

**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 PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
COMARK INC. ("THE APPLICANT")**

**SECOND REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.
APRIL 16, 2015**

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Appendix A – First Report of the Monitor, dated March 26, 2015

1.0 INTRODUCTION

- 1.1 On March 26, 2015 Comark Inc. (“**Comark**”, the “**Company**” or the “**Applicant**”) applied for and was granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to an order of the Court dated March 26, 2015 (the “**Initial Order**”), Alvarez & Marsal Canada Inc. (“**A&M**”, or the “**Monitor**”) was appointed Monitor of the Applicant in the CCAA proceedings (the “**CCAA Proceedings**”).
- 1.2 In connection with the Applicant’s application for protection under the CCAA, A&M, in its capacity as proposed monitor, provided the Court with a pre-filing report (the “**Pre-Filing Report**”) dated March 25, 2015. On March 26, 2015, the Monitor filed its First Report to Court (the “**First Report**”) which provided supplemental information in connection with the Applicant’s cash management system, the terms of the Salus Credit Agreement and the proposed DIP Facility. A copy of the First Report is attached hereto as **Appendix “A”**. The Pre-Filing Report, the First Report, the Initial Order and other Court-filed documents and notices in connection with these CCAA Proceedings are available on the Monitor’s website at: www.alvarezandmarsal.com/comark.
- 1.3 The Initial Order, among other things:
- a) granted a stay of proceedings (the “**Stay**”) through April 24, 2015 (the “**Stay Period**”) in favour of Comark;
 - b) authorized and directed the Company to immediately commence a Sale and Investor Solicitation Process (the “**SISP**”) for the purpose of offering the opportunity for potential investors to purchase or invest in the business and operations of Comark as a going

concern. The SISP is attached to the Initial Order as Schedule A and a summary of the SISP was included in the Pre-Filing Report;

c) approved the engagement of Houlihan Lokey Capital, Inc. as the financial advisor to the Applicant (the “**Financial Advisor**”);

d) provided the Applicant with the ability, but not the requirement, to pay, among other things, the following expenses whether incurred prior to, on or after the Initial Order to the extent, subject to availability under the DIP Facility and in accordance with the Budget (as defined in the DIP Agreement):

- i. all outstanding and future wages, salaries, employee benefits, vacation pay and reasonable expenses payable on or after the date of the Initial Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
- ii. amounts necessary in order to continue to honour or comply with existing return policies, customer deposits, pre-payments, gift cards and similar programs offered by the Applicant;
- iii. the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges;
- iv. with the consent of the Monitor, amounts owing for goods or services actually supplied to the Applicant prior to the date of the Initial Order, or to obtain the release of goods contracted for prior to the date of the Initial Order by:

A. logistics or supply chain providers, including customs brokers, freight forwarders and transportation providers;

- B. amounts payable in respect of customs and duties for goods;
 - C. providers of credit, debit and gift card processing related services; and
 - D. other third party suppliers, including payments in respect of outstanding documentary credits or deposits, if, in the opinion of the Applicant, the supplier is critical to the Business and ongoing operations of the Applicant;
- v. any other costs or expenses that are deemed necessary for the preservation of the Property and/or the Business by the Applicant with the consent of the Monitor and Salus.
- e) authorized and empowered the Applicant to obtain and borrow under the DIP Facility, provided that such borrowings do not exceed \$28 million, unless permitted by further order of the Court, and further provided such borrowings not exceed \$15 million prior to April 7, 2015, the date of the comeback hearing (the “**Comeback Hearing**”);
 - f) approved the Key Employee Retention Plan (“**KERP**”); and
 - g) approved the Administration Charge, the KERP Charge, the Directors’ Charge, the DIP Lender’s Charge in the amounts and priority as set out in the Pre-Filing Report;

1.4 As contemplated in the Initial Order, the Applicant attended the Comeback Hearing on April 7, 2015. The Comeback Hearing was unopposed.

