Court File No: CV-117-11677-00CL

GRAFTON-FRASER INC.

FIRST REPORT OF RICHTER ADVISORY GROUP INC., IN ITS CAPACITY AS MONITOR OF GRAFTON-FRASER INC.

JANUARY 26, 2017

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Court File No. CV-17-11677-00CL

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 PLAN OF COMPROMISE OR ARRANGEMENT OF
GRAFTON-FRASER INC.

FIRST REPORT OF RICHTER ADVISORY GROUP INC.
In its capacity as Monitor of the Company

January 26, 2017

Introduction

1. On January 25, 2017, the Ontario Superior Court of Justice (Commercial List) (the **"Court"**) issued an order (the **"Initial Order"**) granting Grafton-Fraser Inc. (**"Grafton"** or the **"Company"**) protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the **"CCAA"**). Richter Advisory Group Inc. (**"Richter"**) was appointed as monitor (the **"Monitor"**). The proceedings commenced by Grafton under the CCAA are herein referred to as the **"CCAA Proceedings"**. A copy of the Initial Order is attached hereto as **Appendix "A"**.

2. In support of the Initial Order, Richter in its capacity as proposed monitor, filed a report with the Court dated January 25, 2017 (the **"Pre Filing Report"**). A copy of the Pre Filing Monitor's Report (including appendices) is attached hereto as **Appendix "B"**.

3. The Initial Order provided Grafton with, *inter alia*, a stay of proceedings until February 23, 2017 (the **"Stay Period"**). The Initial Order also granted Grafton the authority to enter into forbearance agreements (the **"Forbearance Agreements"**) with its two primary secured creditors, Canadian Imperial Bank of Commerce (**"CIBC"** or the **"ABL Lender"**) and entities related to GSO Capital Partners LP ("**GSO**") and together with CIBC, the **"Secured Lenders"**). As detailed below, under the terms of the Amended and Restated ABL Forbearance Agreement (as defined below) with CIBC, amendments were made to the existing operating facility (the **"ABL Credit Facility"**) to provide

Grafton with continued access to and use of the ABL Credit Facility during its CCAA Proceedings on a priority basis, as secured by the ABL Lender's DIP Charge (as defined in the Initial Order).

4. In addition to the financing provided by the ABL Credit Facility, Grafton required further financing to pursue its restructuring plan. The Initial Order granted Grafton the authority to enter into an agreement (the **"DIP Agreement"**) with GSO for a new non-revolving credit facility in the amount of $5.5 million (the **"DIP Credit Facility"**) secured by the Term Lenders' DIP Charge (as defined in the Initial Order).

5. The terms of the Forbearance Agreements and the DIP Agreement include, among other things, requirements that the Company obtain an order approving the execution of the Stalking Horse APA and the SISP. The Company has brought a motion, returnable January 30, 2017, seeking among other things the required order (the "**January 30th Motion**).

6. As described in the Pre Filing Report, the primary objectives of the CCAA Proceedings are to (i) improve the Company's capital structure to ensure that the Company has the necessary working capital funds to maximize the ongoing business for the benefit of the Company's stakeholders; (ii) restructure the Company's operations, including the proposed closure of underperforming locations and negotiation of rent concessions; and (iii) complete a transaction(s) arising from the proposed sale and investment solicitation process (**"SISP"**), which, absent superior offers during the SISP, is intended to be the transaction represented by the Stalking Horse APA. The Stalking Horse APA contemplates a 'credit bid' by a party related to GSO who has arranged, subject to certain conditions being fulfilled, to obtain exit financing from CIBC.

7. It is a term of the DIP Agreement that the SISP and the Stalking Horse Agreement be approved in order for any advances to be made pursuant to the DIP Agreement, which advances are critical for the preservation of the Company as a going concern business. In particular, the Company will not be able to make its rent payments required on February 1, 2017 without being able to draw under the DIP Agreement.

Purpose of this Report

8. The purpose of this report, the Monitor's first report (the **"First Report"**) is to provide information to this Honourable Court regarding the following:

- the key terms of an agreement (the **"Liquidation Consulting Agreement"**) between Grafton and a joint venture comprised of Gordon Brothers Canada ULC and Merchant Retail Solutions ULC (together, the **"Consultant"**) pursuant to which, subject to Court approval, the Consultant will act as liquidation consultant to assist in liquidating inventory and owned furniture, fixtures and equipment ("**FF&E**") at certain underperforming Grafton locations, in accordance with the sale guidelines in connection with same (the **"Sale Guidelines"**);
- the terms of an asset purchase agreement dated January 24, 2017 (the **"Stalking Horse APA"**) between the Company and 1104307 B.C. Ltd. (the **"Stalking Horse Bidder"**), a company related to GSO, for the sale of substantially all of Grafton's business and assets which, subject to the approval of this Court, would act as the stalking horse sale agreement (the **"Stalking Horse Bid"**);
- the outline of the proposed SISP, including the bidding procedures to be used in connection therewith; and
- the Monitor's conclusions and recommendations.

Terms of Reference

9. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

10. Capitalized terms not otherwise defined herein are as defined in the Company's application materials, including the affidavit of Mark Sun sworn January 25, 2017 (the **"Sun Affidavit"**) filed in support of Grafton's application for relief under the CCAA and in support of the January 30th Motion. This First Report should be read in conjunction with the Sun Affidavit, as certain information contained in the Sun Affidavit has not been included herein in order to avoid unnecessary duplication.

11. In preparing this report and conducting its analysis, the Monitor has obtained and relied upon certain unaudited, draft, and/or internal financial information of the Company, the Company's books and records and discussions with various parties, including Grafton's employees and certain of its directors (collectively, the **"Information"**).

12. Except and otherwise described in this report:

- the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountant Canada Handbook; and

- the Monitor has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Chartered Professional Accountant Canada Handbook.

13. Since future-oriented information is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Monitor expresses no assurance as to whether projections will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the Monitor in preparing this report.

Background

14. The Company is a leading Canadian menswear retailer that operates 158 stores in Canada under various banners, including “Tip Top Tailors” (107 stores), “George Richards Big & Tall”, “Mr. Big and Tall”, and “Kingsport Big and Tall Clothier” (collectively 51 stores). The Company sells certain brands of menswear in Canada pursuant to various licence agreements, including “Jones New York” and “Daniel Hechter”. All of the Company’s store locations are leased.

15. Grafton’s head office and main distribution centre is located in a leased 38,000 square foot facility at 44 Apex Road, Toronto, Ontario where it receives, stores and ships inventory to its various store locations. The Company also leases a secondary distribution centre located at 21 Hafis Road, Toronto, Ontario.

16. As of January 21, 2017, the Company had approximately 1,226 employees of which approximately 526 were full time employees and 700 were part time employees. The Company’s employees are not represented by a union and are not subject to a collective bargaining agreement.

17. On June 7, 2016, Grafton's wholly-owned subsidiary 2473304 Ontario Inc. ("247") sought and obtained protection under the CCAA to allow it to pursue an orderly liquidation of its inventory as well as its furniture, fixtures and equipment . As described in the Sun Affidavit, the adverse effects of 247's CCAA proceedings on the Company combined with, among other things, lower than expected retail sales, increased overhead costs, delays in receiving seasonal inventory and turnover of key personnel have negatively impacted the Company's financial performance. As a result, the Company is experiencing a liquidity crisis and has defaulted on various financial and other covenants with CIBC and GSO, who have each agreed to continue to forbear from enforcing their rights and remedies, subject to certain terms and conditions, to permit Grafton to pursue its restructuring.

18. The Company's business, affairs, financial performance and position, as well as the causes of its insolvency, are detailed extensively in the Sun Affidavit and are, therefore, not repeated herein. The Monitor has reviewed the Sun Affidavit and discussed the business and affairs of the Company and the causes of insolvency with senior management personnel of the Company and is of the view that the Sun Affidavit provides a fair summary thereof.

Creditors

Secured Creditors

19. As detailed in the Sun Affidavit, CIBC and GSO are secured creditors of the Company that, as at January 21, 2017, are owed approximately $14.4 million and $39.4 million respectively.

20. Pursuant to an intercreditor agreement between CIBC and GSO dated February 12, 2016 (the **"Intercreditor Agreement"**), CIBC has a first ranking security interest in and to the ABL Priority Collateral to the extent of the ABL Obligations (as defined in the Intercreditor Agreement) being generally the inventory, accounts receivable, bank accounts, cash and securities (to the extent they are not proceeds of the Term Priority Collateral) of the Company, and GSO has a first ranking security interest in and to the Term Priority Collateral to the extent of the Term Obligations (as defined in the Intercreditor Agreement) being generally the intellectual property, insurance proceeds (related to the Term Priority Collateral) furniture, fixtures and equipment of the Company.

21. Searches conducted on January 11, 2017 of the Personal Property Security Registry in Ontario (and similar searches in the other provinces where the Company has stores) show registrations against the Company in favour of CIBC and GSO. The search results for Ontario also show registrations in favour of (i) Canadian Dealer Lease Service Inc. and Bank of Nova Scotia (together, **"CDLS"**) in respect of a leased vehicle, and (ii) Xerox Canada Ltd. (**"Xerox"**) in respect of certain specific equipment.

CIBC

22. CIBC and the Company (along with 247 as co-borrower) are parties to a credit agreement dated February 12, 2016, as amended (**"ABL Credit Agreement"**) pursuant to which CIBC provides the ABL Credit Facility.

23. The Monitor has received an opinion from its independent legal counsel, Cassels Brock & Blackwell LLP ("**Cassels**") dated January 26, 2017, that subject to the typical qualifications and assumptions, the security held by CIBC with respect to the Company is valid and enforceable in the following jurisdictions: British Columbia, Alberta, Manitoba, Ontario and Nova Scotia.

24. As a result of, among other things, 247's poor performance leading up to the commencement of 247's CCAA proceedings, the Company and 247 breached certain of their financial and other covenants under the ABL Credit Facility.

25. In connection with 247's CCAA proceedings, on June 6, 2016, the Company, 247 and CIBC agreed on the terms of a forbearance agreement (the **"ABL Forbearance Agreement"**), pursuant to which CIBC agreed to forbear from enforcing its rights and remedies, subject to certain terms and conditions, to permit 247 to complete a Court-supervised liquidation of its assets.

26. In contemplation of the Company's CCAA proceedings, the ABL Forbearance Agreement was amended and restated pursuant to an amended and restated forbearance agreement dated as of January 24, 2017 (the **"Amended and Restated ABL Forbearance Agreement"**). A copy of the Amended and Restated ABL Forbearance Agreement is attached to the Sun Affidavit as **Exhibit "I"**. The details of the Amended and Restated ABL Forbearance Agreement including the modified terms, conditions and terminating events are included in the Sun Affidavit and summary of such terms is provided in the Pre Filing Report.

GSO

27. GSO and the Company are parties to an amended and restated credit agreement dated June 16, 2009 (as amended from time to time (collectively, the "**GSO Credit Agreement**")) pursuant to which GSO provides a term credit facility to the Company in the principal amount of $32 million (the "**GSO Credit Facility**").

28. The Monitor has received an opinion from Cassels dated January 26, 2017, that subject to the typical qualifications and assumptions, the security held by GSO with respect to the Company is valid and enforceable in the following jurisdictions: British Columbia, Alberta, Manitoba, Ontario and Nova Scotia.

29. As noted in the Sun Affidavit, in the period leading up to the Company seeking protection under the CCAA, Grafton projected that it would have a liquidity shortfall of approximately $3 million due, in part, to rent obligations due January 1, 2017. To address the Company's projected cash needs, Grafton and GSO, among others, entered into an amending agreement dated December 23, 2016, in which GSO agreed to amend the GSO Credit Agreement to increase the size of the GSO Credit Facility and provide an additional advance to the Company in the amount of $2.5 million (CIBC also agreed to certain amendments to the ABL Credit Agreement to make an additional $0.5 million of liquidity available to the Company).

30. As with CIBC, at the time leading up to the commencement of 247's CCAA proceedings, the Company (and 247) had breached certain of their financial and other covenants under the GSO Credit Facility. On June 6, 2016, the Company, 247 and GSO agreed on the terms of a forbearance agreement (the **"GSO Forbearance Agreement"**), pursuant to which GSO agreed to forbear from enforcing its rights and remedies, subject to certain terms and conditions, to permit 247 to complete a Court-supervised liquidation of its assets.

31. In connection with Company's CCAA proceedings, the GSO Forbearance Agreement has been amended and restated pursuant to an amended and restated forbearance agreement dated as of January 24, 2017 (the **"Amended and Restated GSO Forbearance Agreement"**, and together with the Amended and Restated ABL Forbearance Agreement, the **"Forbearance Agreements"**). A copy of the Amended and Restated GSO Forbearance Agreement is attached to the Sun Affidavit as **Exhibit "E"**. The details of the Amended and Restated GSO Forbearance Agreement including the modified terms, conditions and terminating events are included in the Sun Affidavit and summary of such terms is provide in the Pre Filing Report.

32. As discussed below, the Stalking Horse Bidder and the Company entered into the Stalking Horse APA, pursuant to which, subject to the SISP and Court approval, the Stalking Horse Bidder will (if it is the successful bidder under the SISP) acquire substantially all of Grafton's assets and business on the terms set out in the Stalking Horse APA (discussed in further detail later in this report).

