

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

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

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

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

DECEMBER 10, 2023

TABLE OF CONTENTS

1.0	INTRODUCTION.....	1
2.0	PURPOSE OF THIS REPORT	3
3.0	TERMS OF REFERENCE AND DISCLAIMER	4
4.0	APPROVAL AND VESTING ORDER	5
5.0	CASH FLOW RESULTS RELATIVE TO FORECAST	14
6.0	UPDATED CASH FLOW FORECAST	16
7.0	ACTIVITIES OF THE MONITOR SINCE THE FIRST REPORT	18
8.0	CONCLUSIONS AND RECOMMENDATIONS.....	19

APPENDICES

Appendix A – Updated Cash Flow Forecast

Confidential Appendix B – APA Purchase Price Summary and Analysis

1.0 INTRODUCTION

- 1.1 On November 23, 2023 (the “**Filing Date**”), Mastermind GP Inc. (“**Mastermind GP**” or the “**Applicant**”) was granted protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an initial order (the “**Initial Order**”) of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”). Among other things, the Initial Order appointed Alvarez & Marsal Canada Inc. (“**A&M**”) as monitor (in such capacity, the “**Monitor**”) in these CCAA proceedings (the “**CCAA Proceedings**”).
- 1.2 The Initial Order also extended the stay of proceedings and other protections and authorizations to Mastermind LP (together with Mastermind GP, the “**Mastermind Entities**”), a toy retailer with 66 stores and approximately 800 employees across Canada. Mastermind GP is the general partner of Mastermind LP. The ultimate parent company of Mastermind GP is Birch Hill Equity Partners Management Inc. (“**BHEPMI**”), which is not an Applicant in the CCAA Proceedings.
- 1.3 Facing several unique challenges, a liquidity crisis and the imminent holiday shopping season, the Mastermind Entities commenced the CCAA Proceedings to provide the stability and flexibility necessary to allow them to pursue a value maximizing going concern sale transaction, while also commencing a liquidation and closure of a sub-set of store locations.
- 1.4 On November 30, 2023, the Applicant obtained the following:
- (i) an amended and restated Initial Order (the “**ARIO**”), which, among other things:

- (a) extended the Stay Period (as defined in the ARIO) to and including January 26, 2024;
 - (b) approved a key employee retention plan and granted a KERP Charge on the Property (each as defined in the ARIO);
 - (c) increased the amounts of the D&O Charge and the Administration Charge (each as defined in the ARIO); and
 - (d) approved the Forbearance Agreement and granted the DIP Charge (each as defined in the ARIO); and
- (ii) an order (the “**Liquidation Sale Approval Order**”), which, among other things:
- (a) approved the Consulting Agreement and the Sale Guidelines (each as defined in the Liquidation Sale Approval Order); and
 - (b) authorized Mastermind LP, with the assistance of Gordon Brothers Canada ULC (the “**Consultant**”) to commence a liquidation sale at 18 store locations (the “**Liquidation Sale**”).

1.5 Additional details regarding the Mastermind Entities and the circumstances leading to the CCAA Proceedings are set out in the Pre-Filing Report of the Proposed Monitor dated November 22, 2023 (the “**Pre-Filing Report**”) and the First Report of the Monitor dated November 29, 2023 (the “**First Report**”). The Pre-Filing Report, the First Report and other Court-filed documents in the CCAA Proceedings are available on the Monitor’s case website at: www.alvarezandmarsal.com/Mastermind (the “**Case Website**”).

2.0 PURPOSE OF THIS REPORT

2.1 The purpose of this Second Report is to provide the Court with information, and where applicable, the Monitor's views on:

- (i) the Applicant's proposed order (the "**Approval and Vesting Order**"), among other things:
 - (a) approving the asset purchase agreement dated as of December 1, 2023 (the "**APA**") between Mastermind LP, as seller, and Unity Acquisitions Inc., as purchaser ("**Unity**" or the "**Purchaser**"), and the going concern transaction contemplated thereby (the "**Transaction**");
 - (b) vesting all of Mastermind LP's right, title and interest in and to the Purchased Assets (as defined below) in the Purchaser free and clear of all claims and encumbrances other than the Permitted Encumbrances (as defined in the APA); and
 - (c) sealing the unredacted APA and **Confidential Appendix "B"** attached hereto;
- (ii) the Mastermind Entities' cash flow results for the two-week period ended December 3, 2023;
- (iii) the Mastermind Entities' updated cash flow forecast for the ten-week period ended January 28, 2024;
- (iv) the activities of the Monitor since the First Report; and

- (v) the Monitor's conclusions and recommendations in connection with the foregoing.