1.5 Since the granting of the Initial Order, the Monitor has worked closely with Comark to stabilize its business and operations, including assisting the Company in its efforts to address supply chain and other logistical issues critical to the Company’s operations. Stabilization efforts have included extensive communications with various stakeholders

(including employees, landlords, creditors, suppliers and other interested parties) and responding to numerous employee, creditor and other stakeholder enquiries and requests received by the Monitor. The Monitor has worked with Comark to ensure that enquiries are addressed in as timely a manner as possible. As described further below, the Monitor has also assisted with other activities, including matters related to Comark's ongoing operational restructuring, the SISP and the continuity of supply and services from vendors. The Monitor will continue to communicate with stakeholders and assist with and facilitate the stabilization of the business, in the interests of all stakeholders.

1.6 The purpose of this report (the "**Second Report**") is to provide the Court with:

(1) information regarding the following:

- a) the Applicant's operational restructuring, including matters related to:
 - i. store closures and lease disclaimers;
 - ii. employees; and
 - iii. inventory management;
- b) supplier matters;
- c) the SISP;
- d) actual receipts and disbursements of Comark for the two-week period ended April 11, 2015, as compared to the Cash Flow Forecast previously filed as part of the Pre-Filing Report;
- e) the DIP Facility;
- f) other matters;
- g) the activities of the Monitor since the granting of the Initial Order;

- h) the Applicant's motion returnable April 21, 2015 (the "**Extension Motion**") seeking an extension of the Stay Period until June 12, 2015, certain amendments to the Initial Order, and approval of the First Report, this Second Report, and the activities of the Monitor detailed therein; and
- (2) the Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE

- 2.1 In preparing this Second Report, the Monitor has been provided with and has relied upon, unaudited financial information, books, records and financial information prepared by certain senior management of Comark ("**Senior Management**"), and discussions with Senior Management (collectively, the "**Information**"). Except as otherwise described in this Second Report, in respect of Comark's cash flow forecast:
 - a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has neither audited nor 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* and accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
 - b) some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

- 2.2 Future oriented financial information referred to in this Second Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections. Even if the assumptions materialize, the variations could be significant.
- 2.3 This Second Report should be read in conjunction with the Affidavit of Neville Lewis sworn April 15, 2015 (the "**Lewis Affidavit**").
- 2.4 Capitalized terms not otherwise defined in this Second Report are as defined in the Pre-Filing Report, the First Report, the Initial Order and the Lewis Affidavit, as applicable.
- 2.5 Unless otherwise stated, all monetary amounts contained in this Second Report are expressed in Canadian dollars.

3.0 OPERATIONAL RESTRUCTURING UPDATE

Store Closures and Lease Disclaimers

- 3.1 In the Pre-Filing Report, the Monitor advised that, as part of its planned restructuring under these CCAA Proceedings, Comark anticipated that it would disclaim certain leases in respect of stores that were performing poorly or had negative cash flow.
- 3.2 In consultation with the Monitor, Comark conducted a review of its store locations/leases and identified 56 leases to be disclaimed, representing 60 planned store closures. Comark, with the consent of the Monitor, delivered disclaimer notices to the landlords in respect of these leases.
- 3.3 Subsequent to disclaiming these leases, Comark was contacted by a number of landlords regarding possible amendments to certain leases that it had disclaimed. Comark has

subsequently engaged in negotiations with landlords in respect of amendments to the leases for approximately 16 leases (18 stores) on terms that will provide a long-term future benefit to Comark. For leases that are amended, Comark will withdraw the relevant lease disclaimer by sending a notice of withdrawal to that landlord.

