an updated cash flow forecast (the "**Second Cash Flow Forecast**") for the period from October 26, 2020 to January 20, 2021 (the "**Forecast Period**"). The Second

Cash Flow Forecast is attached herewith as Appendix "A" along with accompanying notes and assumptions. A summary of the Second Cash Flow Forecast is tabled below:

Mountain Equipment Co-Operative
Second Cash Flow Forecast
For the 13 week period ending on January 20, 2021
(in CAD 000s)

| | Week 1 Pre-closing | Weeks 2 to 13 Post-closing | Total Forecast Period |
|---|---|---|---|
| **Receipts** | | | |
| Sales | $ 6,185 | $ - | $ 6,185 |
| Canada Emergency Wage Subsidy | - | 477 | 477 |
| Net proceeds from Sale Transaction | - | 19,000 | 19,000 |
| **Total receipts** | 6,185 | 19,477 | 25,662 |
| **Disbursements** | | | |
| Merchandise and/or vendor prepayments | 4,563 | - | 4,563 |
| Freight and other non-merchandise | 721 | - | 721 |
| Wages and salary | 2,510 | 1,158 | 3,668 |
| SG&A | 1,336 | 924 | 2,260 |
| Insurance | - | 114 | 114 |
| Rent and property taxes | 2,029 | 311 | 2,340 |
| Sales tax | 950 | 1,136 | 2,086 |
| **Total disbursements** | 12,110 | 3,642 | 15,752 |
| **Net operating cash flow** | (5,925) | 15,835 | 9,910 |
| **Other disbursements** | | | |
| KERP payments | - | 778 | 778 |
| Professional fees | 1,026 | 1,858 | 2,884 |
| Debt service | 306 | - | 306 |
| Contingency | - | 193 | 193 |
| **Total other disbursements** | 1,332 | 2,828 | 4,161 |
| **Net Cash Flow** | $ (7,257) | $ 13,007 | $ 5,750 |
| **Opening Cash Balance** | $ - | $ - | $ - |
| Net cash flow | (7,257) | 13,007 | 5,750 |
| Repayments on Existing and Interim Facilities | 7,257 | - | 7,257 |
| **Ending Cash Balance** | $ - | $ 13,007 | $ 13,007 |
| **Opening Borrowing Balance** | $ 72,933 | $ - | $ 72,933 |
| Deficit / (surplus) | 7,257 | - | 7,257 |
| Repayments upon closing | (80,190) | - | (80,190) |
| **Ending Borrowing Balance** | - | - | - |
| LC / LG utilization | (2,317) | - | - |
| Repayments upon closing | 2,317 | - | - |
| **Ending Borrowing Exposure** | $ - | $ - | $ - |
| **Continuity of Financing** | | | |
| **Existing Credit Facility** | | | |
| Opening balance | $ 23,209 | $ - | $ 23,209 |
| Less: cash receipts | (6,185) | - | (6,185) |
| Less: repayments upon closing | (17,024) | - | (17,024) |
| **Ending Existing Credit Facility balance** | - | - | - |
| **Interim Financing Facility** | | | |
| Opening balance | 49,724 | - | 49,724 |
| Add: draws (repayments) | 13,442 | - | 13,442 |
| Less: repayments upon closing | (63,166) | - | (63,166) |
| **Ending Interim Financing Facility balance** | - | - | - |
| **Total Financing** | - | - | - |
| LC / LG utilization | 2,317 | - | 2,317 |
| Less: repayments upon closing | (2,317) | - | (2,317) |
| **Total Indebtedness** | $ - | $ - | $ - |

5.2 The Second Cash Flow Forecast indicates that the Petitioners will receive net proceeds of $19 million following repayment of the Existing Credit Facility and Interim Financing Facility. By the end of the Forecast Period the ending cash available is projected to be $13 million.

5.3 The Monitor's summary comments with respect to the Second Cash Flow Forecast are as follows:

a) the Sale Transaction is expected to close on October 30, 2020 and the proceeds will allow the Petitioners to repay the Existing Credit Facility totaling $17 million and Interim Financing Facility totaling $63.2 million as well as related professional fees incurred to complete the transaction;

b) forecast receipts of $25.7 million consist primarily of $19 million of net proceeds expected to be received upon closing of the Sale Transaction net of an escrow amount of $7.5 million to be held in trust by the Monitor's legal counsel (as escrow agent) pending final accounting of working capital balances post-closing, $6.2 million of sales receipts which are to applied against the balance of the Existing Credit Facility, and $477,000 of remaining Canada Emergency Wage Subsidy receipts;

c) forecast disbursements of $19.9 million (consisting of $15.7 million of operating disbursements and $4.2 million of other disbursements) are anticipated to satisfy normal course disbursements leading up to the closing of the Sale Transaction as well as post-closing costs including, but not limited to, the following:

