Court File No. CV15-10920-00CL

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")

THIRD REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.
MAY 27, 2015

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

1.3 On April 21, 2015, this Court issued the "Amended and Restated Initial Order" (hereinafter, unless the context otherwise requires, the "**Initial Order**"), which incorporates certain changes to the Initial Order granted March 26, 2015 that are described in the Second Report of the Monitor (the "**Second Report**") dated April 16, 2015.

1.4 In connection with the CCAA Proceedings, A&M, in its capacities as Proposed Monitor and as Monitor, has previously provided this Court with three separate reports including the Pre-Filing Report (the "**Prior Reports**"). The Prior Reports, the Initial Order, and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor's website at: www.alvarezandmarsal.com/comark.

1.5 On April 21, 2015, this Court issued an order (the "**Stay Extension Order**") approving: (i) the extension of the Stay Period (as defined in paragraph 14 of the Initial Order) to June 12, 2015; and (ii) the Monitor's First Report dated March 26, 2015, the Second Report, and the activities of the Monitor described in those reports.

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

1) updated information regarding:

   a) the Applicant's operational restructuring, including matters related to store closures, lease disclaimers and subsequent cancellations of lease disclaimers, employees, and supplier related matters;

   b) the SISP;

2) information regarding:

   a) a proposed inventory guarantee credit facility (the "**Inventory Purchase Guarantee Facility**") between Comark and Bridging Finance Inc. ("**Bridging**") to guarantee the payment of certain inventory purchase orders made, or to be made, by Comark in preparation for the upcoming fall and/or holiday seasons;

   b) the Company's receipts and disbursements for the seven-week period ended May 16, 2015, as compared to the Cash Flow Forecast previously filed as part of the Pre-Filing Report;

   c) the updated, extended Cash Flow Forecast for the 15-week period May 17 to August 29, 2015 (the "**Updated Cash Flow Forecast"**);

   d) the activities of the Monitor since the date of the Second Report; and

   e) the Applicant's motion returnable June 1, 2015 (the "**Bridging Motion**") seeking an order, among other things:

      i. approving the Inventory Purchase Guarantee Facility;

ii. granting a first priority charge in favour of Bridging over the Funded Inventory (as defined in the Inventory Purchase Guarantee Facility) acquired by Comark to the extent that amounts owing by Comark with respect thereto have been guaranteed and/or paid by Bridging (the "**Bridging Inventory Charge**");

iii. amending paragraphs 49 and 50 of the Initial Order to reflect the first priority Bridging Inventory Charge;

iv. ordering that confidential Exhibit "B" to the affidavit of Neville Lewis sworn May 26, 2015 (the "**Lewis Affidavit**") be sealed from the public record and kept confidential;

v. extending the Stay Period, as defined in paragraph 14 of the Initial Order, until and including August 28, 2015; and

vi. approving this Third Report, and the activities of the Monitor detailed herein; and

3) the Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE

2.1 In preparing this Third 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 Third Report, in respect of the Cash Flow Forecast and the Updated 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 Third 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 Capitalized terms not otherwise defined in this Third Report are as defined in the Prior Reports, the Initial Order, and the Lewis Affidavit, as applicable.

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

3.0 OPERATIONAL RESTRUCTURING UPDATE

Store Closures, Lease Disclaimers and Subsequent Withdrawal of Lease Disclaimers

3.1 As described in the Second Report the Company issued disclaimer notices to landlords. In total, 55 landlords (representing 60 stores) received disclaimer notices. These stores, in consultation with the Monitor, were identified by the Company to be disclaimed due to poor performance or negative cash flow. Subsequent to the disclaimer notices being issued, certain landlords contacted the Company regarding possible amendments to the leases for which the disclaimer notices were delivered.

3.2 As a result of negotiations with the respective landlords, amendments on terms favourable to the Company were made in respect of 16 leases (representing 18 stores) (the "**Amended Leases**"). The Company withdrew the lease disclaimer notices for the Amended Leases by sending a notice of withdrawal to the respective landlords.

3.3 The amendments made to the Amended Leases resulted in approximately $2.5 million in annual savings to the Company.

Employees

3.4 In connection with the planned store closures, the Company delivered notices of termination to 354 employees at store locations. Of these employees, 138 were employees of the 18 stores that are the subject of the Amended Leases and who were, as a result, offered continued employment with the Company under the same terms and conditions as they previously enjoyed. Of those 138 employees, 117 accepted the Company's offer to rescind the notices of termination and to continue employment with the Company. The employment of the remaining 21 employees who did not accept the Company's offer of continued employment ended as described in the applicable notices of termination. The

Company has since hired 15 new employees in respect of the stores that were associated with the Amended Leases.