Employees

- 3.4 In connection with the planned store closures, Comark delivered notices of termination to 354 employees of those store locations. On March 31, 2015 and April 1, 2015, Comark also delivered notices of termination to 42 non-store employees located at the corporate head office, the headquarters of the three Banners and the Distribution Centre.
- 3.5 Comark will continue to operate those stores for which lease disclaimers are ultimately withdrawn in the ordinary course and, accordingly, certain employees at those store locations will be offered re-employment with the Company.

Inventory Assistance

- 3.6 Pursuant to the terms of the DIP Facility, on March 18, 2015, the Company engaged a third party inventory services firm, 360 Merchant Solutions, LLC (“360”), to assist with inventory management at store locations that are being closed and provide other advice and assistance as requested by the Company.
- 3.7 The Company has been working closely with 360 and the Monitor in order to maximize value from inventory at the closing stores.

4.0 SUPPLIER MATTERS

- 4.1 The Applicant, in consultation with the Monitor, has been in contact with a large number of suppliers to ensure the continued supply of goods and services to Comark.

- 4.2 On March 26 and 27, 2015, Comark sent letters to its key suppliers to advise them of the CCAA Proceedings, Comark's continuing going concern operations during the restructuring period and the Company's intention to pay its suppliers in the ordinary course for all authorized post-filing shipments of goods and services. Senior Management also initiated calls with the Company's most significant suppliers to help ensure continuity of supply. The Monitor participated in the majority of these calls.
- 4.3 Since the date of the Initial Order, Comark has also engaged in a number of in-person meetings with certain suppliers, including meetings for which certain Senior Management travelled abroad, or representatives of foreign suppliers travelled to Canada so as to meet with Senior Management and the Monitor.
- 4.4 Comark sources its private label products primarily from factories located in Asia and works with an agent (the "Agent") to manage a number of those Asian based suppliers. On April 1 and 2, 2015, the Agent attended the Company's premises to meet with Senior Management and the Monitor to discuss proposed go-forward supply and payment terms and to better understand the CCAA Proceedings. The Agent also arranged for Senior Management to attend meetings in Hong Kong on April 12 and 13, 2015 with 17 of Comark's key suppliers in order to assist the Company in making arrangements for the continued supply of goods, agree on payment terms and provide those suppliers with a better understanding of the CCAA Proceedings. The Monitor participated telephonically in the meetings that were held abroad.
- 4.5 In general, Comark's suppliers have continued to accept orders and supply goods to the Company. With the assistance of the Monitor, the Company is in the process of making

arrangements with certain suppliers that have not yet agreed to provide the Company with ongoing supply of good and services, so that they will do so as well.

- 4.6 As provided in the Initial Order, and with the consent of the Monitor, Comark has continued to pay its logistics and supply chain providers, including customs brokers, its freight forwarder, and transportation providers, amounts owing for goods supplied to the Company prior to and during the CCAA Proceedings.

5.0 SISP UPDATE

- 5.1 In accordance with the requirements of the Initial Order and the SISP, the following activities were undertaken by the Company, the Financial Advisor and/or the Monitor in relation to the SISP:

- a) notices regarding the SISP were published in The Wall Street Journal (National Edition) and The Globe and Mail (National Edition) on April 2, 2015;
- b) a press release setting out the above notices and other information regarding the SISP was issued through Canada Newswire on April 2, 2015;
- c) a form of non-disclosure agreement (“**NDA**”) was prepared;
- d) an electronic data room (the “**Electronic Data Room**”) was established to provide information for prospective bidders who executed an NDA as part of their Phase I due diligence; and
- e) a confidential information memorandum (the “**CIM**”) describing the opportunity to acquire all or a part of the property of the Applicant, or invest in the Business has been prepared and will be provided to prospective bidders who have executed NDAs to date imminently.