3.0 TERMS OF REFERENCE AND DISCLAIMER

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

- (i) 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* (the "**CPA Handbook**") and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

3.2 Future oriented financial information referred to in this Second Report was prepared based on the Mastermind Entities' estimates and assumptions. Readers are cautioned that since

projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

3.3 This Second Report should be read in conjunction with the Affidavit of Lucio Milanovich, the Interim Chief Financial Officer of Mastermind LP, sworn December 6, 2023 (the “**Third Milanovich Affidavit**”), and filed in support of the Applicant’s motion for the proposed Approval and Vesting Order. Capitalized terms used but not defined in this Second Report have the meanings given to such terms in the Pre-Filing Report, the First Report or the Third Milanovich Affidavit, as applicable.

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

4.0 APPROVAL AND VESTING ORDER

Sale Process

4.1 As described in the Pre-Filing Report, Alvarez & Marsal Canada Securities Inc. (“**A&M Corporate Finance**”) was engaged to act as financial advisor to the Mastermind Entities and to assist them in commencing a sale process (the “**Sale Process**”).¹ The following is an overview of the Sale Process:

- (i) the Sale Process was launched by A&M Corporate Finance and the Mastermind Entities in April 2023, and was structured as a two phased process;

¹ Under this engagement, A&M Corporate Finance billed at its standard hourly rates, and not on a success fee or contingent fee basis.

- (ii) during the first phase of the Sale Process (“**Phase 1**”), A&M Corporate Finance contacted approximately 95 parties, comprised of 20 strategic buyers and 75 financial buyers, including parties from Canada, the U.S., the UK and Asia. Of this group, 32 executed a non-disclosure agreement, received a confidential information memorandum and were granted access to a virtual data room;
- (iii) interested parties were invited to submit a non-binding letter of intent (“**LOI**”) on or prior to May 24, 2023 (the “**Phase 1 Bid Deadline**”). On the Phase 1 Bid Deadline, A&M Corporate Finance received an LOI from four parties;
- (iv) following the Phase 1 Bid Deadline, two of the four parties who submitted an LOI were advanced to the second phase of the Sale Process (“**Phase 2**”), to continue their diligence and to attend management meetings with the Mastermind Entities’ key executives. These two parties were advanced principally because their LOIs provided for higher comparative value and they were each identified as having the capacity to close a transaction on an expedited basis;
- (v) unfortunately, both of the Phase 2 participants withdrew from the Sale Process due primarily to the Mastermind Entities’ continuing financial struggles. One of the parties in particular withdrew in late August 2023 following advanced negotiations with the Mastermind Entities on an asset purchase agreement, and with CIBC regarding post-transaction financing;
- (vi) at that time, A&M Corporate Finance reconvened the market for a going concern purchaser, including parties who had participated in Phase 1 as well as a small group of new participants. Of this expanded group, only one party expressed serious

interest in transacting with the Mastermind Entities. Following a period of accelerated diligence and negotiations, such prospective purchaser executed an Equity Purchase Agreement on September 22, 2023, pursuant to which it agreed to purchase the equity interests in Mastermind LP and Mastermind GP (the “**September Transaction**”);

(vii) as described in First Milanovich Affidavit and the Pre-Filing Report, the September Transaction was subject to mandatory pre-merger notification under the *Competition Act*, R.S.C. 1985, c. C-34, as amended. After a lengthy review process with the Competition Bureau, which involved Mastermind LP and the proposed purchaser responding to extensive information requests and making numerous submissions (including a submission in support of Mastermind LP’s “failing firm” status), the Competition Bureau issued a Supplementary Information Request (“**SIR**”) necessitating a further diligence process to advance the September Transaction. In light of the material cost and length of time that would have been required to respond to the SIR, and due to Mastermind LP’s liquidity crisis, the proposed September Transaction was terminated by the parties, and the Mastermind Entities began planning for the CCAA Proceedings;