Inventory Assistance

3.5 As described in the Second Report, on March 18, 2015, the Company engaged 360 Merchant Services ("**360**") to assist it with inventory management at those stores identified for closure. The mandate of 360 was to assist the Company in maximizing value from inventory at the closing stores as well as provide other advice and assistance requested by the Company. As 360 has now completed its work, there has been a mutually agreed upon termination of the Company's engagement with 360.

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 the Company.

4.2 As described in the Second Report, the Company sources its private label products primarily from factories located in Asia and the continued supply of goods from these suppliers is a crucial aspect of the Company's ongoing operations.

4.3 The majority of the Company's suppliers have continued to accept orders and supply goods to the Company on modified terms that are consistent with the Updated Cash Flow Forecast and with the provisions of the DIP Facility.

5.0 THE INVENTORY PURCHASE GUARANTEE FACILITY

5.1 Many of the Company's suppliers, primarily those located in foreign jurisdictions, require significant lead times to process, procure materials and produce the goods ordered by the Company. These lead times are often as long as six months. Given the significant delivery lead times, orders for the holiday season need to be placed with vendors imminently.

5.2 Given the lead time to produce those goods, the timeline of the SISP and the uncertainty associated with CCAA proceedings, in response to the Company's placement of new/recent orders, certain foreign suppliers have expressed concerns about manufacturing products for the Company without a significant deposit or full pre-payment.

5.3 While the DIP Facility provides sufficient liquidity for the funding of all purchases during the CCAA forecast period, the Applicant and the Monitor are of the view that it may not be prudent in certain circumstances to provide up-front deposits and/or prepayments to foreign vendors who are owed amounts in respect of pre-filing payables. Furthermore, given the uncertainty associated with the extent to which deposits and/or pre-payments may be required, it is possible that the Applicant would not have sufficient liquidity to satisfy all such requests and be able to meet all of its other expenses. In addition, the process of negotiating and placing deposits with foreign vendors is an inefficient use of the Applicant's limited cash resources and managements' time.

5.4 The holiday season is a crucial sales period for the Applicant. Thus, in order to provide certain suppliers with additional comfort and to secure the supply of goods required for the holiday season, the Monitor assisted the Applicant to consider innovative solutions to address this challenge.

5.5 The Monitor assisted the Applicant to commence discussions, first with Salus, and subsequently, with the support and consent of Salus, with a number of additional financial institutions (including lenders, factoring companies, and other alternative credit providers), to pursue and develop a unique credit solution that would provide certain vendors with additional comfort, where necessary, to accept orders without significant cash pre-payments.

5.6 The Monitor assisted the Applicant to canvass various financial institutions that the Applicant and the Monitor considered to be capable of providing a solution that would not require significant cash collateral, would not interfere with the DIP Facility, and would serve, where necessary, as a form of insurance policy to suppliers. The Monitor, with the assistance of the Applicant, held discussions with six such financial institutions in total.

5.7 As a result of this process, the Applicant entered into the Inventory Purchase Guarantee Facility to provide for the issuance of payment guarantees by Bridging to backstop certain of the Applicant's inventory orders, subject to the approval of this Court. The Applicant preferred this arrangement to the other options canvassed for reasons that include its flexibility, the pricing structure and the creditworthiness of Bridging's ultimate parent company, Sprott Inc. Bridging is the Sub-Advisor to Sprott Bridging Income Fund LP, which is managed by Sprott Asset Management LP, which is a business unit operated and funded by Sprott Inc. and/or Sprott Inc. related entities. Sprott Inc. and its related entities have approximately $7 billion of assets under management.

5.8 A redacted copy of the Inventory Purchase Guarantee Facility is attached as Exhibit A to the Lewis Affidavit. The Applicant is seeking a sealing order in respect of the aggregate maximum amount of the facility as it is commercially sensitive information, the disclosure of which would be harmful to the Applicant. An unredacted copy of the Inventory Purchase Guarantee Facility is provided as confidential Exhibit B to the Lewis Affidavit.