- 5.2 Prior to the commencement of these proceedings, the Financial Advisor prepared a list of prospective parties (the “**Initial Participant List**”) that it intended to contact and invite to participate in the SISP. Commencing on March 27, 2015, the Financial Advisor, with the assistance of and under the supervision of the Monitor, began contacting parties to solicit their interest in participating in the SISP.
- 5.3 The Company, Salus and the Monitor each provided proposed additional parties to be added to the Initial Participant List. Other parties also became aware of the SISP and expressed an interest in participating. The entities that comprised the Initial Participant List, together with these other potentially interested parties, were ultimately provided with a teaser letter and form of NDA (if they wished to receive these documents) to ascertain their interest in participating in the SISP (collectively referred to as the “**SISP Participant List**” and each entity a “**SISP Participant**”).
- 5.4 To date, several parties have executed NDAs with the Company and have been provided access to the Electronic Data Room. A copy of the CIM will be provided to these parties imminently. In addition to the parties that have already executed an NDA, several parties are currently in the process of negotiating and settling NDAs with the Company. The Financial Advisor is also continuing to contact and follow up with those parties who were included on the SISP Participant List but have not yet provided an indication as to whether or not they have an interest in the Company.
- 5.5 The Monitor and its legal counsel are working closely with the Company and its legal counsel in connection with the negotiation of NDAs by SISP Participants. The Monitor has also been closely involved with the Financial Advisor in reviewing the contents of the information being included in the Electronic Data Room.

- 5.6 Pursuant to the requirements of the SISP, SISP Participants are required to submit non-binding letters of intent to the Financial Advisor by the Phase 1 Bid Deadline of 5:00 p.m. ET on May 5, 2015.
- 5.7 To assist SISP Participants in evaluating the Company's working capital and cash flow requirements, the Company is in the process of engaging KPMG LLP, to prepare a working capital analysis (the "**Working Capital Analysis**"). The Monitor understands that the Financial Advisor intends to have the Working Capital Analysis added to the Electronic Data Room and provided to SISP Participants in advance of the Phase 1 Bid Deadline.
- 5.8 At this time, the Monitor is satisfied that the SISP has been managed in accordance with its terms and that parties are being provided a reasonable opportunity to participate in the process. The Monitor will continue to supervise the SISP in accordance with its terms and the Initial Order and will provide this Court with a further update in its next report to the Court.

6.0 CASH FLOW RESULTS RELATIVE TO FORECAST

Cash receipts and disbursements for the two-week period ended April 11, 2015 (the “Reporting Period”) as compared to the Cash Flow Forecast are summarized in the table below:

Comark Inc. Schedule of Actual Receipts and Disbursements Compared to the Cash Flow Forecast (note 1) For the Two-Week Period Ended April 11, 2015 (\$000's CAD)			
	Actual	Forecast	Variance
Cash Receipts			
Customer collections	13,614	10,019	3,595
Total Cash Receipts	13,614	10,019	3,595
Cash Disbursements			
Inventory purchases	3,448	6,257	2,810
Occupancy, vehicle, taxes, selling and general	4,083	4,910	828
Payroll and benefits	2,763	2,551	(211)
Capital expenditures	4	40	36
Professional fees	559	303	(256)
Total Cash Disbursements	10,856	14,062	3,206
Net Cash Flow, Before Debt Service	2,758	(4,044)	6,801
Beginning Cash Balance	1,716	-	1,716
Net operating cash flow	2,758	(4,044)	6,801
Net drawdown/(repayment)	(1,014)	4,044	(5,057)
Ending Cash Balance	3,460	-	3,460
Interest and fees (note 2)	572	668	96
Pre-filing revolving credit facility (balance as at April 11)	6,919	9,883	2,964
DIP Facility (balance as at April 11, 2015)	12,974	14,730	1,756
Total Financing	19,893	24,613	4,720
Note 1 Readers are cautioned to read the Terms of Reference as set out previously in this Second Report for information regarding the preparation of the Cash Flow Forecast.			
Note 2 Advances for interest and financing fees are non-cash. Interest and financing fees are paid in kind and applied to the balance of the DIP revolver.			
Note 3 For continuity of financing including the pre-filing revolving credit facility and DIP Facility, please refer to Appendix A of the Pre-Filing Report.			