(viii) while the Mastermind Entities planned for the CCAA Proceedings, A&M Corporate Finance continued its efforts to find a going concern purchaser for the Mastermind Entities’ business and re-engaged with approximately 15 parties who had previously participated in the Sale Process. Of this group, Unity and four others expressed interest in the opportunity. A&M Corporate Finance worked with each of the five parties to provide updated financial and other diligence information and

engaged in discussions in an attempt to advance a going concern transaction. Of this group, only Unity expressed a desire to pursue a transaction and had the ability to transact within the accelerated timeline that was afforded to the parties;² and

- (ix) on November 19, 2023, Unity delivered a non-binding LOI to A&M Corporate Finance, outlining the preliminary terms of a going concern transaction. Following a period of accelerated negotiations, on December 1, 2023, Unity and Mastermind LP, in consultation with the Monitor, executed the APA.

The APA

- 4.2 The APA is described in detail in the Third Milanovich Affidavit, to which a redacted copy of the APA is attached as Exhibit “G”. Certain key terms of the APA are summarized in the following table:

Unity APA ³	
Parties	<ul style="list-style-type: none">• Mastermind LP (as “Seller”).• Unity Acquisitions Inc. (as “Purchaser”).
Purchase Price	<ul style="list-style-type: none">• An analysis of the Purchase Price is included in Confidential Appendix “B”. The Purchase Price is confidential and has been redacted from the APA attached to the Third Milanovich Affidavit.• The Monitor notes that the Purchase Price is comprised of:<ul style="list-style-type: none">(i) cash consideration sufficient to provide a full recovery to CIBC for any outstanding obligations under the Credit Facilities;(ii) cash consideration sufficient to satisfy the Priority Payables (as defined in the APA and described below);(iii) a credit bid of a portion of the BHEPMI Facility (as described below); and(iv) assumption of the Assumed Liabilities.
Purchased Assets	<ul style="list-style-type: none">• A minimum of 43 store locations (“Purchased Stores”) and the assumption of the real property leases for each such location, including the head office.• The following property and assets:<ul style="list-style-type: none">(i) petty cash;

² As described in the Third Milanovich Affidavit, on November 27, 2023, the Mastermind Entities and the Monitor also received an LOI from a party seeking to acquire intellectual property and other limited assets. While this transaction would have enhanced the overall recoveries during a liquidation, it would not have provided for a going concern transaction.

³ Capitalized terms used in this table and not otherwise defined herein have the meanings given to such terms in the APA.

Unity APA ³	
	<ul style="list-style-type: none"> (ii) accounts receivable; (iii) inventory; (iv) all equipment, fixtures furniture, furnishings, accessories and other fixed assets located at the Purchased Stores; (v) deposits and prepaid expenses; (vi) GST/HST or other sales tax refunds accruing to Seller prior to the Closing Date; (vii) Assumed Contracts, Assumed Authorizations and Purchased IP; (viii) all rights of Seller to business and domain names, and information systems used in the Business; (ix) all books and records apart from those described in section 2.2(e) of the APA; (x) all rights under insurance over the Purchased Assets, Purchased Stores and the Business; (xi) all express consents obtained by Seller under privacy and anti spam laws; and (xii) all goodwill related to the Purchased Assets and the Business.
Assumed Liabilities	<ul style="list-style-type: none"> • The Purchaser will assume the following liabilities: <ul style="list-style-type: none"> (i) all liabilities under the Assumed Contracts, Assumed Real Property Leases and Purchased IP accrued from and after the Time of Closing; (ii) all liabilities under the Assumed Authorizations; (iii) all cure costs to the extent not paid at Closing; (iv) all Priority Payables (as discussed further below); (v) all liabilities with respect to the Purchased Assets from and after the Time of Closing; and (vi) all liabilities relating to transferred employees.
Excluded Assets	<ul style="list-style-type: none"> • The Purchased Assets do not include the following: <ul style="list-style-type: none"> (i) Cash; (ii) Excluded Inventory; (iii) insurance policies and contracts or agreements insuring the Purchased Assets or the Business; (iv) any equity interests in any other Person; (v) income tax installments and the right to any refund of income tax; (vi) certain of the records of the Mastermind Entities; (vii) the rights of the Mastermind Entities under the APA, Transfer Documents and other documents contemplated by the APA; (viii) the rights of the Mastermind Entities under documents governing Secured Debt; (ix) any Contract that is unassignable as contemplated by the APA; (x) any Contract relating to Retained Liabilities; and (xi) the assets set out in Schedule 2.2 (I) of the APA.
Employees	<ul style="list-style-type: none"> • The Transaction will preserve continued employment for at least 85% of employees working at Purchased Stores and certain of the employees located at the Mastermind Entities' head office (in aggregate, estimated to be in excess of 500 employees).
Priority Payables	<ul style="list-style-type: none"> • Pursuant to the APA, Priority Payables include: <ul style="list-style-type: none"> (i) priority payments prescribed under subsections 6(5) and 6(6) of the CCAA; (ii) any amount owing to an Employee for unpaid wages (excluding termination pay or severance pay) accrued between the Filing Date and the Closing Date, accrued vacation pay as of the Time of Closing, discretionary bonuses that have