   i. wages and salaries relating to the final payroll for employees up to the closing of the Sale Transaction and the retention of certain former employees to assist with various post-closing matters such as winding down the head office located in Vancouver, British Columbia and a retail store located in Calgary, Alberta (together, the "**Remaining Properties**"), attending to finance and accounting matters, and assisting with data access and records storage, among other things;

   ii. SG&A costs totaling approximately $924,000 include payments for utilities for the Remaining Real Properties through to December 31, 2020, waste disposal, records and data storage, contractor fees and professional fees related to tax filings;

   iii. insurance totaling approximately $114,000 for commercial general liability, property and cyber policies through to the end of the Forecast Period;

   iv. rent and property taxes totaling approximately $311,000 for rent for the head office for the month of December 2020;

   v. KERP payments totaling $778,000 relate to certain Court approved retention payments to be made to select employees as described in the Monitor's first report dated September

24, 2020 and consist of a total of $778,000 to be paid upon closing of the Sale Transaction; and

vi. professional fees total approximately $1.9 million for services provided by the Petitioners' legal counsel, the Monitor, and the Monitor's legal counsel to attend to on-going (includes accrued fees) and post-closing activities relating to the Sale Transaction and other matters.

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

## 6.0 EXTENSION OF THE STAY

6.1 Pursuant to the ARIO, the Stay Period will expire on November 3, 2020. The Petitioners are seeking an extension of the Stay Period from this Court to January 20, 2021.

6.2 The Monitor supports extending the Stay Period to January 20, 2021 for the following reasons:

a) during the proposed extension of the Stay Period, the Petitioners will have an opportunity to:
   i. advance and conclude the post-closing adjustments relating to the Sale Transaction to maximize value to its stakeholders; and
   ii. assist with an orderly transition of the business and operations to the Purchaser including providing access to the head office and books and records and preparing corporate and sales tax returns;

b) the proposed extension of the Stay Period will provide the necessary stability and certainty to enable the Monitor to be granted with enhanced Monitor powers to assist with an orderly transition of MEC, as well as implementation of a claims process or plan of arrangement;

c) with the receipt of the net proceeds of the Sale Transaction, there is sufficient liquidity forecast to continue operating during the requested extension of the Stay Period;

d) no creditor or any stakeholders of the Petitioners would be materially prejudiced by the extension of the Stay Period; and

e) the Petitioners have acted in good faith and with due diligence in these CCAA Proceedings since the date of the Initial Order.

## 7.0 RECOMMENDATIONS

7.1 The Monitor respectfully recommends that this Honourable Court grant the following orders being sought by the Petitioners:

a) an order extending the Stay Period to January 20, 2021; and

b) the Second Assignment Order.

*****

All of which is respectfully submitted to this Honourable Court this 27th day of October, 2020.

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

p.p.