Unsecured Creditors

33. In addition to the amounts owed by the Company to CIBC and GSO, the Company estimates that they have accrued and unpaid unsecured obligations totaling approximately $8 million (excluding intercompany and related party indebtedness).

The Liquidation Consulting Agreement

34. As set out in the Sun Affidavit, Grafton, with the assistance of its advisors and in consultation with the Monitor, has concluded that a restructuring focusing on profitable stores, while downsizing unprofitable locations, will maximize value for all stakeholders.

35. The Company, with the assistance of the Monitor, has identified stores that are underperforming with a view to closing those locations (the **"Closing Stores"**) and disclaiming the leases in the event the Lease Consultant (as defined in the Pre Filing Report) is unable to negotiate adequate rent concessions, as part of the essential restructuring initiatives to be implemented by Grafton.

36. As part of Grafton's restructuring plan, a virtual data room was opened in December 2016 as part of a plan to solicit offers to liquidate the inventory and FF&E of the Closing Stores. Confidentiality Agreements were executed with six (6) liquidators (in both Canada and the United States) who were granted access to the data room. The deadline to submit proposals to liquidate the inventory as well as the FF&E in the Closing Stores was January 6, 2017.

37. Four (4) proposals (the **"Liquidation Proposals"**) to liquidate the Company's inventory and FF&E at the Closing Stores were received by the Company. The Company had certain points of clarification and/or questions on each of the Liquidation Proposals. After a conversation with each of the bidders, revised bids from the four parties who submitted Liquidation Proposals were requested by no later than January 12, 2017.

38. A comparison schedule summarizing the revised Liquidation Proposals submitted by January 12, 2017 (the **"Proposal Summary Schedule"**) is attached hereto as **Confidential Appendix "1"**. As the Proposal Summary Schedule includes certain sensitive commercial and competitive information, the Monitor believes that it is appropriate for the Proposal Summary Schedule to be filed with the Court on a confidential basis and sealed until further order of the Court.

39. In the Monitor's view, the disclosure of these commercial terms would have a detrimental impact on each of the bidders as it would reveal confidential information, including pricing information, to their competitors. Sealing the Proposal Summary Schedule is important to prevent the bidders' competitors from gaining an undue advantage by having access to commercially sensitive information. In addition, the Monitor is not aware of any material prejudice that would be suffered by third parties as a result of the sealing of the Proposal Summary Schedule.

40. A number of the Liquidation Proposals received, including that from the Consultant, contained financial terms that were within a narrow competitive range. The Monitor notes that the Consultant is related to the majority shareholder of the Company. The Consultant's proposal was selected because the Company was of the view that the level of services offered, including supervisory and promotional support, were the most attractive of the revised Liquidation Proposals.

41. The key terms of the Liquidation Consulting Agreement, a copy of which is attached to the Sun Affidavit as **Exhibit "O"**, include:

- the Consultant will assist the Company in conducting a store closing or similar-themed liquidation sale of all merchandise and other owned assets located in the Closing Stores, which stores are to be identified in a list to be provided by Grafton to the Consultant by February 2, 2017, pursuant to landlord discussions;

- the liquidation is to commence on or about February 4, 2017, or such later date as the case may be as Closing Stores are added to the liquidation (as discussed below) (the **"Commencement Date"**) and is scheduled to terminate on or before April 30, 2017 (the **"Liquidation Period"**);

- the Company may elect to modify (increase or decrease) the number of Closing Stores included in the liquidation process up to March 15, 2017. In this regard, if the lease terms for certain of the Closing Stores can be renegotiated during the Liquidation Period such that a

location considered for closure may become desirable to a potential investor or purchaser, including the Stalking Horse Bidder, such store(s) can be removed from the liquidation process and placed into the SISP process (as discussed further below);

- the Sale Guidelines in regards to store operations and closings are governed by Schedule "A" to the Order approving the Liquidation Consulting Agreement. In the Monitor's view, the Sale Guidelines are in a form consistent with recent Canadian retail liquidations. Given the narrow scope of this liquidation, the Sale Guidelines do not provide for any augmentation of the merchandise;

- the Company is responsible for all reasonable costs and expenses in connection with the liquidation process at the Closing Stores, certain of which are subject to an agreed upon budget with the Consultant;

- in consideration of its services, the Consultant will earn a fee of one and one quarter percent (1.25%) of the gross proceeds from the sale of merchandise, saleable in the ordinary course, located in the Closing Stores on the Commencement Date;

- the Consultant will also assist Grafton in selling any owned FF&E located in the Closing Stores. The Consultant will earn a fee of twenty percent (20%) of the gross proceeds from the sale of the FF&E located in the Closing Stores; and

- the Liquidation Consulting Agreement is subject to the approval of the Court.

42. Absent rent concessions that would make the stores profitable, at the conclusion of the Liquidation Period each of the Closing Stores will be surrendered to the landlord. The Company will work with the Consultant to coordinate the disclaimer of leases so that such disclaimers become effective on the conclusion of the Liquidation Period of each Closing Store.

43. The Monitor is supportive of the engagement of the Consultant and the Liquidation Consulting Agreement for the following reasons:

- the liquidation of the Closing Stores through an experienced retail liquidator will allow the Company to focus on other aspects of its restructuring and particularly on the continued operation of the remaining stores that are not designated for closure;

- the Consultant has extensive experience in retail liquidations and inventory disposition in the Canadian marketplace;
- the fee payable to the Consultant is, in the Monitor's experience, comparable or less than other retail liquidations;
- the Consultant has extensive experience working with Canadian landlords of retail tenants in insolvency proceedings and understands their requirements and concerns;
- the simple structure of the Liquidation Consulting Agreement provides maximum flexibility for the Company to add and/or remove store locations from the liquidation process;
- the cash flow forecast filed by Grafton in support of the Initial Order contemplates that the inventory in the Closing Stores will be liquidated expeditiously. In the Monitor's view, it is essential that the liquidation of the Closing Stores commence as soon as possible to ensure that the Company has sufficient liquidity to fund its post-filing obligations and to ensure the liquidation is completed prior to the closing of one or more transactions consummated pursuant to the SISP, including the Stalking Horse APA if the Stalking Horse Bidder is determined to be the Successful Bidder, and approved pursuant to further Order of the Court; and
- the Lease Consultant who has been engaged by the Company to, among other things, analyze the Company's lease portfolio and assist with the lease negotiations, has advised the Company that it is of the view that there is likely little to no residual value in the Closing Stores leases unless the Company, with the assistance of the Lease Consultant, is able to renegotiate terms.

44. Based on the foregoing, the Monitor supports the Liquidation Consulting Agreement and respectfully recommends that the Court issue an order approving the Liquidation Consulting Agreement.

Stalking Horse APA

45. The Company, the Stalking Horse Bidder and their respective counsel (in consultation with the Monitor, the Secured Lenders and their respective counsel) have negotiated the terms and provisions of the Stalking Horse APA, a copy of which is attached as **Exhibit "N"** to the Sun Affidavit.

46. The material terms of the Stalking Horse APA include the following (all terms not otherwise defined herein shall have the meanings as defined in the Stalking Horse APA):

- the purchased assets include all assets, undertakings and properties of Grafton, other than the Excluded Assets, acquired for or used in relation to the Company's business. Specifically, the purchased assets include, but are not limited to the following:
    - the Inventory other than the inventory that is sold in connection with the Liquidation or in the ordinary course of business prior to the Closing Time;
    - the Equipment;
    - the Computers and Software;
    - the Assumed Real Property Leases;
    - the Assumed Contracts;
    - the Intellectual Property;
    - all trade names, business names and domain names;
    - the Company's goodwill;
    - the prepaid expenses;
    - the Books and Records;
    - the Cash;
    - the accounts receivable;
    - the shares of Gailwood Investments Limited owned by the Company; and
    - other assets as detailed in the Stalking Horse APA (collectively, the **"Purchased Assets"**);
- the Purchased Assets specifically exclude, among other things, the rights of the Company under the Liquidation Consulting Agreement, the rights of the Company under the ABL Credit Facility, inventory located at the Closing Stores which was sold as part of the Liquidation, and FF&E located at the Closing Stores;
- there is no break fee, expense reimbursement or similar type of payment owing to the Stalking Horse Bidder in the event the Stalking Horse Bidder is not the Successful Bidder (as defined in the SISP);

- subject to the terms of the Stalking Horse APA, the Stalking Horse Bidder agrees to assume certain liabilities of the Company, including the following:
    - all obligations with respect to the Purchased Assets and the Assumed Contracts from and after the Closing Time;
    - the Post-Filing Expenses (to the extent reflected in the Approved Cash Flows and not paid at Closing time);
    - cure costs in respect of the Assumed Contracts;
    - the Supplier Liabilities (pre-filing amounts owed by Grafton to suppliers of goods/services) to be paid over a six-month period commencing on the Closing Date to the extent agreements with such suppliers have been entered into;
    - any Transfer Taxes payable pursuant to the Stalking Horse APA;
    - the Company's obligations under the gift card program;
    - the Company's obligations to CIBC under the ABL Credit Facility, as of Closing Time, including principal, interest and accrued/outstanding fees;
    - the Company's obligations under the DIP Credit Facility;
    - the Company's obligations under the GSO Facility (subject to the release of all of the secured debt due to GSO by the Company, other than the amounts due in connection with the $2.5 million Additional Advance granted to the Company pursuant to an agreement dated December 23, 2016);
    - Priority Payables outstanding at Closing Time (to the extent reflected in the Approved Cash Flows) and remaining unpaid at Closing Time; and
    - other liabilities as detailed in the Stalking Horse APA (collectively, the **"Assumed Liabilities"**);
- no later than February 17, 2017, the Stalking Horse Bidder will provide the Company with a list, which may be amended, of the locations it wishes to acquire, with such list representing no fewer than 110 of the Company's store locations (the **"Purchased Locations"**);

- the Stalking Horse APA also contemplates that at least seven (7) days prior to the Closing Date the Stalking Horse Bidder will offer employment to no fewer than 1,100 of the Company's employees (the **"Transferred Employees"**) on substantially similar terms and conditions to their existing employment with the Company. In this regard, the Purchaser shall assume the associated employee liabilities from and after the Closing Date and the Employee Plans in respect of the Transferred Employees;

- the Stalking Horse APA contemplates that the Company may terminate the Stalking Horse APA if it does not close by the Termination Date of June 15, 2017 or such other date as the Company and Stalking Horse Bidder may agree, which, in the Monitor's view, should be sufficient to allow for the implementation of the SISP (as discussed later in this First Report);

- the Stalking Horse APA includes a Wind-Down Amount of $200,000 which is payable by the Stalking Horse Bidder immediately after the closing of the transaction contemplated in the Stalking Horse APA in order to fund the reasonable costs, fees and disbursements to complete the CCAA Proceeding, with any portion of the Wind-Down Amount not required in connection with the wind down and completion of the CCAA, to be returned to the Stalking Horse Bidder;

- the Stalking Horse Bid is subject to certain conditions, the following of which are material closing conditions to the transaction:

  - the Stalking Horse APA being the Successful Bid in accordance with the SISP;

  - the Court approving the Stalking Horse APA and granting a Vesting Order in favour of the Stalking Horse Bidder for the Purchased Assets;

  - all conditions to the exit financing to be provided by CIBC to the Stalking Horse Bidder having been satisfied, excluding the delivery of the Monitor's Certificate to the Purchaser in respect of the transaction;

  - the Stalking Horse Bidder and the Company having entered into settlement agreements with Suppliers, on terms acceptable to CIBC, establishing both the terms of continued supply and the payment terms upon which the Stalking Horse Bidder has agreed to assume the Supplier Liabilities;

  - the receipt of the necessary third party consents or a CCAA Assignment Order in respect of the Assumed Real Property Leases and Assumed Contracts;

- the Liquidation shall have been completed and the related proceeds in respect of the ABL Priority Collateral and Term Priority Collateral paid to CIBC and GSO, respectively; and
- to the extent that a notification is required under Part IX of the *Competition Act* (Canada the Commissioner having issued an advance ruling certificate under section 102 of the *Competition Act* (Canada) or the expiry, termination or waiving of the applicable wait period under section 123 of the *Competition Act* (Canada) and the Commissioner having issued a No-Action Letter satisfactory to the Stalking Horse Bidder and the Company.

47. In the Monitor's view, the terms of the Stalking Horse APA, which is being completed on an "as is, where is" basis are reasonable in the circumstances. Furthermore, the Stalking Horse APA provides for the continuation of a significant portion of the business, thereby assuring a customer for suppliers, a tenant for landlords, employment for a majority of the Company's employees and an ongoing business for many customers.

48. The approval of the Stalking Horse APA is critical in order for funds to flow under the DIP Agreement. These funds are necessary to fund rent payments due on February 1, 2017, stabilize the Company and allow it to continue ongoing purchaser orders thereby preserving value in the Company as a going concern business. Further, GSO has only agreed to advance funds pursuant to the DIP Credit Facility on the condition that the Stalking Horse APA and SISP be approved by the Court. GSO advised the Monitor that it was unwilling to be financially exposed in respect of the DIP Credit Facility without the comfort of a Court order approving the SISP and the Stalking Horse APA for purposes of the SISP.