5.9 Key provisions of the Inventory Purchase Guarantee Facility are provided below.

Comark Inc. Summary of Inventory Purchase Guarantee Facility Terms	
Purpose	• to provide guarantees of payment ("**Guarantees**") to certain of the Company's suppliers for new purchase orders in respect of inventory; and • if required, to make disbursements to suppliers on account of Guarantees, as set out in the Confirmation of Guarantee Agreement.
Significant Terms	• purchase orders covered by the Inventory Purchase Guarantee Facility must be approved by Bridging; • the Company is required to separately track all inventory subject to a Guarantee; • the Company shall use best efforts to negotiate and consummate a sale or investment transaction that results in or is conditional upon (i) all amounts owing to Bridging under the Inventory Purchase Guarantee Facility being fully repaid; or (ii) an assumption of all obligations of the Company and or an extension, renewal or refinancing of the Inventory Purchase Guarantee Facility on terms acceptable to Bridging; and • standard reporting is required, consistent with the DIP Facility.
Fees and Interest	Interest is calculated on total availability as follows: i. amounts subject to a Guarantee, but not advanced to a supplier: 7.50% per annum, calculated and payable on the last day of each month; ii. amounts on account of disbursements made by Bridging on behalf of the Company to suppliers: prime rate plus 11% per annum, calculated and payable on the last day of each month (including a facility fee of 1% per annum); and iii. upon the occurrence of an Event of Default (as defined in the Inventory Purchase Guarantee Facility) that is continuing, the interest rates described above shall be increased by 500 basis points. Other fees or amounts payable include: i. unused availability: 3.5% per annum, calculated and payable on the last day of each month; ii. a monthly monitoring fee of $8,000, payable on the first day of each month; and iii. on repayment of the Inventory Purchase Guarantee Facility during the Closed Period (defined below), unless on account of a demand by Bridging, an additional amount equal to the sum of: (i) 3.5% per annum of the aggregate facility amount calculated with reference to the unexpired portion of the Closed Period; and (ii) $8,000 per month (prorated for any partial month) for the balance of the Closed Period.
Security	• Bridging will have a first priority court ordered charge solely over the inventory guaranteed or funded by Bridging and acquired by Comark to the extent that amounts have been advanced or guaranteed by Bridging in respect to such inventory.
Maturity	• terminates on the earliest of the occurrence of (i) demand, (ii) December 31, 2015, (iii) the Company ceasing to be subject to this CCAA Proceeding, (iv) the implementation of a plan of compromise or arrangement within the CCAA Proceeding; (v) conversion of the CCAA Proceeding into a proceeding under the *Bankruptcy and Insolvency Act*; (vi) the completion of the sale of all or substantially all of the assets of the Company.

5.10 Under the Inventory Purchase Guarantee Facility, Bridging will provide guarantees of payment for specific purchase orders issued by the Company to certain of the Company's inventory suppliers. The inventory purchase orders guaranteed by Bridging must be approved by Bridging ("**Approved Purchases**"). The Bridging Motion seeks approval of the Bridging Inventory Charge, a Court ordered first-priority charge in favour of Bridging solely over the inventory guaranteed or funded by Bridging and acquired by Comark to the extent that amounts have been advanced or guaranteed by Bridging in respect to such inventory. The Bridging Inventory Charge shall be in priority to the Administration Charge (as defined in the Initial Order). The Bridging Motion seeks to amend the Initial Order to reflect the first priority Bridging Inventory Charge. The term for the demand facility has an outside date of December 31, 2015.

5.11 The Inventory Purchase Guarantee Facility provides that the Company must make a request to Bridging to issue a Confirmation of Guarantee Agreement (as defined in the Inventory Purchase Guarantee Facility) in favour of a supplier in respect of a purchase order.

5.12 The Inventory Purchase Guarantee Facility can be repaid in full and terminated without premium at any time after the passage of the period (the "**Closed Period**") beginning on the date of execution of the Inventory Purchase Guarantee Facility and ending on the earlier of (i) the date on which Bridging has exercised its discretion under the Inventory Purchase Guarantee Facility on three consecutive occasions to refuse to issue a Confirmation of Guarantee Agreement to any of Comark's vendors or suppliers in good standing in respect of goods to be shipped to Comark prior to September 30, 2015 in circumstances where no material adverse change has occurred; and (ii) the date that is six months from the date of execution of the Inventory Purchase Guarantee Facility, upon 30 days prior notice in writing to Bridging.

5.13 If the Inventory Purchase Guarantee Facility is repaid during the Closed Period, unless on account of demand by Bridging, the Company is required to pay to Bridging an additional amount equal to the sum of: (i) 3.5% per annum of the aggregate facility amount calculated with reference to the unexpired portion of the Closed Period; and (ii) $8,000 per month (prorated for any partial month) for the balance of the Closed Period.

