



COURT FILE NUMBER B-151129
VANCOUVER REGISTRY

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN THE BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF PANDORA'S BOX HOSPITALITY INC.**

SECOND REPORT OF THE PROPOSAL TRUSTEE

JANUARY 22, 2016

INTRODUCTION

1. This report (“**Second Report**”) has been prepared by FTI Consulting Canada Inc. (“**FTI**”) in its capacity as the Trustee (the “**Proposal Trustee**”) under a Notice of Intention to File a Proposal (“**NOI**”) filed by Pandora’s Box Hospitality Inc. (“**Pandora**” or the “**Company**”) dated December 7, 2015 pursuant to Part III, Division I of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended (the “**BIA**”).
2. The reports of the Proposal Trustee and other information in respect of these proceedings are posted on the Proposal Trustee’s website at <http://cfcanada.fticonsulting.com/Pandorasbox/>.

PURPOSE

3. The first report of the Proposal Trustee dated December 31, 2015 (the “**First Report**”), informed the Court on the following:
 - (a) The activities of the Company since the filing of its NOI;
 - (b) An analysis of the Company’s actual cash receipts and disbursements to December 27, 2015, compared to the cash flow statement filed on December 16, 2015;
 - (c) The Company’s cash flow statement for the period from December 28, 2015 to January 24, 2016; and
 - (d) The Company’s request for an extension of the current stay of proceedings (the “**Stay**”) under the NOI from January 6, 2016 to January 25, 2016.
4. The purpose of the Second Report is to provide this Honourable Court with an update on the following:
 - (a) The activities of the Company since the filing of its NOI;

- (b) A summary of the Company's receipts and disbursements for the period from December 9, 2015 to January 17, 2016; and
- (c) The Company's request for an extension of Stay under the NOI from January 25, 2016 to February 6, 2016.

TERMS OF REFERENCE

- 5. In preparing this report, the Proposal Trustee has relied upon unaudited financial information, other information available to the Proposal Trustee and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
- 6. Except as described in this Second Report:
 - (a) The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
 - (b) The Proposal Trustee has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
- 7. Future oriented financial information reported or relied on in preparing this report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
- 8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.



UPDATE ON THE COMPANY'S ACTIVITIES

9. Since the date of the First Report the Company has continued to operate the restaurant in the normal course.
10. During this period the Company has engaged in discussions with its franchisor, Cara Operations Ltd. (“**Cara**”) with a goal of negotiating a revised agreement on terms that would enable the Company to operate on a cash flow neutral basis.
11. The Proposal Trustee has worked with the Company and provided assistance with the preparation of a three year cash flow to assist in its on-going negotiations with Cara.
12. The Company has continued to make all post filing rent and advertising fee payments to Cara.
13. The Proposal Trustee has monitored the Company’s activities since the date of the NOI and is not aware of any post-filing obligations that have not been paid in accordance with agreed upon terms.

SUMMARY OF RECEIPTS AND DISBURSEMENTS

14. The following table indicates the consolidated actual cash receipts and disbursements for the period from December 7, 2015 to January 17, 2016.

Opening Overdraft Balance (Canadian Dollar)	(46,569)
Cash Receipts	
Sales	431,427
Interim Financing	14,000
Total Cash Receipts	445,427
Cash Disbursements	
Professional Fees	37,525
Food and Beverage	130,367
Payroll	132,892
G&A	47,167
Tax Remittance	4,769
Rent	58,164
Dues and Licensing	356
Advertising Expense	8,796
Scotia (VISA and Term Loan Payments)	68,357
Total - Operating Disbursements	488,393
Net Change in Cash from Operations	(42,966)
Ending Overdraft Balance (Canadian Dollar)	(89,535)

15. The interim financing was provided by a third party source which was arranged by one of the owners of the Company.
16. Professional fees consist of payments made to the Proposal Trustee and the Company's legal counsel for services performed relating to these proceedings. The balance includes a \$15,000 retainer payment to the Proposal Trustee.