Unity APA ³	
	<p>been awarded but not paid as of the Time of Closing and source deductions (excluding termination pay or severance pay);</p> <p>(iii) all post-filing trade obligations incurred with the consent of the Monitor (i.e., trade payables and accrued liabilities), excluding termination pay or severance pay; and</p> <p>(iv) any unpaid obligations secured by the Court Ordered Charges (each as described in the First Report).</p>
BHEPMI Facility	<ul style="list-style-type: none"> • In conjunction with executing the APA, Unity purchased the BHEPMI Facility for cash consideration. • As described in the Pre-Filing Report, the BHEPMI Facility is comprised of approximately \$1.7 million of secured debt, ranking subordinate to the Credit Facilities provided by CIBC. • As described above, Unity will be credit bidding a portion of the BHEPMI Facility. • For the balance not included in the credit bid, Unity has agreed to subordinate the secured obligation, the result of which is that any incremental value derived from the Purchase Price would not be used to repay Mastermind LP's obligations under the BHEPMI Facility, but instead increase any potential recovery to unsecured creditors.
Closing Date	<ul style="list-style-type: none"> • January 15, 2024, or such earlier or later date as agreed to by the Seller, Purchaser and the Monitor.
Outside Date	<ul style="list-style-type: none"> • Subject to section 9.1 of the APA, the agreement may be terminated by written notice from the Seller or the Purchaser if closing has not occurred on or before January 31, 2024.

4.3 The Monitor notes the following with respect to the APA and the Transaction:

- (i) the proposed APA and the Transaction are the result of: (a) an extensive pre-filing Sale Process that was conducted by the Mastermind Entities and A&M Corporate Finance, in consultation at relevant times with CIBC and BHEPMI, which canvassed a broad group of potential purchasers; and (b) significant negotiations among the Mastermind Entities, the Purchaser, the Monitor and their respective counsel;
- (ii) as described above, the Transaction: (a) contemplates that Unity will acquire Mastermind LP's right, title and interest in and to the leases and other agreements for at least 43 Purchased Stores; (b) provides for the preservation of the Mastermind Entities' business as a going concern; and (c) will maintain the continued

employment for a substantial number of the Mastermind Entities' store level and a number of head office employees;

- (iii) the closing of the Transaction has been structured and timed to allow for the completion of the Liquidation Sale and is conditioned upon the satisfaction of customary conditions precedent;
- (iv) the Transaction represents the sole going concern transaction to have materialized in the Sale Process that is capable of being consummated in the limited time available to the Mastermind Entities in the circumstances; and
- (v) the Monitor understands that CIBC and BHEPMI (though no longer a secured creditor of the Mastermind Entities) are supportive of the Transaction.