5.14 The Inventory Purchase Guarantee Facility is a unique facility. The Monitor is not familiar with any other similar type of facility being made available to a company in either a non-insolvency or insolvency situation. The Monitor has considered the various attributes, including the pricing, fees and availability of the Inventory Purchase Guarantee Facility and in its opinion the attributes of the Inventory Purchase Guarantee Facility and the Bridging Inventory Charge are reasonable in the circumstances. The Monitor has considered pricing for the Inventory Purchase Guarantee Facility, based on a matrix of data points – the reasonable pricing range associated with DIP financings, the costs associated with issuance of standby letters of credit, inventory and/or purchase order factoring type arrangements and certain types of insurance products. Furthermore, the Monitor notes that in the absence of providing substantial amounts of cash collateral, the Company was unable to develop an alternative solution that would provide it with the level of flexibility required to address concerns raised by the Company's suppliers.

5.15 The Company, the Monitor, and each of their respective legal counsel have been involved in the development of the Inventory Purchase Guarantee Facility. The Monitor believes that the Inventory Purchase Guarantee Facility is necessary for the Company to secure inventory for the holiday season and to avoid potential disruption to the business. Further, for the reasons described above, the Inventory Purchase Guarantee Facility avoids uncertainty in respect of the Company's cash outlays to suppliers and allows the Company to make more efficient use of its time and of cash on hand. The Monitor believes the Inventory Purchase Guarantee Facility is in the best interest of the Applicant and its stakeholders. The Monitor understands that Salus is also supportive of the approval of the Inventory Purchase Guarantee Facility by this Court, should it do so.

6.0 SISP UPDATE

6.1 The Monitor provided an overview of the SISP in the Pre-Filing Report and provided details in the Second Report in respect of its activities in connection with the SISP to the date of that report.

6.2 As discussed in the Second Report, during Phase 1 of the SISP, which commenced on the date of the Initial Order, a number of parties that were identified and contacted by the Financial Advisor in consultation with the Monitor and the Company, expressed an interest in participating in the SISP and accordingly, as required by the SISP, executed a non-disclosure agreement ("**NDA**") with the Company. Those parties who executed NDAs were provided access to an electronic data room (the "**Data Room**") that was established to provide information to prospective bidders as part of their Phase 1 due diligence. Those parties were also provided with a confidential information memorandum and a process letter that explained the process for submitting a non-binding letter of intent ("**LOI**") during Phase 1 of the SISP as well as explaining the Company's expectations of a qualifying LOI.

6.3 Qualified Bidders that wished to pursue a sale or investment proposal were required to submit an LOI to the Financial Advisor and the Monitor by 5:00 p.m. ET on May 5, 2015 (the "**Phase 1 Bid Deadline**").

6.4 A number of LOIs were submitted prior to the Phase 1 Bid Deadline. Those LOIs were subsequently evaluated in accordance with the SISP. As a result of that evaluation the Monitor, in consultation with the Financial Advisor and the Company, determined that multiple LOIs were qualified for inclusion in Phase 2 of the SISP. As a result, the Monitor, exercising its reasonable business judgment, in consultation with the Financial Advisor and the Company, recommended to the Company's Board of Directors (the "**Board**"), that qualifying LOIs proceed into Phase 2 of the SISP. The Board met on May **7**, 2015 and approved the Monitor's recommendation. Phase 2 of the SISP commenced on May 9, 2015.

6.5 As part of Phase 2 of the SISP, Qualified Bidders were granted access to additional due diligence materials in the Data Room. The Financial Advisor continues to populate with data in respect of ongoing operational results and other information, as well as to satisfy requests from Qualified Bidders.

6.6 In late April 2015, the Company engaged KPMG LLP ("**KPMG**") to prepare a due diligence report in respect of the Company's historical operating results and working capital requirements (the "**KPMG Report**"). The KPMG Report, along with its associated analyses and schedules, has been added to the Data Room as part of the additional materials that were populated for Phase 2 of the SISP. In order to be granted access to the KPMG Report, Qualified Bidders were required to execute a non-reliance and confidentiality agreement prepared by KPMG. All Qualified Bidders actively participating in Phase 2 of the SISP executed this agreement.

6.7 Senior Management, with the assistance of the Monitor and the Financial Advisor has arranged in person meetings with certain of those Qualified Bidders interested in participating in such a meeting. The purpose of the meetings are to conduct on-site management presentations and answer questions arising from the due diligence process. These meetings are scheduled to commence during the week ending May 29, 2015.

6.8 Qualified Bidders wishing to pursue a sale process or an investment proposal may submit a final, binding proposal to the Financial Advisor and the Monitor by the Phase 2 Bid Deadline which is 40 days following the commencement of Phase 2, or such other date as determined by the Monitor, in consultation with the Financial Advisor and the Company. The SISP provides that, at any time during Phase 2, the Monitor, in consultation with the Financial Advisor, the Company and Salus may extend Phase 2 by an additional 15 days. Accordingly, Phase 2 will be completed between June 18 and July 3, 2015.