49. The Monitor is not aware of any facts that would cause the Monitor to be of the view that the Company will be unable to meet the conditions of the Stalking Horse APA.

The Proposed Sale and Investment Solicitation Process

50. The Monitor notes that, to date, no active marketing of the Company's assets or operations has been undertaken. The Monitor also notes that, to date, it has not received any serious expressions of interest to acquire or invest in the business and/or assets of the Company and, to the knowledge of the Monitor, neither has the Company.

51. The Company, the Monitor and their respective counsel (in consultation with the Secured Lenders and their counsel) developed the SISP, which is attached as **Exhibit "P"** to the Sun Affidavit, as a means of establishing a benchmark for the Purchased Assets and providing a forum for prospective

purchasers or investors to present a bid(s) superior to that contemplated by the Stalking Horse Bid on a timeline to meet the financial and timing exigencies of these circumstances.

52. In order to provide third parties with an opportunity to consider an acquisition of, or investment in, the Company, the SISP contemplates marketing the Company's business and assets to third parties for a period of approximately six (6) weeks. In order to protect the release of certain sensitive lease information to the Company's competitors, the SISP contemplates a two (2) phase bidding process. During the first phase, Potential Bidders (as hereinafter defined) will receive coded lease information. If a bidder submits a qualified bid under the first phase of the bid process, it will be invited to participate in the second phase of the bid process where uncoded lease information and other sensitive information (such as store location) will be made available.

53. In the event that any party or parties involved in the management of the Company (the **"Management"**) intends to participate in the SISP, any such party or parties must advise the Monitor in writing of such intention on or before February 15, 2017 (the **"Participation Notice"**). Upon receipt of a Participation Notice, Management will be excluded from any participation in the SISP other than as a bidder, and will be subject to the SISP procedures in its capacity as a bidder.

54. The principal elements of the SISP are as follows (defined terms used in this section not otherwise defined herein have the meaning ascribed to them in the SISP):

- the SISP will commence with the distribution of an initial offering summary (the **"Teaser"**) to a list of potential prospective purchasers and investors, including retailers, private equity firms and liquidation firms, (the **"Potential Bidders"**), which list is being developed by the Monitor in consultation with the Company;

- Potential Bidders that wish to commence due diligence will be required to sign a Confidentiality Agreement and Acknowledgement of the SISP. Upon receipt by the Monitor, of a signed Confidentiality Agreement and a signed Acknowledgement of the SISP by a Potential Bidder (now an **"Interested Party"**), access will be granted to an electronic data room that has been populated by the Monitor with the assistance of the Company;

- an Interested Party interested in submitting a Bid to acquire and/or invest in the Company's business or assets is required to submit an offer to the Monitor on or before 5:00 p.m. (EST) on March 13, 2017 (the **"Phase I Bid Deadline"**);

- only Qualified Phase I Bidders will be invited to participate in Phase II of the SISP. Qualified Phase I Bids must include the following (the following is not an exhaustive list):
    - a purchase price (in the case of a sale proposal) or imputed value (in the case of an investment proposal) in an amount equal to or greater than 102% of the amount required to repay the Secured Debt and the ABL Obligations (each as defined in the Stalking Horse APA) and any amounts payable in priority to those obligations in full which sum is estimated to be $65 million (to be updated by the Monitor as an estimate at least five (5) days prior to the Phase I Bid Deadline);
    - satisfactory evidence of the Phase I Bidder's financial ability to close the contemplated transaction; and
    - a cash deposit in an amount equal to 10% of the Purchase Price;
- as soon as practicable following the Phase I Bid Deadline, the Company, in consultation with the Monitor, will advise Interested Parties who submitted Bids whether their Bids constituted Qualified Phase I Bids. Qualified Phase I Bidders will be invited to participate in the second phase of the SISP and be provided with the Additional Confidential Information.
- if no Qualified Phase I Bid other than the Stalking Horse Bid is received by the Phase I Bid Deadline, the Stalking Horse Bidder will be declared the Successful Bidder and the Stalking Horse APA will be declared the Successful Bid;
- Phase II Bids are required to be submitted to the Monitor on or before 5:00 p.m. (EST) on March 24, 2017 (the **"Phase II Bid Deadline"**). In order to be considered a Qualified Phase II Bid, a Phase II Bid must (i) meet the criteria for a Qualified Phase I Bid, and (ii) not be conditional on any further due diligence, including with respect to the Additional Confidential Information;
- the Company, in consultation with the Monitor, shall determine which Qualified Phase II Bid provides the greatest value to the Company's stakeholders;
- if no Qualified Phase II Bid other than the Stalking Horse Bid is received by the Phase II Bid Deadline, the Stalking Horse Bidder will be declared the Successful Bidder and the Stalking Horse APA will be declared the Successful Bid;

- in the event there is more than one (1) Qualified Phase II Bid (the Stalking Horse APA is automatically deemed to be a Qualified Phase II Bid) and if the Company, in consultation with the Monitor, considers it appropriate, an auction (the **"Auction"**) may be triggered. In the event an Auction is triggered, the Monitor, within five (5) business days after the Phase II Bid Deadline, will send notice to any Qualified Phase II Bidders advising of the date, time, location and rules of the Auction;

- Qualified Phase II Bidders must notify the Company and the Monitor, in writing, by no later than 12:00 p.m. (EST) one (1) business day prior to the Auction, of their intention to participate in the Auction (thereafter becoming an **"Auction Participant"**);

- the Monitor and its advisors will direct and preside over the Auction. The highest Qualified Phase II Bid will constitute the Opening Bid for the first round of the Auction and the highest Overbid (Minimum Overbid Increments will be determined by the Monitor in advance of each round of bidding in order to facilitate the Auction) will constitute the Opening Bid for the following round;

- if at the end of any round of bidding an Auction Participant fails to submit an Overbid, such Auction Participant will not be eligible to continue to participate in the next round of the Auction; and

- upon conclusion of the bidding, the Auction shall be closed and the Monitor shall notify the Auction Participants of the Successful Bid and the Back-Up Bid (which is to remain open pending closing of the Successful Bid).

55. The proposed SISP contemplates marketing the Company's business and assets for a period of six (6) weeks. In the Monitor's view, this timeline is sufficient to allow interested parties to perform due diligence and to submit offers. Further, the Company does not have access to sufficient funding to support a more lengthy sale process and the duration of the proposed SISP and the existence of the Stalking Horse Bid should create certainty for all stakeholders.

56. The Monitor is of the view that, in the circumstances, the proposed SISP represents the best opportunity to complete a going concern sale or investment transaction for the Company and maximize the value of the Company's business for the benefit of its stakeholders.

Monitor's Conclusions and Recommendations

57. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court issue an orders:

- approving the Liquidation Consulting Agreement, including the Sale Guidelines in connection with same;
- and approving the Stalking Horse APA for the purpose of being the Stalking Horse Bid under the SISP.

All of which is respectfully submitted this 26th day of January, 2017.

Richter Advisory Group Inc.
in its capacity as Monitor of
Grafton-Fraser Inc.

Per:

Gilles Benchaya, CPA, CA, CIRP, LIT

Adam Sherman, MBA, CIRP, LIT

APPENDIX “A”

Court File No. CV-17-11627-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	WEDNESDAY, THE 25th
	)	DAY OF JANUARY, 2017
JUSTICE HAINEY	)	

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 GRAFTON-FRASER INC.

(the "Applicant")

INITIAL ORDER

THIS APPLICATION, made by the Applicant, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Mark Sun sworn January 25, 2017 and the Exhibits thereto (the "**Sun Affidavit**"), the report of Richter Advisory Group Inc. ("**Richter**") as the proposed monitor dated January 25, 2017 (the "**Pre-Filing Report**"), and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for the Applicant, counsel for Richter, in its capacity as the proposed monitor (the "**Monitor**") of the Applicant in these CCAA proceedings, counsel for the directors of the Applicant, counsel for Canadian Imperial Bank of Commerce ("**CIBC**"), counsel for GSO Capital Partners LP ("**GSO**") and such other parties as were present, no one else appearing although duly served as appears from the affidavit of service of Irene

Artuso sworn January 25, 2017, filed, and on reading the consent of Richter to act as the Monitor.

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that the Applicant is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "**Business**") and Property. The Applicant is authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "**Assistants**") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. THIS COURT ORDERS that the Applicant shall be entitled to continue to utilize the central cash management system currently in place, in accordance with the DIP Agreement and the ABL DIP Forbearance Agreement (each as hereinafter defined), as described in the Sun Affidavit or replace it with another substantially similar central cash management system (the

"**Cash Management System**") and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicant of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Applicant, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. THIS COURT ORDERS that, subject to the terms of the DIP Agreement and the Forbearance Agreements (as hereinafter defined) that require the Applicant to comply with the Approved Cash Flow (as defined in the DIP Agreement and in the Forbearance Agreements) the Applicant shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

(a) all outstanding and future wages, salaries, employee benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements including any and all cheques for such employee obligations which have been issued, but not cleared prior to the date of this Order;

(b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges; and

(c) amounts owing to vendors determined by the Applicant to be necessary in order to ensure an uninterrupted supply of goods and/or services to the Applicant that are material to the continued operation of the Business, provided that such payments shall not exceed an aggregate amount of $1 million and are approved in advance by the Monitor or by further Order of the Court.

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein and subject to the terms of the DIP Agreement and the Forbearance Agreements that require the Applicant to comply with the Approved Cash Flow, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall, subject to the Approved Cash Flow, include, without limitation:

(a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and

(b) payment for goods or services actually supplied (including royalties under license agreements relating to the sale of branded inventory) to the Applicant following the date of this Order.

8. THIS COURT ORDERS that the Applicant shall remit, in accordance with legal requirements, or pay:

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

(b) all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and

(c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any

nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. THIS COURT ORDERS that the Applicant is hereby authorized to transfer to an account of the Monitor, on a weekly basis, in advance, such amount as the Applicant determines, in consultation with the Monitor, is appropriate and required to remit or pay projected Sales Taxes relating to the sale of goods and services by the Applicant in such week in accordance with applicable law, and the Monitor is hereby authorized to hold such funds and transfer such funds to the Applicant for remittance or payment by the Applicant of such Sales Taxes as required pursuant to applicable law. In the event the Monitor determines, in its discretion, to return any portion of such funds to the Applicant as a result of the Applicant having transferred more than is appropriate or required to pay or remit Sales Taxes as aforesaid, the funds so returned shall form part of the Property.

10. THIS COURT ORDERS that until a real property lease is disclaimed in accordance with the CCAA, the Applicant shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicant and the landlord from time to time ("**Rent**"), for the period commencing from and including the date of this Order, twice monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

11. THIS COURT ORDERS that, except as specifically permitted (i) herein or (ii) in the DIP Agreement and the Forbearance Agreements, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

12. THIS COURT ORDERS that the Applicant shall, subject to such requirements as are imposed by the CCAA, have the right to:

(a) subject to obtaining the prior written consent of the Term DIP Lenders pursuant to the DIP Agreement and Term DIP Forbearance Agreement (each as defined below) and the ABL Agent and ABL Lender pursuant to the ABL Forbearance Agreement (as defined below), unless otherwise permitted by the provisions of the DIP Agreement and Term DIP Forbearance Agreement or by further Order of the Court:

(i) permanently or temporarily cease, downsize or shut down any of its business or operations; and

(ii) dispose of redundant or non-material assets not exceeding $15,000 in any one transaction or $75,000 in the aggregate;

(b) subject to such applicable covenants as may be contained in the DIP Agreement, the Term DIP Credit Documents (as defined below), or the Forbearance Agreements, as applicable:

(i) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and

(ii) pursue all avenues of refinancing of its Business or Property, in whole or in part, subject to prior approval of this Court being obtained before any material refinancing;

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business (the "**Restructuring**").

13. THIS COURT ORDERS that the Applicant shall provide each of the relevant landlords with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of

the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2) days' notice to such landlord and any such secured creditors. If the Applicant disclaims the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

14. THIS COURT ORDERS that if a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

15. THIS COURT ORDERS that, subject to paragraph 16(v) hereof, until and including February 23, 2017, or such later date as this Court may order (the "**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

16. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the

foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, (iv) prevent the registration of a claim for lien, or (v) subject to paragraphs 43, 52 and 53 hereof, prevent the Lenders (as hereinafter defined) from exercising any rights or remedies in accordance with the DIP Agreement or their respective Forbearance Agreements.

NO INTERFERENCE WITH RIGHTS

17. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

18. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, intellectual property licenses, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses, domain names, trademarks and trade names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

19. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

20. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers of the Applicant for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

21. THIS COURT ORDERS that the Applicant shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

22. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on the Property, which charge shall not exceed an aggregate amount of $800,000 as security for the indemnity provided in paragraph 21 of this Order. The Directors' Charge shall have the priority set out in paragraphs 57 and 59 herein.

23. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 21 of this Order.

24. THIS COURT ORDERS and directs the Applicant to deposit with the Monitor, in trust, the sum of $772,597 (the "**Directors' Escrow**"), which funds shall be held by the Monitor in trust and stand as collateral for the indemnity contemplated in paragraph 21 hereof and subject to the Directors' Charge, to be released only with the consent of the Monitor and the beneficiaries of the Directors' Charge (which consent may be communicated by counsel to the directors) or upon further Order of the Court made on notice to the Monitor and counsel to the directors; provided the indemnification obligations in respect of which the Directors' Escrow stands as collateral shall be limited to those relating to statutory obligations and liabilities of the directors and officers of the Applicant. Notwithstanding the provisions of paragraph 57 hereof, the Directors' Charge shall rank in priority to all other Charges and Encumbrances over the Directors' Escrow.