Todd M. Martin
Senior Vice President

# Appendix A

## Second Cash Flow Forecast

**Mountain Equipment Co-Operative**
**Second Cash Flow Forecast (Note 1)**
*(Unaudited, in 000s CAD)*

| Week<br>Week Ending | Notes | Week 1<br>Nov 1 | Week 2<br>Nov 8 | Week 3<br>Nov 15 | Week 4<br>Nov 22 | Week 5<br>Nov 29 | Week 6<br>Dec 6 | Week 7<br>Dec 13 | Week 8<br>Dec 20 | Week 9<br>Dec 27 | Week 10<br>Jan 3 | Week 11<br>Jan 10 | Week 12<br>Jan 17 | Week 13<br>Jan 24 | 13 Week<br>Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Receipts** | | | | | | | | | | | | | | | |
| Sales | 2 | $ 6,185 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 6,185 |
| Canada Emergency Wage Subsidy (CEWS) | 3 | - | - | - | - | - | - | 477 | - | - | - | - | - | - | 477 |
| Net proceeds from Sale Transaction | 4 | - | 19,000 | - | - | - | - | - | - | - | - | - | - | - | 19,000 |
| **Total Receipts** | | 6,185 | 19,000 | - | - | - | - | 477 | - | - | - | - | - | - | 25,662 |
| **Disbursements** | | | | | | | | | | | | | | | |
| Merchandise and/or vendor prepayments | 5 | 4,563 | - | - | - | - | - | - | - | - | - | - | - | - | 4,563 |
| Freight & other non-merchandise | 6 | 721 | - | - | - | - | - | - | - | - | - | - | - | - | 721 |
| Wages & Salary | 7 | 2,510 | 1,100 | - | 29 | - | 29 | - | - | - | - | - | - | - | 3,668 |
| SG&A | 8 | 1,336 | 491 | 13 | 39 | 67 | 65 | 12 | 65 | 12 | 71 | 34 | 49 | 7 | 2,260 |
| Insurance | 9 | - | - | - | 114 | - | - | - | - | - | - | - | - | - | 114 |
| Rent and property taxes | 10 | 2,029 | - | - | - | - | 311 | - | - | - | - | - | - | - | 2,340 |
| Sales tax | 11 | 950 | - | - | 100 | 1,036 | - | - | - | - | - | - | - | - | 2,086 |
| **Total Disbursements** | | 12,110 | 1,591 | 13 | 282 | 1,103 | 405 | 12 | 65 | 12 | 71 | 34 | 49 | 7 | 15,752 |
| **Net Operating Cash Flow** | | (5,925) | 17,409 | (13) | (282) | (1,103) | (405) | 465 | (65) | (12) | (71) | (34) | (49) | (7) | 9,910 |
| **Other Disbursements** | | | | | | | | | | | | | | | |
| KERP payments | 12 | - | 544 | - | - | 234 | - | - | - | - | - | - | - | - | 778 |
| Professional fees | 13 | 1,026 | - | 562 | - | - | - | 586 | - | - | - | 360 | - | 349 | 2,884 |
| Debt service | 14 | 306 | - | - | - | - | - | - | - | - | - | - | - | - | 306 |
| Other (contingency) | 15 | - | 83 | 1 | 15 | 59 | 22 | 1 | 4 | 1 | 4 | 2 | 3 | - | 192 |
| **Total Financing and Professional Fees** | | 1,332 | 627 | 563 | 15 | 293 | 22 | 587 | 4 | 1 | 4 | 362 | 3 | 349 | 4,160 |
| **Net Cash Flow** | | $ (7,257) | $ 16,782 | $ (576) | $ (297) | $ (1,396) | $ (427) | $ (122) | $ (69) | $ (13) | $ (74) | $ (396) | $ (51) | $ (356) | $ 5,750 |
| **Opening Cash Balance** | | $ - | $ - | $ 16,782 | $ 16,206 | $ 15,909 | $ 14,513 | $ 14,087 | $ 13,965 | $ 13,897 | $ 13,884 | $ 13,810 | $ 13,414 | $ 13,363 | $ - |
| Net cash flow | | (7,257) | 16,782 | (576) | (297) | (1,396) | (427) | (122) | (69) | (13) | (74) | (396) | (51) | (356) | 5,750 |
| Repayments on Existing and Interim Facilities | | 7,257 | - | - | - | - | - | - | - | - | - | - | - | - | 7,257 |
| **Ending Cash Balance** | | $ - | $ 16,782 | $ 16,206 | $ 15,909 | $ 14,513 | $ 14,087 | $ 13,965 | $ 13,897 | $ 13,884 | $ 13,810 | $ 13,414 | $ 13,363 | $ 13,007 | $ 13,007 |
| **Opening Borrowing Balance** | | $ 72,933 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 72,933 |
| Deficit / (surplus) | | 7,257 | - | - | - | - | - | - | - | - | - | - | - | - | 7,257 |
| Repayments upon closing | | (80,190) | - | - | - | - | - | - | - | - | - | - | - | - | (80,190) |
| **Ending Borrowing Balance** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| LC / LG utilization | | (2,317) | - | - | - | - | - | - | - | - | - | - | - | - | (2,317) |
| Repayments upon closing | | 2,317 | - | - | - | - | - | - | - | - | - | - | - | - | 2,317 |
| **Ending Borrowing Exposure** | 16 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Continuity of Financing** | | | | | | | | | | | | | | | |
| **Existing Credit Facility** | | | | | | | | | | | | | | | |
| Opening balance | | $ 23,209 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 23,209 |
| Less: cash receipts | | (6,185) | - | - | - | - | - | - | - | - | - | - | - | - | (6,185) |
| Less: repayments upon closing | | (17,024) | - | - | - | - | - | - | - | - | - | - | - | - | (17,024) |
| **Ending Existing Credit Facility balance** | 16 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Interim Financing Facility** | | | | | | | | | | | | | | | |
| Opening balance | | 49,724 | - | - | - | - | - | - | - | - | - | - | - | - | 49,724 |
| Add: draws (repayments) | | 13,442 | - | - | - | - | - | - | - | - | - | - | - | - | 13,442 |
| Less: repayments upon closing | | (63,166) | - | - | - | - | - | - | - | - | - | - | - | - | (63,166) |
| **Ending Interim Financing Facility balance** | 16 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total Financing** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| LC / LG utilization | | 2,317 | - | - | - | - | - | - | - | - | - | - | - | - | 2,317 |
| Less: repayments upon closing | | (2,317) | - | - | - | - | - | - | - | - | - | - | - | - | (2,317) |
| **Total Indebtedness** | 16 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

Joanna Ban

Joanna Ban
Chief Financial Officer

**Mountain Equipment Co-operative**
**Second Cash Flow Forecast**
**Notes and Assumptions**

1 The weekly cash flow projection of Mountain Equipment Co-operative ("MEC") has been prepared by Management to set out the cash flow of MEC (the "Second Cash Flow Forecast") during the Companies' Creditors Arrangement Act proceedings (the "CCAA Proceedings").