6.9 The final, binding proposals submitted by Qualified Bidders by the Phase 2 Bid Deadline must be submitted on a standard form of asset purchase agreement ("**APA**"), which will be distributed to Qualified Bidders in the coming weeks.

6.10 The Monitor continues to work with the Company and the Financial Advisor in implementing the SISP. Since the date of the Second Report, in accordance with the requirements of the Initial Order and the SISP, the following activities were undertaken by the Monitor in relation to the SISP:

a) working closely with the Company and its legal counsel in the negotiation of non-disclosure agreements with prospective bidders;

b) reviewing the contents of the Data Room established during Phase 1;

c) reviewing additional materials for inclusion in the Data Room for Phase 2 of the SISP;

d) assisting KPMG in the preparation of the KPMG Report;

e) reviewing the draft management presentation prepared by the Company with the assistance of the Financial Advisor, and assisting the Company with its preparation for delivering the management presentation to prospective bidders in Phase 2; and

f) along with its legal counsel, providing general assistance and advice to the Company, its legal counsel and the Financial Advisor regarding the implementation of the SISP.

6.11 The Monitor continues to be satisfied that the SISP is being 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 and, in consultation with the Financial Advisor and the Company, will evaluate the Qualified Bids, in accordance both with the terms of the SISP and with the Initial Order. The Monitor will report to this Court on the results of Phase 2 of the SISP in a subsequent report to Court.

7.0 CASH FLOW RESULTS RELATIVE TO FORECAST

7.1 Actual receipts and disbursements, as compared to the Cash Flow Forecast for the seven-week period ended May 16, 2015 (the "**Reporting Period**") are summarized in the following table.

Comark Inc.
Schedule of Actual Receipts and Disbursements Compared to the Cash Flow Forecast
For the Seven-Week Period Ended May 16, 2015
($000's CAD)

	Actual	Projected	Variance
Receipts			
Sales receipts	50,491	39,230	11,261
Total Receipts	**50,491**	**39,230**	**11,261**
Disbursements			
Inventory purchases	23,147	18,811	(4,336)
Occupancy, vehicle, taxes, selling and general	14,836	16,404	1,568
Payroll and benefits	8,221	8,145	(77)
Capital expenditures	310	170	(140)
Professional fees	2,692	1,802	(889)
Total Disbursements	**49,206**	**45,332**	**(3,873)**
Net Operating Cash Flow	**1,285**	**(6,102)**	**7,388**
Beginning Cash Balance	**1,716**	**-**	**1,716**
Net operating cash flow	1,285	(6,102)	**7,388**
Net drawdown/(repayment)	3,308	6,102	**(2,795)**
Ending Cash Balance	**6,310**	**-**	**6,310**
DIP interest and fees (Note 2)	1,216	1,341	125
Pre-Filing Revolving Credit Facility (balance as at May 16)	-	-	-
DIP Facility (balance as at May 16, 2015)	24,914	27,345	2,431
Total Financing	**24,914**	**27,345**	**2,431**

Note 1 Readers are cautioned to read the Terms of Reference as set out in Section 2.0 herein regarding the preparation of the Cash Flow Forecast.

Note 2 DIP interest and financing fees are applied to the balance of the DIP Facility.

Note 3 The ending cash balance does not include collateral term deposits held by Toronto-Dominion Bank ("TD") pursuant to the Company's cash management system and banking arrangements in place with TD.

7.2 During the Reporting Period, the Company's total actual receipts were approximately $11.3 million greater than forecast. Management attributes this variance primarily to greater than anticipated sales following the announcement of the CCAA Proceedings and to the withdrawal of lease disclaimers in respect of 18 stores, the sales of which were not included in the Cash Flow Forecast.

7.3 The Company's total actual disbursements during the Reporting Period were approximately $3.9 million greater than those that were forecast. Management attributes this variance primarily to renegotiated payment terms with suppliers in respect of inventory purchases. Also contributing to the greater than forecast disbursements during the Reporting Period was the payment of professional fees to KPMG in respect of its work in preparing the KPMG Report, as well as fees paid to other professionals that were slightly greater than forecast. These variances were partially offset by positive variances relating to rent, occupancy and other expenses that resulted from timing differences and certain underlying cash flow assumptions which did not materialize during the Reporting Period.

7.4 Overall, during the Reporting Period, the Company experienced a positive net operating cash flow variance of approximately $7.4 million relative to the Cash Flow Forecast.