Approval and Vesting Order

- 4.4 Pursuant to the proposed Approval and Vesting Order, the Mastermind Entities are seeking the approval of the APA and the Transaction, and the vesting of all of the property and assets described in section 2.1 of the APA (collectively, the “**Purchased Assets**”) in and to the Purchaser free and clear of all claims and encumbrances other than the Permitted Encumbrances. Such vesting shall be effective upon the delivery by the Monitor to Mastermind LP and the Purchaser or their respective counsel of a certificate (the “**Monitor’s Certificate**”) confirming that the Monitor has received written confirmation from the Purchaser and Mastermind LP that all closing conditions have been satisfied or waived by the applicable parties.

Security Review

- 4.5 As the APA contemplates a credit bid of a portion of the BHEPMI Facility, the Monitor requested that its counsel, Bennett Jones LLP (“**Bennett Jones**”), and Bennett Jones’ local provincial agents, conduct a review of the security granted by the Mastermind Entities in respect of the BHEPMI Facility.
- 4.6 Subject to the customary qualifications and assumptions set out therein, Bennett Jones and its local provincial agents have provided written opinions to the Monitor (collectively, the “**Opinions**”) that the security granted by the Mastermind Entities in respect of the BHEPMI Facility constitutes valid security, enforceable in accordance with its terms and perfected by registration in the provinces of Ontario, British Columbia, Alberta, Manitoba, Saskatchewan, Nova Scotia, New Brunswick and Newfoundland and Labrador to the extent capable under applicable law. The Opinions will be made available to the Court upon request.

Impact on Unsecured Creditors

- 4.7 Certain pre-filing amounts owing to vendors and other amounts that may become owing to unsecured creditors (such vendors and unsecured creditors, the “**Affected Creditor Group**”) are excluded from the Transaction and will not be assumed by the Purchaser, save for cure costs associated with any consent required contracts included within the Purchased Assets.
- 4.8 As of the date of this Second Report, based on the information available to the Monitor, the aggregate amount owing to the Affected Creditor Group is anticipated to be approximately \$36 million. Such indebtedness is comprised of amounts owing to pre-filing

merchandise and other trade vendors, potential lease termination claims relating to locations that are not Purchased Stores⁴, potential employee termination and severance claims, and other potential unsecured claims.

- 4.9 In an effort to evaluate the proposed Transaction, and compare the expected monetary result on the Affected Creditor Group under the proposed Transaction to a bankruptcy liquidation scenario, the Monitor prepared an illustrative wind-down and liquidation analysis using available information. A copy of this illustrative wind-down and liquidation scenario and comparative analysis is attached hereto a **Confidential Appendix “B”**.
- 4.10 As outlined in Confidential Appendix “B”, it is the Monitor’s view that: (i) the Transaction provides the same, or similar, economic recovery to the Affected Creditor Group as they would otherwise receive in a bankruptcy liquidation scenario; and (ii) the Transaction also provides incremental going concern benefit to the majority of the Mastermind Entities’ stakeholders, including in excess of 500 continuing employees, landlords in respect of at least 43 Purchased Stores, and other third-party stakeholders who will have the opportunity to continue to transact with the Purchaser in the future.

Sealing of the Unredacted APA and Confidential Appendix “B”

- 4.11 The Monitor has been advised by counsel to the Purchaser that the Purchaser considers the detailed purchase price formula to be highly confidential and commercially sensitive information. On that basis the Monitor supports sealing the unredacted APA and the Confidential Appendix “B” attached hereto.

⁴ The potential lease termination claims were calculated using the prescribed Division I Proposal formula pursuant to the *Bankruptcy Insolvency Act*.

Assignment Order and Ancillary Order

- 4.12 As discussed in the Third Affidavit, the APA contemplates that the Applicant may seek an Assignment Order and an Ancillary Order prior to closing. The Monitor will provide additional details concerning any such further relief sought by the Mastermind Entities in a further report to this Court at that time.