6.1 During the Reporting Period, Comark’s total actual cash receipts were approximately \$3.6 million greater than projected in the Cash Flow Forecast. Management attributes

this variance primarily to greater than anticipated sales in the retail stores following the announcement of the CCAA Proceedings.

- 6.2 Comark's total actual disbursements during the Reporting Period were approximately \$3.2 million less than projected in the Cash Flow Forecast. Management attributes this variance primarily to timing differences as disbursement items such as inventory purchases and related costs and selling and general costs were delayed during the Reporting Period as the Company worked with vendors on the establishment of post-filing payment terms. It is anticipated that the majority of this variance will reverse in the coming weeks as delayed disbursements are paid.
- 6.3 Overall, during the Reporting Period, Comark experienced a positive net cash flow variance of approximately \$6.8 million relative to the Cash Flow Forecast. As noted above, it is anticipated that this variance will decline in the coming weeks as store sales trend closer to forecast and delayed disbursements are caught up.
- 6.4 As at April 11, 2015, Comark had an ending cash balance of approximately \$3.5 million, an ending pre-filing revolving credit facility balance of approximately \$6.9 million, and a DIP Facility balance of approximately \$13.0 million. Positive variances associated with these balances are due to the net positive variance in receipts and disbursements described above and a slightly higher opening cash position than projected.
- 6.5 The Initial Order entitled Comark to continue to utilize its existing Cash Management System provided by the Toronto-Dominion Bank, as described in the Pre-Filing Report. The Cash Management System of the Company continues to operate in the same manner as described in the Bachynski Affidavit.

7.0 DEBTOR-IN-POSSESSION FINANCING

- 7.1 The Initial Order authorized the Applicant to borrow under a credit facility from Salus (the “**DIP Lender**”) to finance working capital, allow it to make payments as permitted under the Initial Order and the Amended and Restated Credit Agreement between the Applicant and the DIP Lender dated as of March 26, 2015 (the “**DIP Agreement**”) and for general corporate purposes. The Initial Order provided that borrowings under the DIP Facility shall not exceed the principal amount of \$28 million unless permitted by further order of the Court, and further provided that borrowings under the DIP Facility shall not exceed \$15 million prior to April 7, 2015, the date of the Comeback Hearing. The Comeback Hearing was unopposed. In accordance with the Initial Order and subject to the terms of the DIP Facility, the Applicant has access to borrowings under the DIP Facility up to a maximum principal amount of \$28 million.

8.0 OTHER MATTERS

Percentage Rent Leases and Amendments to the Initial Order

- 8.1 As 32 of Comark’s leases provide for the payment of rent based on a percentage of the previous month’s sales (the “**Percentage-Rent Leases**”), rent for those leases must be paid in arrears. For the month of March 2015, total rent attributable to Percentage-Rent Leases was approximately \$177,000, out of a total rent liability of approximately \$5.7 million.
- 8.2 The Initial Order provides that Comark must pay Rent (as defined in the Initial Order) for the period following and including March 26, 2015 in advance, but not in arrears. In order to continue to pay rent for the Percentage-Rent Leases in the ordinary course, the Applicant is seeking approval of an Amended and Restated Initial Order which, among

other things, will allow the Applicant to continue to pay rent in respect of Percentage-Rent Leases in arrears.

- 8.3 The Applicant intends to pay rent for the Percentage-Rent Leases on the date on which rent is payable in the ordinary course. The total amount of these payments for the month of March, 2015 will be \$177,000. The Monitor agrees with the proposed treatment.
- 8.4 In addition to the above, the Monitor understands that Comark's legal counsel was approached by counsel to certain landlords to discuss certain concerns regarding the Initial Order and the CCAA Proceedings. As a result of these discussions, Comark, in consultation with the Monitor has agreed to certain amendments to the Initial Order for the benefit of landlords, subject to the approval of the Court. The Monitor understands that these amendments confirm but do not change the intended treatment of landlords and real property leases under the Initial Order and the SISP. As such, the Monitor considers the amendments to have no perceptible impact on the other stakeholders.