APPOINTMENT OF MONITOR

25. THIS COURT ORDERS that Richter is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicant with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

26. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Applicant's receipts and disbursements;

(b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

(c) assist the Applicant, to the extent required by the Applicant, in its dissemination to the Lenders and their respective counsel of financial and other information as agreed to between the Applicant and each Lender which may be used in these proceedings including reporting on a basis to be agreed with each Lender;

(d) advise the Applicant in its preparation of the Applicant's cash flow statements and reporting required by the Lenders, which information shall be reviewed with the Monitor and delivered to the Lenders as required pursuant to the DIP Agreement and the Forbearance Agreements;

(e) advise the Applicant in its development of the Plan and any amendments to the Plan;

(f) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant, to the extent that is necessary to adequately assess the Applicant's business and financial affairs or to perform its duties arising under this Order;

(h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order; and

(i) perform such other duties as are required by this Order or by this Court from time to time.

27. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

28. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario Water Resources Act*, or the Ontario *Occupational Health and Safety Act* and similar legislation in other provinces and territories, and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

29. THIS COURT ORDERS that that the Monitor shall provide any creditor of the Applicant and the Lenders with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

30. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

31. THIS COURT ORDERS that the Monitor, counsel to the Monitor, counsel to the Applicant, and counsel to the directors of the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, whether incurred prior to or after

the date of this Order, by the Applicant as part of the costs of these proceedings, subject to any assessment by the Court. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor, counsel to the Applicant, and counsel to the directors of the Applicant on a weekly basis or on such other basis agreed by the Applicant and the applicable payee and, in addition, the Applicant is hereby authorized, *nunc pro tunc*, to pay to the Monitor, counsel to the Monitor, and counsel to the Applicant, and counsel to the directors of the Applicant retainers in the amounts of $100,000, $50,000, $100,000 and $25,000, respectively, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

32. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

33. THIS COURT ORDERS that the Monitor, counsel to the Monitor, the Applicant's counsel, and counsel for the directors of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of $500,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 57 and 59 hereof.

KEY EMPLOYEE RETENTION PAYMENTS

34. THIS COURT ORDERS that the key employee retention payments ("**KERPs**") offered by the Applicant to certain of its remaining employees and executive officers, as set out and described in the Sun Affidavit, be and are hereby approved, and the Applicant be and is hereby authorized and empowered to make the KERPs in accordance with the terms set out in the Sun Affidavit.

35. THIS COURT ORDERS that the employees of the Applicant who are the beneficiary of the KERPs shall be entitled to the benefit of and are hereby granted a charge (the "**KERP Charge**") on the Property, which charge shall not exceed an aggregate amount of $190,000, as

security for the Applicant's obligations in respect of the KERPs. The KERP Charge shall have the priority set out in paragraphs 57 and 59 hereof.

SECOND LEASE CONSULTING AGREEMENT

36. THIS COURT ORDERS that the execution, delivery, entry into, compliance with, and performance by the Applicant of the Second Lease Consulting Agreement (as defined in the Sun Affidavit) be and is hereby authorized and approved.

DIP FINANCING & FORBEARANCE AGREEMENTS

A) DIP AGREEMENT

37. THIS COURT ORDERS that the Applicant is hereby authorized and empowered to obtain and borrow under a credit facility from the lenders that are parties to the DIP Agreement (as defined below) (in such capacity, collectively referred to herein as the "**Term DIP Lenders**") in order to finance the Applicant's working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed $5.5 million unless permitted by further Order of this Court.

38. THIS COURT ORDERS THAT such credit facility shall be on the terms and subject to the conditions set forth in the DIP facility term sheet between the Applicant, the Term DIP Lenders, GSO, as administrative agent for itself and for the Term DIP Lenders (in such capacity, the "**Term DIP Agent**") and Wilmington Trust, National Association, as servicing agent (the "**Term DIP Servicing Agent**"), dated as of January 24, 2017 (the "**DIP Agreement**"), filed.

39. THIS COURT ORDERS THAT that the execution, delivery, entry into, compliance with, and performance by the Applicant of the DIP Agreement is hereby ratified and approved and the Applicant is hereby directed to comply with and perform the provisions of the DIP Agreement.

40. THIS COURT ORDERS that the Applicant is hereby authorized and empowered to execute and deliver the DIP Security, the Servicing Agent Fee Agreement (each as defined in the DIP Agreement) and such other documents (collectively, the "**Term DIP Credit Documents**"), as are contemplated by the DIP Agreement or as may be reasonably required by the Term DIP Agent and the Term DIP Lenders pursuant to the terms thereof, and the Applicant is hereby

authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the Term DIP Agent, the Term DIP Lenders and the Term DIP Servicing Agent under and pursuant to the DIP Agreement and the Term DIP Credit Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

41. THIS COURT that, as security for all of the obligations of the Applicant under or in connection with the DIP Facility (as defined in the DIP Agreement), the DIP Agreement and the other Term DIP Credit Documents from and after the date of this Order, the Term DIP Agent on behalf of and for the benefit of itself, the Term DIP Lenders and the Term DIP Servicing Agent, shall be entitled to the benefit of and is hereby granted a charge (the "**Term Lenders' DIP Charge**") on the Property (excluding the ABL Priority Collateral to the extent of the ABL Obligations (each as defined in the Intercreditor Agreement (as hereinafter defined)), which Term Lenders' DIP Charge shall not secure an obligation that exists before this Order is made. The Term Lenders' DIP Charge shall have the priority set out in paragraphs 57 and 59 hereof.

42. THIS COURT ORDERS that, notwithstanding any other provision of this Order, the Term DIP Agent on behalf of and for the benefit of itself, the Term DIP Lenders and the Term DIP Servicing Agent, may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the Term Lenders' DIP Charge or any of the Term DIP Credit Documents.

43. THIS COURT ORDERS that, notwithstanding any other provision of this Order, upon the occurrence of an event of default under the DIP Agreement, the Term DIP Credit Documents or the Term Lenders' DIP Charge, or following the Maturity Date (as defined in the DIP Agreement), the Term DIP Lenders may:

(a) immediately cease making advances to the Applicant, provided that, if there are funds available under the DIP Agreement, the Term DIP Lenders shall, to the extent of the funds available only, fund the payment by the Applicant of 50% of the Priority Payables (as defined in the DIP Agreement, but, for greater certainty, excluding HST and all Sales Taxes) for a period of not less than five (5) business days following written notice to the Applicant, the Monitor and the ABL Lender (as defined below) of the event of default or the Maturity Date; and

(b) set off and/or consolidate any amounts owing by the Term DIP Lenders to the Applicant against the obligations of the Applicant to the Term DIP Lenders under the DIP Agreement, the Term DIP Credit Documents or the Term Lenders' DIP Charge, and make demand, accelerate payment and give other notices; and

(c) upon not less than five (5) business days' written notice to the Applicant, the Monitor and the ABL Lender, subject to the terms of the Intercreditor Agreement and paragraphs 43(a) and 54 of this Order, exercise any and all of their rights and remedies against the Applicant or the Property (other than the ABL Priority Collateral to the extent of the ABL Obligations) under or pursuant to the DIP Agreement, the Term DIP Credit Documents, the Term Lenders' DIP Charge, or the *Personal Property Security Act* (Ontario) or similar legislation of any other applicable jurisdiction, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver in respect of the Property (other than the ABL Priority Collateral to the extent of the ABL Obligations), or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicant and the foregoing rights and remedies of the Term DIP Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property (other than the ABL Priority Collateral to the extent of the ABL Obligations).

44. THIS COURT ORDERS AND DECLARES that the Term DIP Agent, the Term DIP Servicing Agent and the Term DIP Lenders shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicant under the CCAA, or any proposal filed by the Applicant under the *Bankruptcy and Insolvency Act* of Canada (the "**BIA**"), with respect to any advances made under the DIP Agreement or the Term DIP Credit Documents.

45. THIS COURT ORDERS AND DECLARES that the payments made by the Applicant pursuant to this Order, the DIP Agreement, the Term DIP Credit Documents, and the granting of the Term Lender's DIP Charge, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

B) FORBEARANCE AGREEMENTS

46. THIS COURT ORDERS that the execution, delivery, entry into, compliance with, and performance by the Applicant of the following amended and restated forbearance agreements (together, the "**Forbearance Agreements**") is hereby ratified and approved:

(a) the Forbearance Agreement dated as of January 24, 2017 (the "**ABL DIP Forbearance Agreement**") among the Applicant and 2473304 Ontario Inc. ("**247**"), as borrowers, and CIBC, as lender and as agent (in that capacity, the "**ABL Lender**"); and

(b) the Forbearance Agreement dated as of January 24, 2017 (the "**Term Forbearance Agreement**") among the Applicant, as borrower, 247, as guarantor, and the lenders that are parties to the Existing Credit Agreement (as defined in the Term Forbearance Agreement), as lenders (in such capacity, collectively referred to herein as the "**GSO Lenders**"), and GSO, as administrative agent for itself and the GSO Lenders (GSO and the GSO Lenders being collectively referred to as the "**Term Lenders**", and together with the ABL Lender, the Term DIP Lenders and the Term DIP Agent, the "**Lenders**");

and the Applicant is hereby directed to comply with and perform the provisions of (i) the ABL DIP Forbearance Agreement and the credit agreement dated as of February 12, 2016 by and among, the Applicant and 247, as borrowers, and the ABL Lender, as amended, including by the ABL DIP Forbearance Agreement (the "**ABL Credit Agreement**"), and (ii) the Term Forbearance Agreement and the Existing Credit Agreement, as amended, including by the Term Forbearance Agreement.

47. THIS COURT ORDERS that the Applicant's compliance with and performance of the Blocked Account Agreements (as defined in the ABL Credit Agreement) from and after the date of this Initial Order, as required pursuant to Section 4.1.8 of the ABL DIP Forbearance Agreement, is hereby authorized and approved and the Applicant is hereby directed to comply with the provisions of the Blocked Account Agreements in accordance with the terms of the ABL DIP Forbearance Agreement.

48. THIS COURT ORDERS that the Applicant shall be entitled, subject to the terms of the ABL Credit Agreement and the ABL DIP Forbearance Agreement, to continue to obtain and

borrow, repay and re-borrow additional monies under the credit facility (the "**ABL Facility**") from the ABL Lender pursuant to the ABL Credit Agreement and the ABL DIP Forbearance Agreement, in order to finance the Applicant's working capital requirements, provided that borrowings by the Applicant under the ABL Facility shall not exceed the amounts contemplated in the ABL DIP Forbearance Agreement. For greater certainty, the ABL Lender shall be entitled to apply receipts and deposits made to the Applicant's bank accounts, whether directly or pursuant to the Blocked Account Agreements, against the indebtedness of the Applicant to the ABL Lender in accordance with the ABL Credit Agreement, the ABL DIP Forbearance Agreement and the Blocked Account Agreements, whether such indebtedness arose before or after the date of this Initial Order.

49. THIS COURT ORDERS that subject to the provisions of the Forbearance Agreements, the Applicant is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the Lenders under and pursuant to the ABL Credit Agreement, the Existing Credit Agreement, the Forbearance Agreements and the Term DIP Credit Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

50. THIS COURT ORDERS that in addition to the existing liens, charges, mortgages and encumbrances in favour of the ABL Lender, as security for all of the obligations of the Applicant to the ABL Lender relating to advances made to the Applicant under the ABL Facility from and after the date of this Order, the ABL Lender shall be entitled to the benefit of and is hereby granted a charge (the "**ABL Lender's DIP Charge**") on the Property (excluding the Term Priority Collateral to the extent of the Term Obligations (each as defined in the Intercreditor Agreement (as hereinafter defined)). The ABL Lender's DIP Charge shall have the priority set out in paragraphs 57 and 59 hereof.

51. THIS COURT ORDERS that, notwithstanding any other provision of this Order, the ABL Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the ABL Lender's DIP Charge.

52. THIS COURT ORDERS that, upon the earlier of the occurrence of a Terminating Event or the last day of the Forbearance Period (in each case as defined in the ABL DIP Forbearance Agreement), the ABL Lender may,

(a) immediately cease making advances to the Applicant, provided that, if there are funds available under the ABL Facility, the ABL Lender shall, to the extent of the funds available only, fund the payment by the Applicant of 50% of the Specified Priority Payables (as defined in the ABL DIP Forbearance Agreement, but, for greater certainty, excluding HST and Sales Taxes) for a period of not less than five (5) business days following written notice to the Applicant, the Monitor and the Term DIP Lenders of the Terminating Event or the Termination Date;

(b) set off and/or consolidate any amounts owing by the ABL Lender to the Applicant against the obligations of the Applicant to the ABL Lender under the ABL Credit Agreement, the Blocked Account Agreements, the ABL DIP Forbearance Agreement or any other Loan Document (as defined in the ABL Credit Agreement) and make demand, accelerate payment and give other notices; and

(c) upon not less than five (5) business days' written notice to the Applicant, the Monitor, the Term Lenders and the Term DIP Agent on behalf of the Term DIP Lenders, subject to the terms of the Intercreditor Agreement and paragraphs 52(a) and 54 of this Order, exercise any and all of its rights and remedies against the Applicant or the Property (other than the Term Priority Collateral to the extent of the Term Obligations) under or pursuant to the ABL Credit Agreement, the ABL DIP Forbearance Agreement, the Blocked Account Agreements or the other Loan Documents, the ABL Lender's DIP Charge, or the *Personal Property Security Act* (Ontario) or similar legislation in any other applicable jurisdiction, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver in respect of the Property (other than the Term Priority Collateral to the extent of the Term Obligations), or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicant and the foregoing rights and remedies of the ABL Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property (other than the Term Priority Collateral to the extent of the Term Obligations).