5.0 CASH FLOW RESULTS RELATIVE TO FORECAST

- 5.1 Actual receipts and disbursements for the period from November 23, 2023 to December 3, 2023 (the “**Reporting Period**”), as compared to the cash flow forecast attached as Appendix “A” to the Pre-Filing Report, are summarized in the following table:

Cash Flow Variance Report			\$000's
	Budget	Actual	Variance
Receipts			
Sales	5,841	4,647	(1,194)
Sales tax collections	757	600	(157)
Total Receipts	6,598	5,247	(1,351)
Disbursements			
Merchandise vendors	--	--	--
Non-merchandise vendors	(1,913)	(632)	1,281
Rent	(683)	(681)	2
Payroll & benefits	(996)	(925)	71
Restructuring professional fees	--	--	--
Consultant fees	(700)	--	700
Sales tax remittances	(1,119)	321	1,440
Other expenditures	(286)	(120)	166
Total Disbursements	(5,697)	(2,037)	3,660
Net cash flow	901	3,210	2,309

- 5.2 During the Reporting Period:

- (i) total receipts were approximately \$1.4 million lower than forecast primarily because the Liquidation Sale was commenced at only 18 store locations compared to the initial forecast that contemplated a chain wide liquidation;
- (ii) the positive variance in non-merchandise disbursements of \$1.3 million is due primarily to lower than forecast shipping and logistics costs incurred to date in connection with moving product from the Mastermind Entities' distribution centre to individual store locations. At this time, the Mastermind Entities' management considers this to be a positive variance which may reverse in future weeks;
- (iii) within non-merchandise disbursements, approximately \$320,000 of pre-filing supplier payments were made. With the consent of the Monitor, these disbursements were made in accordance with the ARIO in order to release critical inventory held at a third-party warehouse, which inventory was subject to a lien claim under the *Repair and Storage Liens Act*, R.S.O. 1990, c. R.25, as amended; and
- (iv) the remaining positive variance in total disbursements of approximately \$2.4 million is due primarily to positive timing variances in disbursements to the Consultant assisting with the Liquidation Sale and the collection of a sales tax refund.

5.3 Overall, during the Reporting Period, the Mastermind Entities experienced a positive net cash flow variance of approximately \$2.3 million, the majority of which is anticipated to dissipate as timing differences reverse in the near term.

- 5.4 As at December 3, 2023, the Mastermind Entities' borrowings under the CIBC Credit Facility compared to forecast can be summarized as follows:

Borrowings under CIBC Credit Facility			\$000's
	Budget	Actual	Variance
Pre-Filing Revolver Facility (incl. BCAP)	15,360	18,032	(2,672)
Post-Filing Revolver Facility ⁵	6,207	481	5,726
Total Borrowings	21,567	18,513	3,054

6.0 UPDATED CASH FLOW FORECAST

- 6.1 As described in the First Report, prior to the commencement of the CCAA Proceedings, CIBC and the Mastermind Entities were in advanced discussions regarding the Forbearance Agreement to ensure that the Mastermind Entities would have the liquidity necessary to advance their restructuring initiatives. The Forbearance Agreement was executed on December 1, 2023 and approved pursuant to the ARIO.
- 6.2 In connection with the Forbearance Agreement, the Mastermind Entities, with the assistance of the Monitor, prepared a revised and updated cash flow forecast (the “**Updated Cash Flow Forecast**”) for the period from November 23, 2023 to January 28, 2024 (the “**Cash Flow Period**”). A copy of the Updated Cash Flow Forecast, together with Notes and Summary of Assumptions, is attached to this Second Report as **Appendix “A”**.
- 6.3 Notably, in comparison to the initial cash flow forecast attached as Appendix “A” to the Pre-Filing Report, the Updated Cash Flow Forecast has been revised to reflect the receipts

⁵ Only the borrowings under the “Post-Filing Revolver Facility” are secured by the DIP Charge.

and disbursements expected to occur prior to the closing of the Transaction. A summary of the Updated Cash Flow Forecast is set out in the following table:

Updated Cash Flow Forecast		\$000's
		<u>10-Wk Period</u>
Receipts		
Sales		35,534
Sales tax collections		3,692
Total Receipts		39,226
Disbursements		
Merchandise vendors		--
Non-merchandise vendors		(4,622)
Rent		(2,049)
Payroll & benefits		(5,066)
Proposed KERP		(485)
Restructuring professional fees		(2,462)
Consultant fees		(963)
Sales tax remittances		(4,443)
Other expenditures		(971)
Total Disbursements		(21,061)
Net cash flow		18,165