KERP

- 8.5 As contemplated in the Pre-Filing Report and authorized by the Court in the Initial Order, the Company offered 35 key management employees (the "**Key Employees**") the ability to participate in a key employee retention plan (the "**KERP**"). The KERP was established to ensure that Key Employees remain in their current employment during these CCAA Proceedings. All 35 Key Employees executed KERP letters that were delivered to them by the Company.

Creditor Notifications

- 8.6 Pursuant to the Initial Order, the Monitor was required to: (i) without delay, publish in The Globe and Mail (National Edition) and La Presse a notice containing the information prescribed under the CCAA; and (ii) within five days after the date of the Initial Order, (A) make the Initial Order publicly available in the manner prescribed under the CCAA, (B) send or cause to be sent, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than \$1,000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with section 23(1)(a) of the CCAA and the regulations made thereunder, provided that the Monitor shall not make the claims, names and addresses of individuals who are creditors publicly available.
- 8.7 A notice containing the information prescribed under the CCAA was published in each of The Global and Mail (National Edition) and La Presse on April 1, 2015.
- 8.8 On the day the Initial Order was made, the Monitor activated its website for these proceedings, www.alvarezandmarsal.com/comark and a copy of the entered Initial Order was posted to the website shortly after it was entered on March 27, 2015. On March 31, 2015, a notice was mailed by the Monitor to every known creditor who may have a claim of more than \$1,000 against Comark. Also on March 31, 2015, the Monitor prepared and posted to its website a list showing the names and addresses of every known creditor who may have a claim of more than \$1,000 against, excluding the claims, names and addresses of individuals who may be creditors.
- 8.9 The Monitor has established a toll free number (1-866-688-0510) where stakeholders may contact the Monitor in order to address questions or concerns.

9.0 EXTENSION OF THE STAY PERIOD

9.1 Pursuant to the Initial Order, the Stay Period is to expire on April 24, 2015. The Applicants are seeking an extension of the Stay Period to June 12, 2015.

9.2 The Monitor supports the Applicants' motion to extend the Stay Period to June 12, 2015 for the following reasons:

- a) the stay is required to provide the necessary stability and certainty to enable Comark to implement its operational restructuring and continue the SISP;
- b) the DIP Facility remains available to the Applicants and is projected to provide the Applicant with sufficient liquidity to continue operations during the proposed extension of the Stay Period; and
- c) the Applicant continues to act in good faith and with due diligence in these CCAA Proceedings since the granting of the Initial Order.

10.0 MONITOR'S ACTIVITIES TO DATE

10.1 In addition to the Monitor's ongoing supervision and involvement with the overall stabilization of Comark's business, operational restructuring, the SISP, and monitoring of the Applicant's cash flow, the activities of the Monitor from the date of the Initial Order include the following:

- a) preparing the First Report;
- b) assisting the Applicant with communications with employees, suppliers, landlords, and other parties;
- c) assisting the Applicant in stabilizing its supply chain, including extensive communications with suppliers, the freight forwarder, Purolator, Canada Post and