53. THIS COURT ORDERS that, upon the occurrence of a Terminating Event (as defined in the Term Forbearance Agreement), the Term Lenders may,

(a) immediately set off and/or consolidate any amounts owing by the Term Lenders to the Applicant against the obligations of the Applicant to the Term Lenders under the Existing Credit Agreement, the Term Forbearance Agreement or any security agreements, mortgages, deeds of trust, hypothecs or other collateral documents executed and delivered by the Applicant in favour of the Term Lender (the "**Term Security Documents**"), and make demand, accelerate payment and give other notices; and

(b) upon not less than five (5) business days' written notice to the Applicant, the Monitor, the ABL Lender and the Term DIP Agent on behalf of the Term DIP Lenders, subject to the terms of the Intercreditor Agreement and paragraphs and 54 of this Order, exercise any and all of its rights and remedies against the Applicant or the Property (other than the ABL Priority Collateral to the extent of the ABL Obligations) under or pursuant to the Existing Credit Agreement, the Term Forbearance Agreement, or the Term Security Documents, or the *Personal Property Security Act* (Ontario) or similar legislation of any other applicable jurisdiction, including without limitation, to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver in respect of the Property (other than the ABL Priority Collateral to the extent of the ABL Obligations), or for a bankruptcy order against the Applicant and for the appointment of a trustee in bankruptcy of the Applicant and the foregoing rights and remedies of the Term Lenders shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property (other than the ABL Priority Collateral to the extent of the ABL Obligations).

54. THIS COURT ORDERS that nothing in this Order shall amend, override or relieve the Lenders of any of the provisions of the intercreditor agreement among them dated as of February 12, 2016 (the "**Intercreditor Agreement**") and when determining

(a) the priorities of the claims of the ABL Lender, the Term Lenders and the Term DIP Lenders,

(b) the priorities of the Term Lenders' DIP Charge, the ABL Lender's DIP Charge and the Liens granted to the Term Secured Parties and the ABL Secured Parties (each as defined in the Intercreditor Agreement), and

(c) the enforcement rights of the Term DIP Lenders, the ABL Secured Parties and the Term Secured Parties,

the ABL Lender's DIP Charge and the Term Lenders' DIP Charge, and the obligations secured by those charges, shall be treated in a manner consistent with Liens granted to, and obligations owing to, the ABL Secured Parties and the Term Secured Parties, respectively for the purposes of the Intercreditor Agreement.

55. THIS COURT ORDERS AND DECLARES that each of the ABL Lender and the Term Lenders shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicant under the CCAA, or any proposal filed by the Applicant under the BIA, with respect to any obligations outstanding as of the date of this Order or arising hereafter under (i) the ABL Credit Agreement or the ABL DIP Forbearance Agreement, and (ii) the Existing Credit Agreement or the Term Forbearance Agreement, respectively.

56. THIS COURT ORDERS AND DECLARES that the payments made by the Applicant pursuant to this Order, the ABL Credit Agreement, the ABL DIP Forbearance Agreement, the Blocked Account Agreements or the Term Forbearance Agreement, and the granting of the ABL Lender's DIP Charge, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

57. THIS COURT ORDERS that the priorities of the Directors' Charge, the Administration Charge, the Term Lenders' DIP Charge, the ABL Lender's DIP Charge and the KERP Charge and the Liens granted to the Term Secured Parties and the ABL Secured Parties over the Property so charged by them, as among them, shall be as follows:

(a) With respect to the ABL Priority Collateral:

First – Administration Charge;

Second – ABL Lender's DIP Charge;

Third – Liens granted to the ABL Secured Parties;

Fourth – Term Lenders' DIP Charge;

Fifth – Liens granted to the Term Secured Parties;

Sixth – KERP Charge; and

Seventh – Directors' Charge.

(b) With respect to the Term Priority Collateral:

First – Administration Charge;

Second – Term Lenders' DIP Charge;

Third – Liens granted to the Term Secured Parties;

Fourth – ABL Lender's DIP Charge;

Fifth – Liens granted to the ABL Secured Parties;

Sixth – KERP Charge; and

Seventh – Directors' Charge.

58. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge, the Administration Charge, the Term Lenders' DIP Charge, the ABL Lender's DIP Charge or the KERP Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

59. THIS COURT ORDERS that each of the Charges (all as constituted and defined herein) shall constitute a charge on the Property so charged by them and, subject to the provisions of the

Intercreditor Agreement, such Charges shall rank (except as expressly provided herein) in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person, other than (subject to further Order of the Court) validly perfected and enforceable security interests, if any, in favour of Xerox Canada Ltd. (File No. 675686367), and Canadian Dealer Lease Services Inc. and Bank of Nova Scotia-DLAC (File No. 719663706), in each case under the *Personal Property Security Registry* (Ontario)).

60. THIS COURT ORDERS that except as otherwise expressly provided for herein or in the Intercreditor Agreement, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Monitor, the Lenders, and the beneficiaries of the Directors' Charge, the Administration Charge and the KERP Charge, or further Order of this Court.

61. THIS COURT ORDERS that the Charges, the DIP Agreement, the Term DIP Credit Documents and the Forbearance Agreements shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") and/or the Term DIP Lenders or the ABL Lender thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

(a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the DIP Agreement, the Term DIP Credit Documents or the Forbearance Agreements shall create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party; and

(b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicant entering into the DIP Agreement, the Term DIP Credit Documents or the Forbearance Agreements or the creation of the Charges or the execution, delivery or performance of such documents.

62. THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicant's interest in such real property leases.

SERVICE AND NOTICE

63. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in *The Globe and Mail* (National Edition; English) a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than $1000, 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.

64. THIS COURT ORDERS that the E-Service Protocol of the Commercial List (the "**Protocol**") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial/) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure. Subject* to Rule 3.01(d) of the *Rules of Civil Procedure* and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: https://www.richter.ca/en/folder/insolvency-cases/g/grafton-fraser-inc

65. THIS COURT ORDERS that if the service or distribution of documents in accordance with the Protocol is not practicable, the Applicant and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other

correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicant, the Monitor, the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

66. THIS COURT ORDERS that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

67. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

68. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

69. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

70. THIS COURT ORDERS that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days'

notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order; provided, however, that the Term DIP Lenders and the ABL Lender shall be entitled to rely on this Order as issued for all advances made and payments received under the DIP Agreement, the ABL Credit Agreement or the ABL DIP Forbearance Agreement up to and including the date this order may be varied or amended.

71. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:

JAN 25 2017

PER / PAR:

Court File No.: CV-17-11677-00CL

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 GRAFTON-FRASER INC.

(the "Applicant")

ONTARIO
SUPERIOR COURT OF JUSTICE
[COMMERCIAL LIST]

Proceedings commenced in Toronto

ORDER
(INITIAL CCAA APPLICATION)
(Returnable January 25, 2017)

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APPENDIX “B”

Court File No. CV-17-11677-00CL

GRAFTON-FRASER INC.

REPORT OF RICHTER ADVISORY GROUP INC., IN ITS CAPACITY AS PROPOSED MONITOR OF GRAFTON-FRASER INC.

JANUARY 25, 2017

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Court File No. ______________

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 GRAFTON-FRASER INC.

PRE-FILING REPORT OF RICHTER ADVISORY GROUP INC.
In its capacity as Proposed Monitor of the Applicant

January 25, 2017

Introduction

1. Richter Advisory Group Inc. (**"Richter"**) understands that Grafton-Fraser Inc. (**"Grafton"**, the **"Company"** or the **"Applicant"**) intends to make an application to the Court for an order (the **"Initial Order"**), among other things, granting a stay of proceedings in favour of the Company until February 23, 2017 pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the **"CCAA"**).

2. On the application for the Initial Order, the Applicant will also be seeking an order that Richter be appointed as the CCAA monitor (the **"Proposed Monitor"** and if appointed, **"Monitor"**) of the Applicant in the CCAA proceedings.

3. Richter, in its capacity as Proposed Monitor, has reviewed the Court materials to be filed by the Applicant in support of its application. The purpose of this limited scope report of the Proposed Monitor is to provide information to this Honourable Court regarding the following:

   (i) Richter's qualifications to act as Monitor (if appointed);

   (ii) A limited summary of certain background information about the Applicant and the CCAA proceedings, the objectives of the CCAA proceedings and the Company's creditors;

(iii) The Applicant's request to approve the Forbearance Agreements (as hereinafter defined) including the ability to continue to borrow and repay amounts under the ABL Credit Facility (as hereinafter defined);

(iv) The Applicant's statement of projected cash flow for the period from January 22, 2017 to March 11, 2017;

(v) The Applicant's request that it be authorized and empowered to obtain and borrow interim financing, including the terms of the debtor-in-possession (**"DIP"**) facility;

(vi) The Applicant's request to pay certain pre-filing amounts owing to essential service providers, and suppliers of goods essential to continuing operations;

(vii) The proposed Key Employee Retention Plan (**"KERP"**);

(viii) The Applicant's request to approve the Lease Consulting Agreement between Grafton and Oberfeld Snowcap Inc. (**"Oberfeld"** or the **"Lease Consultant"**);

(ix) The charges proposed in the Initial Order;

(x) Certain other relief that the Proposed Monitor understands the Applicant intends to seek at the first hearing subsequent to the granting of the Initial Order (the **"Comeback Hearing"**) scheduled for January 30, 2017, including the approval of the execution of the Stalking Horse APA and the SISP as well as approval of the Liquidation Consulting Agreement and Sale Guidelines (as each are hereinafter defined); and

(xi) The Proposed Monitor's conclusions and recommendations.

Disclaimer and Terms of Reference

4. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

5. Capitalized terms not otherwise defined herein are as defined in the Applicant's application materials, including the affidavit of Mark Sun sworn January 25, 2017 (the **"Sun Affidavit"**) filed in support of the Applicant's application for relief under the CCAA. This report should be read in conjunction with the Sun Affidavit, as certain information contained in the Sun Affidavit has not been included herein in order to avoid unnecessary duplication.

6. In preparing this report and conducting its analysis, the Proposed Monitor has obtained and relied upon certain unaudited, draft, and/or internal financial information of the Applicant, the Applicant's books and records and discussions with various parties, including Grafton's employees and certain of its directors (collectively, the **"Information"**).

7. Except and otherwise described in this report:

   (i) The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountant Canada Handbook; and

   (ii) The Proposed Monitor has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Chartered Professional Accountant Canada Handbook.

8. Since the Cash Flow Forecast (as hereinafter defined) is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the Proposed Monitor in preparing this report.

Richter's Qualifications to Act as Monitor

9. Richter Consulting Canada Inc. (**"Richter Consulting"**), an affiliate of the Proposed Monitor, was engaged by counsel to the Company and 2473304 Ontario Inc. (**"247"**), a wholly owned subsidiary of the Company, in March 2016 to provide consulting services and to assist Grafton and 247, in developing and assessing various strategic alternatives.

10. In June 2016, 247 sought and obtained protection under the CCAA to pursue an orderly liquidation of its assets. Richter was appointed as Monitor of 247. 247's CCAA administration is in its final stages. As at the date of this report, 247 no longer has any business operations or non-management employees. As noted in the Sun Affidavit, it is expected that 247 will eventually file an assignment in bankruptcy to effect an orderly wind-down of the company. Further information and materials related to 247's CCAA proceedings may be obtained from Richter's website at www.richter.ca/en/folder/insolvency-cases/0-9/2473304-ontario-inc.

11. Richter is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). The senior Richter professional personnel with carriage of this matter have acquired knowledge of the Applicant and its business since the engagement of Richter Consulting as consultant. Richter is, therefore, in a position to immediately assist the Applicant in its CCAA proceedings.

12. Richter is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA and, in particular, neither Richter nor any of its representatives has been at any time in the two preceding years;

    (i) A director, an officer or an employee of the Applicant;

    (ii) Related to the Applicant or to any director or officer of the Applicant; or

    (iii) The auditor of the Applicant.

13. Richter has consented to act as Monitor, should the Court grant the Applicant's request to commence the CCAA proceedings.

General Background to the Proposed CCAA Proceedings

14. The Applicant is a leading Canadian menswear retailer that operates 158 stores in Canada under various banners, including "Tip Top Tailors" (107 stores), "George Richards Big & Tall", "Mr. Big and Tall", and "Kingsport Big and Tall Clothier" (collectively 51 stores). All of the Company's store locations are leased.

15. Grafton's head office and main distribution centre is located in a 38,000 square foot facility at 44 Apex Road, Toronto, Ontario where it receives, stores and ships inventory to its various store locations. The Company also leases a secondary distribution centre located at 21 Hafis Road, Toronto, Ontario.