6.4 During the Cash Flow Period, net operating cash flows are projected to be positive \$18.2 million.

6.5 The Monitor notes the following with respect to the Updated Cash Flow Forecast:

- (i) sales include a combination of ordinary course sales at the going-concern store locations included in the proposed Transaction, and sales at the 18 store locations subject to the Liquidation Sale;

- (ii) disbursements include payments for logistics, warehousing and transportation services, payment processing services, information technology services, and certain other store-level and corporate operating costs; and
- (iii) the Consultant fees include the Consultant's commission fee calculated at 2% of sales at the 18 store locations subject to the Liquidation Sale, and a provision for costs related to marketing, signage, labour and other expenses.

7.0 ACTIVITIES OF THE MONITOR SINCE THE FIRST REPORT

7.1 Since the date of the First Report, the primary activities of the Monitor have included the following:

- (i) assisting Mastermind LP with the negotiation of the APA;
- (ii) attending regular update calls with CIBC and assisting the Mastermind Entities and CIBC in respect of advancing and executing the Forbearance Agreement;
- (iii) assisting the Mastermind Entities with communications to employees, suppliers, landlords and other stakeholders;
- (iv) monitoring the Mastermind Entities' cash receipts and disbursements, and assisting in preparing weekly cash flow variance reporting;
- (v) responding to inquiries from stakeholders, including addressing questions or concerns of parties who contacted the Monitor on the hotline number or email account established by the Monitor for the CCAA Proceedings;
- (vi) posting non-confidential materials filed with the Court to the Case Website; and

(vii) with the assistance of Bennett Jones, preparing this Second Report.

8.0 CONCLUSIONS AND RECOMMENDATIONS

8.1 The Monitor is supportive of the Transaction and the proposed Approval and Vesting Order for the following reasons:

- (i) the APA provides for: (a) a going concern sale of the majority of the Mastermind Entities' business and assets; (b) continued employment for a substantial number of the Mastermind Entities' employees; (c) the preservation of many supplier and vendor relationships; and (d) the continued leasing and operation of a minimum of 43 Purchased Stores;
- (ii) the APA and the Transaction are the product of an extensive, fair and transparent Sale Process undertaken by A&M Corporate Finance, which Sale Process, in the Monitor's view, widely canvassed the market for the Mastermind Entities' business and assets, involved consultation with the Mastermind Entities' secured creditors, provided prospective purchasers and investors with a reasonable opportunity to participate in such process and gave rise to the best possible transaction available for the Mastermind Entities' business and assets in the circumstances;
- (iii) the APA reflects substantial negotiations among Mastermind LP, the Purchaser, the Monitor and their respective counsel and, in the Monitor's view, contains commercially reasonable terms and customary conditions precedent;
- (iv) it is the Monitor's view that the Purchase Price under the APA is fair and reasonable in the circumstances, having regard to, among other things, the Sales Process' wide

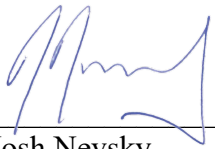
canvassing of the market and the values ascribed to the Mastermind Entities' business and assets therein;

- (v) the Transaction, which provides for a going concern sale of the majority of the Mastermind Entities' business and assets provides, based on the Monitor's analysis, an outcome more beneficial to the Mastermind Entities' creditors and other stakeholders than could otherwise be achieved in a liquidation or bankruptcy;
- (vi) the APA and the Transaction are supported by CIBC and BHEPMI and, to the Monitor's knowledge, are not opposed by any of the Mastermind Entities' key stakeholders; and
- (vii) the Transaction is the sole going concern transaction to have materialized within the Sale Process that can be consummated in the limited time, and with the limited liquidity, available to the Mastermind Entities.

8.2 Having regard to the foregoing and the other reasons discussed in this Second Report, the Monitor respectfully recommends that the Court grant the proposed Approval and Vesting Order.

All of which is respectfully submitted to the Court this 10th day of December, 2023.

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

Per: 

Josh Nevsky
Senior Vice-President

APPENDIX A
UPDATED CASH FLOW FORECAST

See attached.