7.5 As at May 16, 2015, the Company had an ending cash balance of approximately $6.3 million and a DIP Facility balance of approximately $24.9 million. The positive variance associated with the ending cash balance is due to timing differences between the draw requests made by the Company and the near term payments scheduled to be made to suppliers, as well as the payroll scheduled to be made in the following week. The positive variances in the closing DIP Facility balance is the result of the positive variance in net operating cash flow described above, together with the slightly higher than forecast opening cash position. The pre-filing revolving credit facility balance has been completely repaid in accordance with the terms of the DIP Facility.

7.6 The Initial Order entitled the Company 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.

8.0 UPDATED CASH FLOW FORECAST

The Applicant, with the assistance of the Monitor, has prepared the Updated Cash Flow Forecast for the fifteen-week period May 17 to August 29, 2015 (the "**Forecast Period**"). A copy of the Updated Cash Flow Forecast, together with Notes and Summary of Assumptions is attached to this Third Report as **Appendix "C"**. A summary of the Updated Cash Flow Forecast is set out in the following table.

Comark Inc.
Unaudited Summary of Updated Cash Flow Forecast (Note 1)
For the 15-week period ended August 29
($000's)

	Amount ($)
Forecast Receipts	
Sales receipts	100,381
Forecast Total Receipts	100,381
Forecast Disbursements	
Inventory purchases	41,652
Rent, occupancy, and other expenses	28,714
Salaries and benefits	19,889
KERP payments	1,810
Capital expenditures	545
Professional fees	3,907
Total Forecast Disbursements	96,516
Net Operating Cash Flow	3,865
DIP interest and fees	(2,034)
Net Cash Flow	1,831
Opening DIP Position (May 17, 2015) (Note 3)	26,715
Ending DIP Postion (August 29, 2015)	24,884
Reduction in DIP Position during the Forecast Period	(1,831)

Note 1 Readers are cautioned to read the Terms of Reference as set out in Section 2.0 herein for information regarding the preparation of the Updated Cash Flow Forecast.

Note 2 DIP interest and financing fees are applied to the balance of the DIP Facility.

Note 3 The opening DIP position is an estimate made at time the Company prepared the Updated Cash Flow Forecast and accordingly, is not reflective of the actual closing balance of the DIP Facility as at May16, 2015.

8.1 The Monitor notes the following in respect of the Updated Cash Flow Forecast:

a) over the course of the Forecast Period, the Applicant forecasts net operating cash flow of approximately $3.9 million, prior to interest and fees;

b) the Updated Cash Flow Forecast reflects a decrease in the balance of the DIP Facility of approximately $1.8 million during the Forecast Period;

c) total receipts during the Forecast Period include receipts generated by the stores that are the subject of the Amended Leases, and disbursements in respect of rent and occupancy, and salaries and benefits include those associated with the stores that are the subject of the Amended Leases;

d) disbursements in respect of inventory purchases are based on the terms negotiated by the Company with its suppliers during these CCAA Proceedings;

e) the first payment due under the KERP, being 25% of the total KERP obligation, is scheduled to be paid when due on the three-month anniversary of the date of the Initial Order (June 26, 2015), and the second and final payment under the KERP, being 75% of the total KERP obligation is scheduled to be paid during the week ending August 22, 2015;

f) forecast capital expenditures include amounts to be incurred in advance of the holiday season to expand the processing abilities of the Laval warehouse to accommodate the higher ecommerce sales volumes currently being experienced and anticipated in the holiday season;

g) forecast professional fees include those of the Company's legal counsel, the Monitor, the Monitor's legal counsel, and Salus' legal counsel expected to be incurred during the Forecast Period;

h) inventory purchases include an estimate of financing costs associated with the Inventory Purchase Guarantee Facility including, fees and interest calculated on: (i) outstanding guarantees; (ii) advances drawn to acquire inventory; and (iii) a stand-by fee, all payable on the last day of each month, as well as a monthly monitoring fee of $8,000 per month, payable on the first day of each month; and

i) the availability under the DIP Facility is sufficient to meet the Applicant's forecast cash requirements during the Forecast Period.

9.0 EXTENSION OF THE STAY PERIOD

9.1 Pursuant to the Stay Extension Order, the Stay Period is to expire on June 12, 2015. The Applicants are seeking an extension of the Stay Period to August 28, 2015.