16. As of January 21, 2017, the Company had approximately 1,226 employees of which approximately 526 were full time employees and 700 were part time employees. The Company's employees are not represented by a union and are not subject to a collective bargaining agreement.

17. The Company sells certain brands of menswear in Canada pursuant to various licence agreements, including "Jones New York" and "Daniel Hechter".

18. As described in the Sun Affidavit, the adverse effects of 247's CCAA proceedings on the Company combined with, among other things, lower than expected retail sales, increased overhead costs, delays in receiving seasonal inventory and turnover of key personnel have negatively impacted the Company's

financial performance. As a result, the Applicant is experiencing a liquidity crisis and has defaulted on various financial and other covenants with its two primary secured lenders, Canadian Imperial Bank of Commerce (**"CIBC"**) and entities related to GSO Capital Partners LP ("**GSO**") which, subject to the Court's approval of the Initial Order (and the Forbearance Agreements), will continue to forbear from enforcing their rights and remedies, subject to certain terms and conditions, to permit Grafton to pursue its restructuring.

19. The Applicant's business, affairs, financial performance and position, as well as the causes of its insolvency, are detailed extensively in the Sun Affidavit and are, therefore, not repeated herein. The Proposed Monitor has reviewed the Sun Affidavit and discussed the business and affairs of the Applicant and the causes of insolvency with senior management personnel of the Applicant and is of the view that the Sun Affidavit provides a fair summary thereof.

Objectives of CCAA Proceedings

20. The primary objectives of the Applicant's CCAA proceedings are to: (i) ensure the ongoing operations of the Company; (ii) ensure that the Company has the necessary working capital funds to maximize the ongoing business for the benefit of the Applicant's stakeholders; (iii) restructure the Applicant's operations, including the proposed closure of underperforming locations; and (iv) complete a transaction(s) arising from the proposed sale and investment solicitation process (**"SISP"**), which, if no superior offers come forward during the SISP is intended to be the transaction represented by the Stalking Horse APA. The Stalking Horse APA contemplates a 'credit bid' by a party related to GSO who has arranged, subject to certain conditions being fulfilled, to obtain financing from CIBC. The approval of the execution of the Stalking Horse APA, the SISP and the Liquidation Consulting Agreement, will be matters for which approval will be sought by the Company at the Comeback Hearing, subject to the granting of the Initial Order.

Creditors

<u>Secured Creditors</u>

21. As detailed in the Sun Affidavit, CIBC and GSO are secured creditors of the Company that, as at January 21, 2017, are owed approximately $12.8 million and $39.4 million respectively.

22. Pursuant to an intercreditor agreement between CIBC and GSO dated February 12, 2016 (the **"Intercreditor Agreement"**), CIBC has a first ranking security interest in and to the ABL Priority Collateral to the extent of the ABL Obligations (as defined in the Intercreditor Agreement) being generally the inventory, accounts receivable, bank accounts, cash and securities (to the extent they are not proceeds of the Term Priority Collateral) of the Applicant, and GSO has a first ranking security interest in and to the Term Priority Collateral to the extent of the Term Obligations (as defined in the Intercreditor Agreement) being generally the intellectual property, insurance proceeds (related to the Term Priority Collateral) furniture, fixtures and equipment of the Applicant.

23. Searches conducted on January 11, 2017 of the Personal Property Security Registry in Ontario (and similar searches in the other provinces where the Company has stores) show registrations against the Applicant in favour of CIBC and GSO. The search results for Ontario also show registrations in favour of (i) Canadian Dealer Lease Service Inc. and Bank of Nova Scotia (together, **"CDLS"**) in respect of a leased vehicle, and (ii) Xerox Canada Ltd. (**"Xerox"**) in respect of certain specific equipment.

24. The Proposed Monitor has instructed its independent legal counsel, Cassels Brock & Blackwell LLP (**"Cassels"**) to review the security of CIBC and GSO with respect to the Applicant in the following jurisdictions: Ontario, British Columbia, Alberta, Manitoba, and Nova Scotia. Although a security opinion has not yet been provided, at this time, the Proposed Monitor has been advised that Cassels has not identified any concerns with the security held by CIBC or GSO.

<u>CIBC</u>

25. CIBC and the Applicant (along with 247 as co-borrower) are parties to a credit agreement dated February 12, 2016, as amended (**"ABL Credit Agreement"**) pursuant to which CIBC provides a revolving asset-based loan facility to the Applicant (and previously 247) (the **"ABL Credit Facility"**).

26. As a result of, among other things, 247's poor performance leading up to the commencement of 247's CCAA proceedings, the Applicant and 247 breached certain of their financial and other covenants under the ABL Credit Facility.

27. On June 6, 2016, the Applicant, 247 and CIBC agreed on the terms of a forbearance agreement (the **"ABL Forbearance Agreement"**), pursuant to which CIBC agreed to forbear from enforcing its rights and remedies, subject to certain terms and conditions, to permit 247 to complete a Court-supervised liquidation of its assets. The ABL Forbearance Agreement has been amended and restated pursuant to an amended and restated forbearance agreement dated as of January 24, 2017 (the **"Amended and Restated ABL Forbearance Agreement"**).

28. The Amended and Restated ABL Forbearance Agreement modifies and amends the existing ABL Credit Facility to, among other things, (i) terminate any commitment of CIBC to 247 and deem any amounts owing by 247 to CIBC to be amounts owing by Grafton; (ii) provide additional financing to the Applicant during the CCAA Proceedings and require a priority charge (the **"ABL Lender's DIP Charge"**) to secure such additional borrowings; (iii) provide that Canadian Prime Rate Loans and Base Rate Loans to the Applicant shall be made at the Canadian Prime Rate plus 3% per annum and the Base Rate plus 3% per annum, respectively (the loan interest rates were increased by 2% from the ABL Forbearance Agreement); and (iv) provide that the Applicant shall pay an unused Line Fee in the amount of 0.5% per annum and the Letter of Credit Fee is increased to 1.75% (for documentary letters of credit) and 2.50% (for standby letters of credit), which rates have been in effect since June 6, 2016. A copy of the Amended and Restated ABL Forbearance Agreement is attached to the Sun Affidavit as Exhibit "I".

29. As a condition of the Amended and Restated ABL Forbearance Agreement, the Applicant must be granted an Initial Order in form and substance satisfactory to CIBC, which order shall include the ABL Lender's DIP Charge. In addition, the Applicant is required to pay an amendment and forbearance fee in the aggregate amount of $125,000.

30. It is required under the Amended and Restated ABL Forbearance Agreement that the Company seek and obtain an Order of the Court authorizing and directing it to pay amounts owing to CIBC prior to the date of the Initial Order from amounts received by the Applicant following the date of the Initial Order. Further borrowings will be available under the ABL Credit Facility such that the total commitment shall be the lesser of $25,000,000 million and the Applicant's borrowing base following the granting of the Initial Order.

31. The Amended and Restated ABL Forbearance Agreement also requires the payment by the Applicant of the expenses incurred by GSO and CIBC prior to and following the Applicant's filing under the CCAA.

32. Unless terminated sooner, due to (i) the failure to obtain the Initial Order or the Court's approval of the SISP or Stalking Horse APA (as defined below); (ii) a terminating event; or (iii) another event of default, CIBC agrees to forbear from enforcing its rights and remedies against the Applicant and/or its business and assets until June 15, 2017.

33. Terminating events under the Amended and Restated ABL Forbearance Agreement include (the following is not an exhaustive list):

(i) Certain negative variances from the Approved Cash Flow (as defined in the Amended and Restated ABL Forbearance Agreement);

(ii) The granting of any court-ordered charges ranking in priority to the Liens granted in favour of the ABL Lender other than the Administration Charge (as hereinafter defined);

(iii) Termination of the CCAA proceedings, without the prior consent of CIBC;

(iv) A report by the Monitor that there has been a material adverse change in respect of the Applicant or the CCAA proceedings;

(v) A Terminating Event or Event of Default (both as defined in the Amended and Restated GSO Forbearance Agreement) occurs; and

(vi) An advance requested by the Applicant to the DIP Lenders (as hereinafter defined) in accordance with the terms of the DIP Agreement (as hereinafter defined) is not made by the DIP Lenders the business day following the date of the requested advance.

34. Upon the termination of the forbearance period, the form of requested Initial Order provides that CIBC will be entitled to immediately cease making advances to the Applicant, and will be entitled to immediately set off or consolidate amounts owing by CIBC to the Applicant against the obligations of the Applicant to CIBC. Further, upon not less than five (5) Business Days' notice to, among others, the Applicant and the Monitor, CIBC may, subject to the terms of the Intercreditor Agreement, exercise any and all additional rights and remedies against the Applicant provided that provision has been made for the payment of Specified Priority Payables (as defined in the Initial Order) other than sales tax and HST during the five (5) day period and provided availability under the ABL Credit Facility exists.

GSO

35. GSO and the Applicant are parties to an amended and restated credit agreement dated June 16, 2009 (as amended from time to time (collectively, the "**GSO Credit Agreement**")) pursuant to which GSO provides a term credit facility to the Applicant in the principal amount of $32 million (the "**GSO Credit Facility**").

36. As noted in the Sun Affidavit, in the period leading up to the Applicant seeking protection under the CCAA, Grafton projected that it would have a liquidity shortfall of approximately $3 million due, in part, to rent obligations due January 1, 2017. To address the Applicant's projected cash needs, Grafton and GSO, among others, entered into an amending agreement dated December 23, 2016, in which GSO agreed to amend the GSO Credit Agreement to increase the size of the GSO Credit Facility and provide an additional advance to the Applicant in the amount of $2.5 million (CIBC also agreed to certain amendments to the ABL Credit Agreement to make an additional $0.5 million of liquidity available to the Applicant).

37. As with CIBC, at the time leading up to the commencement of 247's CCAA proceedings, the Applicant (and 247) had breached certain of their financial and other covenants under the GSO Credit Facility.

38. On June 6, 2016, the Applicant, 247 and GSO agreed on the terms of a forbearance agreement (the **"GSO Forbearance Agreement"**), pursuant to which GSO agreed to forbear from enforcing its rights and remedies, subject to certain terms and conditions, to permit 247 to complete a Court-supervised liquidation of its assets. The GSO Forbearance Agreement has been amended and restated pursuant to an amended and restated forbearance agreement dated as of January 24, 2017 (the **"Amended and Restated GSO Forbearance Agreement"**, and together with the Amended and Restated ABL Forbearance Agreement, the **"Forbearance Agreements"**). A copy of the Amended and Restated GSO Forbearance Agreement is attached to the Sun Affidavit as Exhibit "E".

39. Under the Amended and Restated GSO Forbearance Agreement, the loan continues to accrue interest at 17% per annum being the existing interest rate of 15% per annum, plus default interest at 2%. This rate has been applied since June 6, 2016.

40. As a condition of the Amended and Restated GSO Forbearance Agreement, the Applicant must be granted an Initial Order in form and substance satisfactory to GSO.

41. The Amended and Restated GSO Forbearance Agreement also requires the payment by the Applicant of the expenses incurred by GSO and CIBC prior to, and following, the Applicant's filing under the CCAA.

42. The forbearance period, conditions precedent and Terminating Events under the Amended and Restated GSO Forbearance Agreement are substantively similar to those in the Amended and Restated ABL Forbearance Agreement and, as such, are not repeated herein.

43. Upon the occurrence and continuation of a Terminating Event, the form of requested Initial Order provides that GSO will be entitled to immediately set off or consolidate amounts owing by GSO to the Applicant against the obligations of the Applicant to GSO. Further, upon not less than five (5) Business Days' notice to, among others, the Applicant and the Monitor, GSO may, subject to the terms of the Intercreditor Agreement, exercise any and all additional rights and remedies against the Applicant provided that provision has been made for the payment of Specified Priority Payables (as defined in the Initial Order) less HST and sales tax during the five (5) day period and provided availability under the DIP Credit Facility exists and to the extent of the available funds only.

44. As noted above, an affiliate of GSO, 1104307 B.C. Ltd. (the **"Stalking Horse Purchaser"**), and the Applicant propose to enter into an Asset Purchase Agreement (the **"Stalking Horse APA"**), pursuant to which the Stalking Horse Purchaser will acquire Grafton's business on the terms set out in the Stalking Horse APA, subject to the SISP (discussed further later in this report).

Unsecured Creditors

45. In addition to the amounts owed by the Applicant to CIBC and GSO, the Applicant estimates that they have accrued and unpaid unsecured obligations totaling approximately $8 million (excluding intercompany and related party indebtedness).