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

Mastermind

10-Week Cash Flow Forecast ending January 28, 2024

Unaudited \$CAD 000's

Cash Flow Week: Week Ending:	Notes	Week 1 26-Nov-23	Week 2 03-Dec-23	Week 3 10-Dec-23	Week 4 17-Dec-23	Week 5 24-Dec-23	Week 6 31-Dec-23	Week 7 07-Jan-24	Week 8 14-Jan-24	Week 9 21-Jan-24	Week 10 28-Jan-24	10-Week Total
Receipts												
Sales	1	857	4,266	4,720	6,068	7,381	6,457	3,577	1,378	830	-	35,534
Sales tax collections		120	509	648	850	807	472	166	120	-	-	3,692
Total Receipts		977	4,774	5,368	6,918	8,188	6,929	3,742	1,499	830	-	39,226
Disbursements												
Merchandise vendors		-	-	-	-	-	-	-	-	-	-	-
Non-merchandise vendors	2	(461)	(1,452)	(1,182)	(627)	(250)	(250)	(100)	(100)	(100)	(100)	(4,622)
Rent	3	-	(683)	-	(683)	-	-	(683)	-	-	-	(2,049)
Payroll & benefits	4	-	(996)	-	(1,103)	-	(1,103)	-	(1,047)	-	(818)	(5,066)
KERP & store level retention	5	-	-	-	-	-	-	-	(485)	-	-	(485)
Restructuring professional fees	6	-	-	(511)	-	(496)	-	-	(480)	-	(976)	(2,462)
Consultant fees	7	-	(500)	(20)	(128)	(40)	(140)	(21)	(109)	(5)	-	(963)
Sales tax remittances		(34)	(1,016)	-	(815)	-	(1,730)	-	(792)	-	(57)	(4,443)
Other expenditures		(20)	(252)	(20)	(20)	(20)	(20)	(563)	(20)	(20)	(16)	(971)
Total Disbursements		(515)	(4,899)	(1,733)	(3,376)	(805)	(3,243)	(1,366)	(3,033)	(125)	(1,966)	(21,061)
Net Cash Flow		463	(125)	3,635	3,542	7,383	3,686	2,376	(1,535)	705	(1,966)	18,165
Pre-Filing Revolver												
Opening revolver position		21,700	21,133	16,359	10,991	4,073	-	-	-	-	-	21,700
Total receipts		(977)	(4,774)	(5,368)	(6,918)	(4,073)	-	-	-	-	-	(22,110)
Total disbursements		411	-	-	-	-	-	-	-	-	-	411
Ending Pre-Filing Revolver		21,133	16,359	10,991	4,073	-	-	-	-	-	-	-
Post-Filing Revolver												
Opening revolver position		-	-	5,277	7,010	10,385	7,075	3,389	1,099	2,633	1,928	-
Total receipts		-	-	-	-	(4,115)	(6,929)	(3,742)	(1,499)	(830)	-	(17,115)
Total disbursements		-	4,899	1,733	3,376	805	3,243	1,366	3,033	125	1,966	20,546
Interest and fees		-	378	-	-	-	-	86	-	-	-	463
Ending Post-Filing Revolver		-	5,277	7,010	10,385	7,075	3,389	1,099	2,633	1,928	3,894	3,894

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

Mastermind

10-Week Cash Flow Forecast ending January 28, 2024

Assumptions

Disclaimer

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

The Forecast is presented in thousands of Canadian dollars.

Note 1 Sales

Includes receipts from a combination of ordinary course sales at the Applicants' going-concern store locations included in the proposed Transaction and sales at the 18 store locations subject to the Liquidation Sale, net of a provision for inventory shrinkage and anticipated gift card redemptions.

Note 2 Non-merchandise vendors

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

Note 3 Rent

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

Note 4 Payroll & benefits

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

Note 5 KERP & store level retention

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

Note 6 Restructuring professional fees

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

Note 7 Consultant fees

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

CONFIDENTIAL APPENDIX B
APA PURCHASE PRICE SUMMARY AND ANALYSIS

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

Court File No.: CV-23-00710259-00CL

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

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

SECOND REPORT OF THE MONITOR

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