9.2 The Monitor supports the Applicants' motion to extend the Stay Period to August 28, 2015 for the following reasons:

a) the stay extension is required for the ongoing stability of the Company and enables the Company to continue its operational restructuring and complete Phase 2 of the SISP;

b) extending the Stay Period beyond the anticipated time to complete Phase 2 of the SISP will allow the parties to focus on the SISP and will be cost effective in that the parties would only return to Court before the expiry of the extended Stay Period if circumstances arise that require Court direction;

c) 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 the Inventory Purchase Guarantee Facility, should this Court approve it, will provide additional support to the Company's liquidity as it secures inventory necessary for the holiday season; and

d) 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 the Company's business, operational restructuring, the SISP, and monitoring of the Applicant's cash flow, the activities of the Monitor from the date of the Second Report include the following:

a) assisting the Applicant with communications with employees, certain former employees, suppliers, landlords, and other parties;

b) continuing to assist the Applicant in stabilizing its supply chain, including extensive communications with suppliers, the Applicant's Asian agent and the freight forwarder, with a view to minimizing supply disruption, continuing the movement of goods-in-transit to the distribution centres and stores and beginning to secure orders for the holiday season;

c) discussions with landlords, the Applicant, and legal counsel in respect of the Applicant's store closures and the subsequent cancellation of certain lease disclaimer notices;

d) responding to 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;

e) 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;

f) assisting the Applicant to secure the release of certain pre-filing goods that were being held by the freight forwarder on instructions from the respective suppliers;

g) working with the Applicant and 360 in respect of the sale of inventory and store fixtures in respect of the stores for which the leases were disclaimed;

h) attending Board meetings held on April 28 and May 7, 2015;

i) participating in discussions with the Applicant, its legal counsel, Toronto-Dominion Bank and its legal counsel regarding various matters related to the Company's cash management processes and its banking agreement with Toronto-Dominion Bank;

j) posting non-confidential materials filed with the Court to the website established by the Monitor for the CCAA Proceedings;

k) attending the stay extension hearing held on April 21, 2015;

l) assisting the Applicant in its reporting to the DIP Lender as required under the DIP Facility;

m) assisting the Company in the preparation of the Updated Cash Flow Forecast;

n) reviewing the Company's DIP Facility draw requests;

o) working with the Applicant, the Applicant's legal counsel and the Monitor's legal counsel in connection with the Bridging Motion; and

p) preparing this Third Report in consultation with the Monitor's legal counsel.

11.0 MONITOR'S RECOMMENDATIONS

11.1 For the reasons set out in this Third 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 27th day of May, 2015.

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

Per: ______________

John J. Walker
Senior Vice President

6458340

Appendix “A”

APPENDIX A

Updated Cash Flow Forecast for the 15-Week Period Ending August 29, 2015

Unaudited, in CAD$000's

(week ending ==>)	Week 1 **23-May**	Week 2 **30-May**	Week 3 **6-Jun**	Week 4 **13-Jun**	Week 5 **20-Jun**	Week 6 **27-Jun**	Week 7 **4-Jul**	Week 8 **11-Jul**	Week 9 **18-Jul**	Week 10 **25-Jul**	Week 11 **1-Aug**	Week 12 **8-Aug**	Week 13 **15-Aug**	Week 14 **22-Aug**	Week 15 **29-Aug**	**15-week total**
Sales receipts	6,145	7,003	7,429	7,455	7,356	7,201	6,830	6,506	6,398	5,887	6,350	5,717	6,368	6,701	7,035	100,381
TOTAL RECEIPTS	6,145	7,003	7,429	7,455	7,356	7,201	6,830	6,506	6,398	5,887	6,350	5,717	6,368	6,701	7,035	100,381
DISBURSEMENTS																
Inventory purchases	3,454	3,043	2,668	3,208	3,020	2,935	2,590	3,192	2,660	3,409	1,526	3,176	1,490	2,710	2,571	41,652
Salaries and benefits	2,574	36	2,486	635	1,802	662	1,885	637	1,815	693	1,848	628	1,766	664	1,758	19,889
KERP payments	-	-	-	-	-	453	-	-	-	-	-	-	-	1,358	-	1,810
Rent and occupancy	131	225	2,456	139	2,784	139	2,457	140	2,884	140	2,407	91	2,757	141	141	17,029
Professional fees	100	610	125	289	-	749	125	264	-	535	225	150	300	235	200	3,907
Capital expenditures	60	60	39	39	39	39	30	30	30	30	30	30	30	30	30	545
Other expenses	706	474	1,472	734	559	555	1,816	613	391	511	1,887	633	464	486	383	11,685
TOTAL DISBURSEMENTS	7,023	4,447	9,245	5,043	8,204	5,531	8,903	4,876	7,780	5,318	7,924	4,709	6,806	5,623	5,083	96,516
NET CASH FLOW BEFORE DEBT SERVICE	**(878)**	**2,556**	**(1,816)**	**2,412**	**(848)**	**1,669**	**(2,073)**	**1,630**	**(1,382)**	**569**	**(1,574)**	**1,008**	**(438)**	**1,077**	**1,952**	**3,865**
DIP FACILITY																
Opening balance	26,715	27,593	25,037	27,537	25,125	25,973	24,304	27,038	25,408	26,790	26,220	27,794	27,475	27,913	26,836	26,715
DIP fees and interest	-	-	684	-	-	-	662	-	-	-	-	689	-	-	-	2,034
DIP draws / (repayments), net	878	(2,556)	1,816	(2,412)	848	(1,669)	2,073	(1,630)	1,382	(569)	1,574	(1,008)	438	(1,077)	(1,952)	(3,865)
ENDING DIP BALANCE	**27,593**	**25,037**	**27,537**	**25,125**	**25,973**	**24,304**	**27,038**	**25,408**	**26,790**	**26,220**	**27,794**	**27,475**	**27,913**	**26,836**	**24,884**	**24,884**