The Applicant's Cash Flow Statement

46. The Applicant, with the assistance of the Proposed Monitor, has prepared a cash flow forecast of its receipts, disbursements and financing requirements for the period January 22, 2017 to March 11, 2017 (the **"Cash Flow Forecast"**). A copy of the Cash Flow Forecast is attached as **Appendix "A"** to this report and is summarized below:

Grafton-Fraser Inc. Cash Flow Forecast For the Period January 22 - March 11, 2017 ($000's)	
Receipts	
Retail Receipts	$ 16,475
GSO DIP Funding	5,500
Total Receipts	**$ 21,975**
Disbursements	
Merchandise	(12,741)
Payroll	(3,791)
Rent	(6,622)
Sales Tax	(1,708)
Store Expenses and Other	(1,942)
Supplier & Other Deposits	(250)
Capex	(100)
Interest	(175)
Forbearance Fee	(200)
Professional Fees	(2,366)
JNY Payments	(1,283)
Vacation Escrow	(800)
Total Disbursements	**(31,978)**
Net Cash Flow	**(10,003)**
Opening Revolver	**$ 12,826**
Draw (Repayment)	10,003
Closing Revolver	**$ 22,829**
Opening DIP Term Loan	**$ -**
Draws	5,500
Interest (PIK'd)	72
Ending DIP Term Loan	**$ 5,572**
Ending Total DIP Financing	**$ 28,401**

47. The Cash Flow Forecast (see **Appendix "A"**) estimates that during the period of the projection, the additional financial support required by the Applicant will peak at approximately $5.5 million during the week ended March 11, 2017.

48. The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the monitor's findings. The Canadian Association of Insolvency and Restructuring Professionals' standards of professional practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on the Cash Flow Forecast.

49. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussion related to information supplied to it by certain key members of management and employees of the Applicant. Since the probable and hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by the Applicant for the probable and hypothetical assumptions and the preparation and presentation of the Cash Flow Forecast.

50. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe, in all material respects, that:

(i) The probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;

(ii) As at the date of this report, the probable and hypothetical assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Cash Flow Forecast, given the probable and hypothetical assumptions; or

(iii) The Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

51. Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the probable and hypothetical assumptions occur, and the variation could be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. In addition, the Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Cash Flow Forecast, or relied upon by the Proposed Monitor in preparing this report.

52. The Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

The Applicant's Request for Interim Financing

53. The Applicant's continuing losses have virtually eliminated its liquidity, leaving it without funds to operate or restructure. Without funding from the DIP Facility the Company will not have sufficient funding to make the rent payments due on February 1, 2017.

54. As shown in the Cash Flow Forecast, it is estimated that for the period ending March 11, 2017, the Applicant will require additional financial support in the amount of approximately $5.5 million. Accordingly, the ability to borrow additional funds, in the form of a Court-approved DIP facility, secured by the Term Lenders' DIP Charge (as hereinafter defined), is vital to providing the stability to, and the necessary cash flow for, Grafton's business so that its value can be preserved while the Applicant pursues its restructuring plan.

DIP Agreement

55. As noted above, based on the Cash Flow Forecast, the Applicant will require interim financing to continue operations and implement its restructuring initiatives.

56. Following extensive negotiations, GSO, as lender and agent for other lenders (the **"DIP Lenders"**), and the Applicant agreed upon the terms of the DIP Agreement in the form of a new non-revolving credit facility with GSO (the **"DIP Credit Facility"**) during the CCAA Proceedings, secured by the GSO Security, as amended, to the extent required, and any additional security as it may be requested under the DIP Agreement. A copy of the DIP Agreement is attached as Exhibit "F" to the Sun Affidavit.

57. The principal terms of the DIP Agreement include (the following is not an exhaustive list):

(i) The maximum loan amount under the DIP Credit Facility is $5.5 million;

(ii) The interest rate on the DIP Credit Facility is CDOR plus 14%, compounded daily and paid monthly in arrears, or added to the outstanding loan balance in the form of PIK interest, at the Applicant's discretion;

(iii) The payment of (i) a facility fee of $55,000; (ii) a US$15,000 annual administration fee; and (iii) the DIP Lenders' reasonable out of pocket fees and expenses in connection with the DIP Agreement and enforcement of rights and remedies thereon;

(iv) The DIP funds are to be used, by the Applicant, in accordance with the Approved Cash Flow (as defined in the DIP Agreement);

(v) The DIP funds are to be advanced upon written request to the DIP Lenders and in line with the Approved Cash Flow (as may be updated with the DIP Lenders' approval);

(vi) The conditions precedent to advancing funds under the DIP Credit Facility include (i) the payment of all fees and expenses payable to the DIP Lenders, (ii) entering into the Liquidation Consulting Agreement, (iii) the granting of the Initial Order as well as the granting of the Order approving the execution of the Stalking Horse APA and SISP that, among other things, are the subject matter of the Comeback Hearing, both in form and substance acceptable to the DIP Lenders, and (iv) an commitment letter from CIBC establishing the terms upon which CIBC will make a new revolving credit facility available to the Stalking Horse Purchaser immediately following the closing of the transaction contemplated by the Stalking Horse APA.

(vii) The repayment and maturity date is the earliest of the following occurrences (i) 150 days following the first advance of funds; (ii) conversion of the CCAA proceedings to a proceeding under the *Bankruptcy and Insolvency Act* (Canada); (iii) disposal or liquidation of the Applicant's property outside of the ordinary course of business (and exceeding certain thresholds) without the prior consent of the DIP Lenders; or (iv) any Event of Default (as defined in the DIP Agreement) in which the DIP Lenders elect, in their sole discretion, to demand repayment; and

(viii) The DIP Agreement is conditional upon, *inter alia,* the DIP Lenders being granted a charge against the assets of the Applicant (the **"Term Lenders' DIP Charge"**), as noted above, in an amount equal to the aggregate of any and all advances of funds by the DIP Lenders to the Applicant subsequent to the issuance of the Initial Order, ranking ahead of any and all encumbrances on the assets of the Applicant other than the Administration Charge (as hereinafter defined), and subject to the terms of the Intercreditor Agreement. As previously noted, the terms of the Amended and Restated ABL Forbearance Agreement contemplate that funds will continue to be advanced to the Applicant during the CCAA proceedings, and as such, any funds received by the Applicant post-filing shall be used to first repay the ABL Credit Facility.

58. The Proposed Monitor has inquired into the marketing process for the DIP financing and has been advised by the Applicant that the DIP financing requirement was not marketed externally or to other potential lenders. In its assessment of the potential DIP lenders, the Applicant considered the GSO proposal as advantageous, as GSO was already familiar will the Applicant's business and financial profile as well as its restructuring plan as a result of its pre-existing relationship with the Applicant,

discussions with the Applicant and its advisors throughout the Applicant's strategic review process and the fact that an affiliate of GSO is the Stalking Horse Purchaser.

59. Likewise, the Proposed Monitor understands that a DIP financing alternative to the ABL Credit Facility was not explored, given the constraints of the Intercreditor Agreement and since the Amended and Restated ABL Forbearance terms were considered amenable to the Applicant. In addition, CIBC was already familiar will the Applicant's business, financial profile, and its restructuring plan as a result of its pre-existing relationship with the Applicant, and therefore CIBC was willing to support a going concern sale of the business by providing the Stalking Horse Purchaser with post-closing financing, under certain terms and conditions, in the event of a transaction.

60. The Applicant has advised the Proposed Monitor that to solicit DIP term sheets from other lenders would have required a great deal of time and expense to pursue and there was no commercial advantage to pursuing other financing options. The Applicant has further advised the Proposed Monitor that, given the constraints of the Interceditor Agreement, in its view, the DIP Credit Facility, together with the funding provided by the ABL Credit Facility, represents the only viable alternative to the Applicant to ensure the continuation of the Applicant's operations at this time.

61. Taking into consideration the above, the Proposed Monitor is supportive of the DIP Agreement for the following reasons:

(i) The Applicant is facing an imminent liquidity crisis and Grafton is without the cash needed to continue operations and implement its restructuring plan – short term funding is needed urgently. The Proposed Monitor understands that the Applicant will be unable to pay rents owing to landlords as they become due absent the DIP financing;

(ii) If the DIP financing is not available, the Applicant's operations will likely cease and the Applicant will have virtually no prospect of completing its restructuring plan;

(iii) Further delays attempting to source alternative interim financing is not justified in the circumstances. The Applicant's poor financial performance and highly levered balance sheet make it unlikely that the Applicant would be able to secure alternative interim financing and, even if it could, the funding would likely be insufficient and/or expensive;

(iv) Having the existing secured lenders, being CIBC and GSO provide the ABL Credit Facility and the DIP Credit Facility in a manner consistent with the existing Intercreditor Agreement

between those parties avoids complications associated with potential priming of existing secured lenders; and

(v) The Proposed Monitor has compared the principal financial terms of the DIP Credit Facility, together with the ABL Credit Facility, to a number of other recent DIP financing packages with respect to pricing, loan availability and certain security considerations. Based on this comparison, the Proposed Monitor is of the view that, in the circumstances, the terms of the DIP Credit Facility and the ABL Credit Facility appear to be commercially reasonable.

62. In light of the foregoing, it is the Proposed Monitor's view that further time spent attempting to source alternative DIP financing would (i) not be in the interest of the Applicant and/or its stakeholders; (ii) not result in the finalization of DIP financing on more favourable terms; and (iii) would severely, and potentially fatally, compromise the Applicant's ability to continue operations and complete its restructuring plan.

Payment of Certain Pre-Filing Amounts

63. As noted in the Sun Affidavit, the Company does not manufacture any of its products. The Company's entire inventory is purchased from third party suppliers and, as such, the Company is dependent on the continued supply of product from its manufacturers to ensure that it has sufficient inventory to operate effectively and meet the needs of its customers.

64. In recognition of the above, the proposed form of Initial Order grants the Applicant the authority to pay certain expenses incurred prior to the commencement of the CCAA Proceedings, subject to the prior approval of the Monitor or the Court.

65. The Proposed Monitor has been advised that the majority of these expenses relate to amounts owed to the Applicant's suppliers of essential merchandise, transportation providers, customs brokers and other essential service providers.

66. As detailed in the Sun Affidavit, the Applicant is of the view that there is a significant risk that the Applicant's key merchandise vendors, freight forwarders and other essential service providers will not continue to provide services to the Applicant if their respective pre-filing amounts owing are not paid. As such, the proposed form of the Initial Order grants Grafton the authority to pay these vendors up to a maximum of $1 million, subject to the Approved Cash Flow, with the prior approval of the Monitor or the Court.

67. The Proposed Monitor agrees with the Applicant's view that an interruption of goods and services provided by certain essential suppliers could have a significant and immediate detrimental impact on the business, operations and cash flows of Grafton. However, the Proposed Monitor also recognizes that the Applicant's funding is limited and will work with the Applicant to ensure that payments to service providers in respect of pre-filing liabilities are minimized.

68. The Proposed Monitor supports the Applicant's request to allow it to pay, to a maximum aggregate amount of $1 million, certain pre-filing amounts to service providers that are critical to the continued operations of Grafton, but only with the prior approval of the Monitor or the Court.

Key Employee Retention Plan

69. To facilitate and encourage the continued participation of senior and operational management and other key personnel during the CCAA proceedings (the **"KERP Participants"**), the Applicant is seeking approval of (i) a KERP for certain employees who are considered by the Applicant to be critical to the successful completion of the CCAA Proceedings, and (ii) the creation of a related charge (the **"KERP Charge"**) to secure the payments due under the KERP.

70. Under the provisions of the KERP, each of the KERP Participants will receive a set amount, payable upon the earlier of their termination by the Applicant (provided such termination is not for cause) or the closing of a transaction(s) pursuant to the SISP.

71. A true copy of the form of letter that the Company proposes to issue to the KERP Participants, which has been redacted to protect their personal information is attached as Exhibit "A" to the Sun Affidavit.

72. The KERP was developed by the Applicant, in consultation with the Proposed Monitor. The Proposed Monitor supports the creation of the KERP as (i) it will provide stability to the Applicant and facilitate the successful completion of Grafton's CCAA proceedings by encouraging senior and operational management and other key personnel to remain with Grafton, as required, and (ii) the KERP Participants are considered to be key to the SISP and their participation will assist in maximizing realizations for the benefit of all stakeholders.

73. CIBC and GSO have been provided with the details of the proposed KERP and both CIBC and GSO have advised the Company that they have no objection to the proposed KERP.

The Lease Consulting Agreement

74. As set out in the Sun Affidavit, the Applicant, as part of its internal review process, engaged Oberfeld in late November 2016 to act as its exclusive real estate consultant to, among other things, assess Grafton's retail lease portfolio. The Lease Consultant was selected, as part of a competitive process run by the Applicant, in consultation with the Proposed Monitor, based on the Lease Consultant's familiarity with Applicant's retail lease portfolio, the Lease Consultant's extensive knowledge and experience in retail lease renegotiations, and the Lease Consultant's competitive fee structure. Oberfeld's consulting agreement with the Applicant is due to expire on January 31, 2017.

75. The Applicant is seeking an order expanding the mandate of the Lease Consultant to assist Grafton renegotiate the lease terms for certain of its retail locations in an effort to make those retail leases more attractive to participants in the contemplated SISP and other interested parties. A copy of the agreement between the Applicant and Oberfeld (the **"Lease Consulting Agreement"**) is attached as Exhibit "M" to the Sun Affidavit.

76. The key terms of the Lease Consulting Agreement include:

(i) The Lease Consultant will act as consultant for the purpose of reviewing/assessing Grafton's retail lease portfolio and providing advice thereon, renegotiating Grafton's existing retail leases for some or all of its locations, and assisting with any assignment of leases that may be required in connection with the SISP;

(ii) The engagement will commence on or about January 23, 2017 to June 15, 2017 (unless otherwise extended by the parties in writing);

(iii) The fee structure is as follows: (i) $100,000 work fee payable in two (2) instalments (upon the granting of the Initial Order and on February 15, 2017); and (ii) 2% fee on annual rent savings (the **"Savings Fee"**) negotiated on the Applicant's retail leases, the amount of which is to be no less than $75,000 and no more than $200,000. Amounts due in respect of the Savings Fee will be invoiced for payment upon the completion of the engagement; and

(iv) The Lease Consulting Agreement is subject to the approval of the Court.