The Second Cash Flow Forecast has been prepared and is based on unaudited financial information and Management's estimates of its 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. MEC makes no representations, warranties or other assurances that any of the estimates, forecasts, or projections will be realized.

The Second Cash Flow Forecast reflects estimates and assumptions summarized below with respect to operations most notably, that MEC 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. Management may update this CCAA Cash Flow Forecast from time to time.

2 Forecast sales include expected cash receipts for products ordered by customers but not yet shipped and anticipated in-store sales, which are consistent with historical run rates of MEC but also reflect assumptions in respect of seasonality and the potential impact of the CCAA Proceedings. Accounts receivables and forecast sales are not expected following the closing of the Sale Transaction on October 30, 2020.

3 A Canada Emergency Wage Subsidy ("CEWS") application for the month of October 2020 is expected to be submitted in November 2020 and the corresponding subsidy totaling approximately $600,000 is expected to be received during the Forecast Period.

4 Net proceeds upon closing of the Sale Transaction is expected to be received on October 30, 2020 and is estimated to be $19 million excluding the escrow amount of $7.5 million, which is to be held in trust by the Escrow Agent pursuant to the terms of the APA. The estimated net proceeds will allow MEC to pay necessary costs until the end of the Forecast Period.

5 Merchandise vendors include payments for non-private label merchandise and materials for private label merchandise. Disbursements are based on expected and historical run rates and are assumed to be paid based on accelerated payment terms or cash-on-delivery terms as a result of the possible effect of the CCAA Proceedings on supplier credit. It is anticipated there will not be any further merchandise costs upon closing of the Sale Transaction.

6 Freight and other non-merchandise vendors include credit and debit card processing services, logistics and transportation costs. Disbursements are based on expected and historical run rates and are assumed to be paid based on accelerated payment terms or cash-on-delivery terms due to the impact of the CCAA Proceedings on supplier credit. These costs are expected to cease upon closing of the Sale Transaction.

7 Payroll, benefits, and source deductions are forecast based on actual payroll expenses for approximately 1,100 employees through to the closing of the Sale Transaction.

8 General and administrative costs through to October 30, 2020 include utilities, information technology, marketing, building maintenance and repairs and other administrative costs and are based on current run rates for the remainder of 2020. Following the closing of the Sale Transaction, general and administrative costs are expected to include contractor payments for the retention of former employees to assist with wind-down matters, prepayments for records storage and destruction, utilities, and other costs related to vacating the two remaining real estate properties.

9 Insurance costs through to November 15, 2020 have been paid and include property insurance, commercial general liability insurance, umbrella insurance, marine cargo and directors and officers insurance policies, among others. Commercial general liability, property and cyber insurance for the two remaining properties are not assumed by the Purchaser and are anticipated to be paid in November 2020 to extend coverage for six months.

10 Rent and property taxes for the month of November 2020 for MEC's 16 leased retail stores, 1 leased distribution centre and 1 leased head office will be paid by MEC and subsequently adjusted in the purchase price of the Sale Transaction. It is expected that rent will be paid through to November 30, 2020 for the remaining retail location in Calgary, Alberta and to December 31, 2020 for the head office location in Vancouver, British Columbia.

11 Sales taxes include GST, PST, HST and QST remittances. Remittances are expected to remain current and final payments of sales taxes incurred during the CCAA Proceedings to be paid in or around the end of November 2020.

12 Key Employee Retention Plan payments of $544,000 and $234,000 are expected to be paid in the first and last week of November 2020, respectively, upon successful completion of the Sale Transaction.

13 Professional fees are preliminary estimates of the professional services expected to be provided during the CCAA Proceedings and include fees of MEC's legal counsel, the Monitor and its legal counsel, and the Lender's legal counsel and financial advisor. The Lender's legal counsel and financial advisors are not expected to incur any fees following closing of the Sale Transaction.

14 Debt service fees and interest include costs associated with servicing the Existing Credit Facility and Interim Financing Facility and are expected to be fully repaid upon closing of the Sale Transaction.

15 Contingency costs are included in the Cash Flow Forecast to account for any unexpected expenses and represent 5% of operating disbursements.

16 The Existing Credit Facility, Interim Financing Facility and letters of credit totaling approximately $83 million are expected to be fully repaid directly by the Purchaser upon closing of the Sale Transaction. The amounts ultimately paid to the Agent will be determined at closing and in accordance with a pay-out statement from the Agent and may deviate from that estimated herein.