- other logistics companies, with a view to minimizing supply disruption and continuing the movement of goods-in-transit to the distribution centres and stores;
- d) meetings and discussions with landlords, the Applicant, and counsel in respect of the CCAA Proceedings and the Applicant's planned store closures;
 - e) responding to a high volume of enquiries from stakeholders, including addressing questions or concerns of parties who contacted the Monitor on the toll-free number or general email account established by the Monitor;
 - f) assisting the Applicant in implementing an appropriate accounting cut-off to ensure proper determination of pre and post-filing obligations and liabilities;
 - g) monitoring the receipts, disbursements, purchase commitments, and arrangements in respect of payment terms and for deposits with certain suppliers and creditors of the Applicant, including tracking outstanding balances and commitments;
 - h) assisting the Applicant in assessing certain components of the operational restructuring, including the disclaimer of certain contracts and agreements, employee reductions and other matters;
 - i) posting non-confidential materials filed with the Court to the website established by the Monitor for the CCAA Proceedings;
 - j) attending to the notice requirements as described above, completing the statutory filings pursuant to Section 23 of the CCAA and filing those forms with the Office of the Superintendent of Bankruptcy (Canada);
 - k) assisting the Applicant in its reporting to the DIP Lender as required under the DIP Facility;

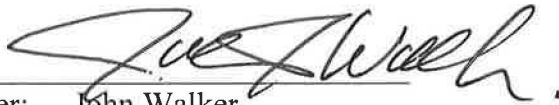
- l) reviewing the Company's weekly DIP Facility draw requests;
- m) working with the Applicant, the Applicant's legal counsel and the Monitor's legal counsel in connection with the Extension Motion; and
- n) preparing this Second Report on consultation with the Monitor's legal counsel.

11.0 MONITOR'S RECOMMENDATIONS

11.1 For the reasons set out in this Second Report, the Monitor is of the view that the relief requested by the Applicant in the Extension Motion is reasonable and respectfully recommends that this Court grant the relief sought by the Applicant.

All of which is respectfully submitted to this Court this 16th day of April, 2015.

**Alvarez & Marsal Canada Inc., in its capacity
as Proposed Monitor of Comark Inc.**


Per: John Walker
Senior Vice President

Appendix “A”

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS
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ALVAREZ & MARSAL CANADA INC.
MARCH 26, 2015**

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1.0 INTRODUCTION

- 1.1 On March 26, 2015, Comark Inc. (the “**Applicant**”), applied for and was granted protection by the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Monitor**”) was appointed Monitor of the Applicant in the CCAA proceedings. The proceedings commenced by the Applicant under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 In connection with the Applicants’ application for protection under the CCAA, A&M provided to this Court a pre-filing report (the “**Pre-Filing Report**”) dated March 25, 2015 in its capacity as proposed monitor.
- 1.3 The purpose of this first report (the “**First Report**”) is to provide supplemental information requested by the Court in connection with the Applicant’s cash management system, the terms of the Salus Credit Agreement and the proposed DIP Facility.

2.0 TERMS OF REFERENCE AND DISCLAIMER

- 2.1 In preparing the First Report, the Monitor has been provided with and has relied upon, unaudited financial information; books, records and financial information prepared by certain senior management of the Applicant (“**Senior Management**”); and discussions with Senior Management (collectively, the “**Information**”). Except as otherwise described in this First Report, in respect of the Applicant’s cash flow forecast:
- a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

b) some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

2.2 Future oriented financial information referred to in this First Report was prepared based on Senior Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 This First Report should be read in conjunction with the Affidavit of Gerald Bachynski, Chief Executive Officer of the Applicant, sworn March 26, 2015 (the “**Second Bachynski Affidavit**”) and the Pre-Filing Report.

2.4 Capitalized terms not otherwise defined in this First Report are as defined in the Pre-Filing Report and the Second Bachynski Affidavit, as applicable.

2.5 Unless otherwise stated, all monetary amounts contained in this First Report are expressed in Canadian dollars.

3.0 **THE PRE-EXISTING REVOLVING CREDIT FACILITY**

3.1 As is described in further detail in the Pre-Filing Report, the Applicant is financed by Salus pursuant to a Credit Agreement dated October 31, 2014 (the “**Salus Credit**

Agreement”). The Salus Credit Agreement includes both a term loan facility (the “**Term Loan Facility**”) and an asset based revolving credit facility (the “**Revolving Credit Facility**”). By their nature, small to mid-market retail operators, of which the Applicant is one, are typically financed by way of asset based lending (“**ABL**”) facilities, given the requirement to finance inventory purchases that would exceed the financing available under conventional cash flow lending.