77. The Proposed Monitor is supportive of the engagement of the Lease Consultant and the Lease Consulting Agreement for the following reasons:

(i) The Lease Consultant has extensive experience reviewing/assessing retail lease portfolios and renegotiating retail leases;

(ii) The renegotiation of retail leases will enhance the value of the Applicant's restructured business for all stakeholders, including participants in the contemplated SISP;

(iii) The Proposed Monitor understands that the Lease Consultant, as part of its current engagement, has been working with the Applicant to develop a strategic plan with respect to the Grafton's retail lease portfolio. As part of this work, the Proposed Monitor understands that the Lease Consultant has engaged in preliminary discussions with landlords in preparation for future negotiations; and

(iv) The consideration payable to the Lease Consultant is, in the Proposed Monitor's experience, fair and reasonable in the circumstances.

Court Ordered Charges

78. The proposed Initial Order provides for a number of charges (collectively, the **"Charges"**), including the Administration Charge (as defined below), the ABL Lender's DIP Charge, the Term Lenders' DIP Charge, the KERP Charge and a Directors' Charge (as defined below):

Administration Charge

79. The proposed Initial Order provides for a charge in the maximum amount of $500,000 charging the assets of the Applicant to secure the fees and disbursements incurred in connection with services rendered to the Applicant both before and after the commencement of the CCAA proceedings by the following entities: the Monitor, the Monitor's legal counsel, independent legal counsel to the directors of the Applicant, and legal counsel to the Applicant (the **"Administration Charge"**).

80. The quantum of the Administration Charge sought by the Applicant was determined in consultation with the Proposed Monitor, and meets the terms of the DIP Agreement noted above. The creation of the Administration Charge is typical in CCAA proceedings as is the proposed priority of the Administration Charge as set out in the form of Initial Order filed with the Court.

ABL Lender's DIP Charge / Term Lenders' DIP Charge

ABL Lender's DIP Charge

81. As noted above, it is a condition of the Amended and Restated ABL Forbearance Agreement that CIBC maintain its priority in the ABL Priority Collateral and receive the benefit of the ABL Lender's DIP Charge, as security for amounts advanced by CIBC to the Applicant subsequent to the granting of the Initial Order.

82. As the Applicant requires continued access to and funding from the ABL Credit Facility to operate and pursue its restructuring during the CCAA proceedings and finance its operations and working capital needs, the Proposed Monitor recommends that the Court approve the Amended and Restated ABL Forbearance Agreement and, as such, the Proposed Monitor also supports the granting of the ABL Lender's DIP Charge.

Term Lenders' DIP Charge

83. In addition to the necessary funding provided by the ABL Credit Facility, the Applicant requires further funding immediately to continue operations and pursue its restructuring during the CCAA proceedings.

84. As noted above, it is a condition of the DIP Agreement that the DIP Lenders receive the benefit of the Term Lenders' DIP Charge to the maximum amount of the aggregate of any and all advances made by the DIP Lenders to the Applicant under the DIP Agreement.

85. The DIP Agreement provides the Applicant with access to the financing required to finance its operations and working capital needs, undertake its restructuring activities, including the SISP, and complete its CCAA proceedings. The Proposed Monitor recommends that the Court approve the DIP Agreement and, as such, the Proposed Monitor also supports the granting of the Term Lenders' DIP Charge.

KERP Charge

86. The proposed Initial Order provides for a charge in the maximum aggregate amount of $190,000 charging the assets of the Applicant in favour of the KERP Participants as security for all amounts becoming payable under the KERP.

87. The Proposed Monitor is of the view that the KERP Charge is required and reasonable in the circumstances.

Directors' Charge

88. The proposed Initial Order provides for a charge in the maximum aggregate amount of $800,000 charging the assets of the Applicant to indemnify their directors and officers for liabilities incurred by the Applicant that result in post-filing claims against the directors and officers in their personal capacities (the **"Directors' Charge"**).

89. The amount of the Directors' Charge was estimated by taking into consideration employee payroll and related expenses (including source deductions), other employment related liabilities that attract liability for directors and officers, vacation pay and sales tax.

90. As detailed in the Sun Affidavit, the Proposed Monitor understands that the Applicant maintains directors' and officers' liability insurance that provides $10 million in primary coverage for Grafton's directors and officers.

91. The Proposed Monitor has been informed (as also noted in the Sun Affidavit) that due to the potential for personal liability, the directors and officers of the Applicant are unwilling to continue their services and involvement in the CCAA proceedings without the protection of the Directors' Charge. As the Applicant will require the participation and experience of the Applicant's directors and officers to facilitate the successful completion of Grafton's CCAA proceedings, including participating in the SISP, the Proposed Monitor believes that the Directors' Charge (both the amount and priority ranking) is required and reasonable in the circumstances.

92. As discussed in the Sun Affidavit, the Initial Order also directs the Company to deposit with the Monitor, in trust, the sum of $772,597 (the "**Directors' Escrow**"), which funds will be held by the Monitor in trust and stand as collateral for the indemnity in respect of statutory obligations and liabilities in favour of the directors and officers as contemplated above. The Directors' Charge (for such statutory obligations and liabilities) is proposed to have first priority claim to the Directors' Escrow. It is contemplated that the Directors' Escrow will only be released upon the consent of the Monitor and the beneficiaries of the Directors' Charge, or upon further Order of the Court.

93. In addition, the Company will transfer funds to the Monitor in an amount sufficient to satisfy its projected HST remittance requirements in advance, on a weekly basis, to ensure that any amounts owing in respect of HST for each week in the post filing period will be paid by the Company.

Summary and Proposed Ranking of the Court Ordered Charges

94. It is contemplated that the priorities of the Charges sought by the Applicant will be as follows:

As it relates to the ABL Priority Collateral:

(i) Administration Charge;

(ii) ABL Lender's DIP Charge;

(iii) Liens granted to the ABL Secured Parties;

(iv) Term Lenders' DIP Charge;

(v) Liens granted to the Term Secured Parties;

(vi) KERP Charge; and

(vii) Director's Charge.

As it relates to the Term Priority Collateral:

(i) Administration Charge;

(ii) Term Lenders' DIP Charge;

(iii) Liens granted to the Term Secured Parties;

(iv) ABL Lenders' DIP Charge;

(v) Liens granted to the ABL Secured Parties;

(vi) KERP Charge; and

(vii) Director's Charge.

95. The Initial Order sought by the Applicant provides that the Administration Charge will rank in priority to the security interests of both GSO and CIBC, each of which the Proposed Monitor understands has consented to the Administration Charge.

96. The Charges will, however, be subordinate to the interests of CDLS, Scotiabank and Xerox, which are secured by existing Personal Property Security Act (Ontario) registrations of which the Proposed Monitor is aware.

97. The Proposed Monitor believes that the Charges and rankings are required and reasonable in the circumstances of the CCAA proceedings in order to preserve Grafton's going concern operations and maintain its enterprise value and, accordingly, supports the granting and the proposed ranking of the Charges.

The Comeback Hearing

98. Should the Court grant the Initial Order, the Proposed Monitor understands that the Applicant has scheduled the Comeback Hearing for January 30, 2017 to, among other things, seek the Court's approval of certain components of its restructuring plan, including:

    (i) The execution of an asset purchase agreement dated as of January 24, 2017 (the **"Stalking Horse APA"**) between Grafton and 1104307 B.C. Ltd.;

    (ii) The SISP (and the Stalking Horse APA for the purposes of being the stalking horse bid under the proposed SISP); and

    (iii) The transactions contemplated under the liquidation consulting agreement dated as of January 24, 2017 between Grafton and a contractual joint venture of Gordon Brothers Canada ULC and Merchant Retail Solutions ULC (the **"Liquidation Consulting Agreement"**), including the sale guidelines in connection with same (the "**Sale Guidelines**").

99. Subsequent to the granting of the Initial Order and in anticipation of the Comeback Hearing, Richter (in its capacity as Monitor), will be preparing a report in connection with the above-noted matters as well as any other relief sought by Grafton at the Comeback Hearing.

Proposed Monitor's Conclusions and Recommendations

100. For the reasons set out in this report, the Proposed Monitor is of the view that the relief requested by the Applicant is both appropriate and reasonable. The Proposed Monitor is also of the view that granting the relief requested will provide the Applicant the best opportunity to undertake a going concern sale or other restructuring under the CCAA thereby preserving value for the benefit of the Applicant's stakeholders. As such, the Proposed Monitor supports Grafton's application for CCAA protection and respectfully recommends that the Court make an Order granting the relief sought by the Applicants.

All of which is respectfully submitted this 25th day of January, 2017.

Richter Advisory Group Inc.
in its capacity as Proposed Monitor of
Grafton-Fraser Inc.

Per:

Gilles Benchaya, CPA, CA, CIRP, LIT | Adam Sherman, MBA, CIRP, LIT

Appendix "A"

Grafton-Fraser Inc.
Cash Flow Forecast for the Period January 22 to March 11, 2017

($000's)	28-Jan-17	04-Feb-17	11-Feb-17	18-Feb-17	25-Feb-17	04-Mar-17	11-Mar-17	Total
Receipts								
Retail Receipts	$ 2,241	$ 2,195	$ 2,237	$ 2,208	$ 2,231	$ 2,540	$ 2,823	$ 16,475
GSO DIP Funding	-	4,400	500	300	200	100	-	5,500
Total Receipts	**2,241**	**6,595**	**2,737**	**2,508**	**2,431**	**2,640**	**2,823**	**21,975**
Disbursements								
Merchandise	(734)	(1,703)	(2,203)	(2,181)	(2,216)	(1,513)	(2,191)	(12,741)
Payroll	(475)	(727)	(250)	(932)	(250)	(908)	(250)	(3,791)
Rent	-	(3,170)	(117)	-	(11)	(3,082)	(242)	(6,622)
Sales Tax	(1,708)	-	-	-	-	-	-	(1,708)
Store Expenses and Other	(201)	(390)	(389)	(238)	(219)	(308)	(196)	(1,942)
Supplier & Other Deposits	-	(250)	-	-	-	-	-	(250)
Capex	-	-	-	(100)	-	-	-	(100)
Interest	-	(100)	-	-	-	(75)	-	(175)
Forbearance Fee	-	(200)	-	-	-	-	-	(200)
Professional Fees	(875)	(386)	(335)	(180)	(180)	(180)	(230)	(2,366)
JNY Payments	(1,283)	-	-	-	-	-	-	(1,283)
Vacation Escrow	(800)	-	-	-	-	-	-	(800)
Total Disbursements	**(6,075)**	**(6,925)**	**(3,295)**	**(3,631)**	**(2,877)**	**(6,067)**	**(3,109)**	**(31,978)**
Net Cash Flow	**$ (3,834)**	**$ (330)**	**$ (557)**	**$ (1,123)**	**$ (446)**	**$ (3,426)**	**$ (286)**	**$ (10,003)**
Opening Revolver	**$ 12,826**	**$ 16,660**	**$ 16,990**	**$ 17,548**	**$ 18,671**	**$ 19,116**	**$ 22,543**	**$ 12,826**
Draw (Repayment)	3,834	330	557	1,123	446	3,426	286	10,003
Closing Revolver	**$ 16,660**	**$ 16,990**	**$ 17,548**	**$ 18,671**	**$ 19,116**	**$ 22,543**	**$ 22,829**	**$ 22,829**
Pre-Filing Revolver	$ 9,127	$ 2,532	$ -	$ -	$ -	$ -	$ -	$ -
DIP Revolver	7,533	14,458	17,547	18,670	19,116	22,542	22,829	22,829
Total CIBC Revolver	**$ 16,660**	**$ 16,990**	**$ 17,547**	**$ 18,670**	**$ 19,116**	**$ 22,542**	**$ 22,829**	**$ 22,829**
Opening DIP Term Loan	**$ -**	**$ -**	**$ 4,400**	**$ 4,912**	**$ 5,226**	**$ 5,441**	**$ 5,557**	**$ -**
Draws	-	4,400	500	300	200	100	-	5,500
Interest (PIK'd)	-	-	12	14	15	15	16	72
Ending DIP Term Loan	**$ -**	**$ 4,400**	**$ 4,912**	**$ 5,226**	**$ 5,441**	**$ 5,557**	**$ 5,572**	**$ 5,572**

Mark Sun, CFO

Court File No.: CV-17-11677-00CL

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 GRAFTON-FRASER INC.

(the "Applicant")

ONTARIO
SUPERIOR COURT OF JUSTICE
[COMMERCIAL LIST]

Proceedings commenced in Toronto

REPORT OF THE PROPOSED MONITOR
JANUARY 25, 2017

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CONFIDENTIAL APPENDIX 1

TO BE FILED SEPARATELY

Court File No.: CV-17-11677- 00CL

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AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF GRAFTON-FRASER INC.

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Proceedings commenced in Toronto

FIRST REPORT OF THE MONITOR
JANUARY 26, 2017

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