To be read in conjunction with the attached Notes and Summary of Assumptions.

In the Matter of the CCAA Proceedings of Comark Inc. (“Comark” or the "Company")

Notice to Reader

In preparing the Updated Cash Flow Forecast (the "Forecast"), Comark has relied upon unaudited financial information and has not attempted to further verify the accuracy or completeness of such information. The Forecast includes assumptions discussed below with respect to the requirements and impact of a filing under the Companies’ Creditors Arrangement Act (“CCAA”). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Forecast period will vary from the Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

Overview:

Comark, with the assistance of the Monitor, has prepared the Forecast based primarily on historical results and Comark’s current expectations. The Forecast includes the impact related to the closure of certain stores. The Forecast is presented in thousands of Canadian dollars. Receipts and disbursements denominated in US currency have been converted into Canadian dollars at an exchange rate of C$1:US$0.80, throughout the period.

Assumptions

1) Opening cash position and DIP Facility balance

The opening cash position and balance of the DIP Facility are estimates as at May 17, 2015. The DIP facility will be used to fund the Company's cash requirements throughout the period and customer collections and cash on hand are used to repay the DIP balance. The current cash position does not include collateral term deposits held by Toronto-Dominion Bank ("TD") pursuant to the Company's cash management system and banking arrangements in place with TD.

2) Receipts

Receipts from sales are estimated based on a conservative view of the Company's current sales forecast. Sales taxes are included in forecast receipts and certain adjustments have been made for credit / debit card processing fees and anticipated gift card sales.

3) Inventory purchases

Inventory purchases include product to be delivered during the Forecast period, as well as the associated freight, duty and other logistics costs and financing costs associated with the Inventory Purchase Guarantee Facility. The timing of disbursements is based on expected shipping and delivery dates of in-transit and on-order goods, and future purchases. Forecast payments to suppliers are based on payment terms negotiated with the respective suppliers. The financing costs associated with the Inventory Purchase Guarantee Facility include fees and interest calculated on: (i) outstanding guarantees; (ii) advances drawn to acquire inventory; and (iii) a stand-by fee, all payable on the last day of each month, as well as a monthly monitoring fee of $8,000 per month, payable on the first day of each month.

4) Salaries and benefits

Disbursements include payroll, payroll taxes and employee benefits for salaried and hourly employees, and are forecast based on historical run-rates. Employee payments have been reduced in accordance with headcount reductions.

5) KERP Payments

Amounts forecast to be paid in respect of the KERP are as approved in the Initial Order. The first payment of 25% due under the KERP is scheduled to be paid when due on the three-month anniversary of the date of the Initial Order. The final payment of 75% due under the KERP is scheduled to be paid during the week ending August 22, 2015.

6) Rent and occupancy

These expenses include rent and other occupancy costs payable in accordance with premises leases, as well as overhead and store expenses, and utilities. Amounts payable pursuant to premises leases are paid semi-monthly and include such amounts in respect of all store locations, as well as divisional and corporate head office locations in Mississauga, Winnipeg and Vancouver. Overhead and store expenses include selling, general and administrative expenses, as well as supplies, insurance, and marketing, communications and technology, and other operating expenses.

7) Professional fees

These disbursements include payments to Comark’s financial advisors and legal counsel, the Monitor and its legal counsel, and counsel to the Lenders.

8) Capital expenditures

Capital expenditures include disbursements for sustaining capex and the completion of existing store renovations only.

9) Other expenses

Other expenses include sales taxes, which are forecast based on a blended rate across the provinces of 10.3%. Other expenses also include a general reserve of $1.3 million forecast for general contingencies that may be reuqired pursuant to the CCAA Proceedings.

13) DIP fees and interest

During the 15-week forecast period, DIP fees and interest include interest for the DIP loan and term loan only.

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF COMARK INC.

Court File No.: CV15-10920-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

THIRD REPORT OF THE MONITOR
(DATED MAY 27, 2015)

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