- 3.2 The Salus Credit Agreement was the product of an extensive marketing process to obtain replacement financing conducted by Houlihan Lokey, Inc. (“**Houlihan**”) throughout the summer and fall of 2014. As described in the Second Bachynski Affidavit, discussions were held by the Applicant with nine prospective lenders regarding a refinancing of its existing credit facility. The outcome of that process was that Salus was the only financier willing to provide the Applicant with the necessary funding on commercially reasonable terms.
- 3.3 At the time the Salus Credit Agreement was entered into, the Applicant was operating in a challenging retail environment. The Applicant’s business had been struggling financially for over a year, principally as a result of deteriorating operating performance at its Ricki’s division and the impact of the declining Canadian dollar.
- 3.4 The terms of the Salus Credit Agreement and the Blocked Depository Account Agreement (the “**Blocked Account Agreement**”), which were entered into at the same time, provide for a blocked account mechanism whereby, upon the failure to comply with certain financial covenants or an event of default under the Salus Credit Agreement, all of the cash, credit and debit receipts of the Applicant would be directed into an account

under the control of Salus rather than the Applicant (the “**Blocked Account Mechanism**”).

- 3.5 It is the Monitor’s view that the terms and structure of the Revolving Credit Facility, in particular the Blocked Account Mechanism, have become standard in ABL facilities. Both the terms and structure are consistent with numerous other ABL facilities (in both healthy and distressed environments) made in Canada, by both Canadian and U.S. lenders.
- 3.6 Pursuant to the terms of the Salus Credit Agreement and the Blocked Account Agreement, following an Event of Default by the Applicant, the Blocked Account Mechanism was activated on March 9, 2015.

4.0 THE PROPOSED DIP FACILITY

- 4.1 As is more fully described at paragraphs 9.1 to 9.18 of the Pre-Filing Report, the Applicants are seeking approval of an ABL DIP Facility agreed to by Salus, which, among other things, continues the Blocked Account Mechanism.
- 4.2 The Monitor has reviewed the terms, pricing and structure of the DIP Facility and is satisfied, based on its knowledge and review of similar transactions and distressed financing arrangements, that the terms, pricing and structure of the DIP Facility (including, specifically, the Blocked Account Mechanism) and the corresponding requirement for a DIP Lender’s Charge, are commercially reasonable and representative of the market. The Monitor is further satisfied that there is no commercially reasonable alternative financing available to the Applicant in these circumstances.

4.3 As described in the Applicant's cash flow forecast for the 13-week period ending June 27, 2015, attached as Appendix A to the Pre-Filing Report (the "**Cash Flow Forecast**"), the forecast borrowing requirements under the DIP Facility do not exceed \$28 million. Further, for the two week period ending April 11, 2015 the forecast borrowing requirements under the DIP Facility do not exceed \$15 million.

5.0 MONITOR'S RECOMMENDATIONS

5.1 For the reasons set out in this First Report and in the Pre-Filing Report, the Monitor recommends: (i) that this Court approve the DIP Facility and the DIP Lender's Charge of up to a maximum of \$28 million in accordance with the Applicant's Cash Flow Forecast, provided that the DIP Lender's Charge not exceed \$15 million prior to a comeback hearing on April 7, 2015; and (ii) that this Court grant the relief described in the Applicant's revised draft order to be presented to the Court later today.

All of which is respectfully submitted to this Court this 26th day of March, 2015.

**Alvarez & Marsal Canada Inc., in its capacity
as Monitor of Comark Inc.**


Per: John Walker
Senior Vice President

ONTARIO
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FIRST REPORT OF THE MONITOR

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**SECOND REPORT OF THE MONITOR
(Dated April 16, 2015)**

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