17. Food and Beverage consist of payments to the Company's main food supplier on a COD basis as well as payments to various distributors of alcoholic beverages.
18. The G&A expenses mainly consist of payments for janitorial services, bank fees, accounting fees, costs for linen and uniform cleaning, and other general costs related to the ongoing operations of the restaurant.
19. The Tax Remittance relates to the remittance of PST collected on sales.
20. The Rent expense consists of payments to Cara relating to the sub-lease of the restaurant premises.
21. The Advertising expense is based on a percentage of net revenue and is remitted to Cara on a weekly basis. This percentage is in line with the Company's current agreement with Cara.
22. The Company manages its cash with an overdraft facility set up with its lender, the Bank of Nova Scotia ("BNS"). The approved overdraft limit is \$90,000.
23. As at January 17, 2016, the Company's overdraft facility with BNS was approximately \$89,535.

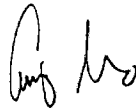
COMPANY REQUEST FOR AN EXTENSION

24. At the time of drafting this Second Report, the Company is involved in on-going discussions with Cara as to the period of the Stay extension to be sought by the Company and the terms on which Cara would support such an extension. Absent an extension, the Stay would expire on January 26, 2016.
25. At the time of filing this report, the Company does not have the resources to continue its Stay and accordingly the Proposal Trustee has not filed a cash flow statement for the extension period.

26. The Proposal Trustee has filed this Second Report for the purpose of updating the Court in the event the Company does arrange for adequate resources to fund its operations through the period of the Stay extension and decides to proceed with its application to seek an extension of the Stay.
27. If the Company does proceed with an application to extend the Stay, the Proposal Trustee intends to file a cash flow statement with this Honourable Court prior to the hearing for the extension of the Stay.
28. In the event the Company is able to fund its operations through an extension of the Stay, the Proposal Trustee would support the Company's application on the basis that there is a likelihood of the Company formulating a successful proposal which would be a better outcome for the unsecured creditors than a bankruptcy.

All of which is respectfully submitted this 22nd day of January, 2016.

FTI Consulting Canada Inc.,
in its capacity as Proposal Trustee under a NOI
filed by Pandora's Box Hospitality Group Inc.



Name: Craig Munro
Title: Managing Director,
FTI Consulting Canada Inc.

Pandora's Box Hospitality Group Inc.
Cash-flow Forecast

	Week Beginning				Total	Notes
	Week 7 18-Jan	Week 8 25-Jan	Week 9 1-Feb	Week 10 8-Feb		
Opening Overdraft Balance	(89,534)	(77,251)	(76,298)	(78,028)	(89,534)	1
CASH INFLOW						
Sales	58,350	66,336	66,821	34,185	225,692	2
less estimated gift card revenue	-	(4,277)	(4,606)	(1,782)	(10,665)	3
Interim Financing	-	10,000	-	20,000	30,000	4
TOTAL INFLOW	58,350	72,059	62,215	52,403	245,027	
CASH OUTFLOW						
Operating Costs						
Professional Fees	-	-	10,000	-	10,000	5
Food and Beverage	14,100	19,369	19,510	9,981	62,960	6
Payroll	-	39,394	-	41,062	80,456	7
G&A	3,500	7,343	13,235	7,343	31,421	6
Rent Expense	7,800	5,000	5,000	2,500	20,300	8
Tax Remittance	-	-	16,200	-	16,200	
Insurance	1,456	-	-	-	1,456	
	26,856	71,106	63,945	60,886	222,793	
Financing Costs						
Scotiabank	19,211	-	-	-	19,211	9
TOTAL OUTFLOW	46,067	71,106	63,945	60,886	242,004	
NET CASH FOR WEEK	12,283	953	(1,730)	(8,483)	3,023	
Closing overdraft balance	(77,251)	(76,298)	(78,028)	(86,511)	(86,511)	

Notes:

Pandora's Box Hospitality Group Inc. ("Pandora") has prepared this Cash Flow Forecast solely for the purposes of determining the liquidity requirements of Pandora for the period from January 18, 2016 to February 10, 2016. The Cash Flow Forecast is based on the probable and hypothetical assumptions detailed in Notes 1 - 9. Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - Opening overdraft balance with the Bank of Nova Scotia as at January 18, 2015. The Company has an approved limit of \$90,000.
- 2 - The cash receipts from sales are based on management's projections and historical sales levels. The balance also includes estimated GST collections.
- 3 - The estimated gift card revenue is based the prior year gift card revenue. Cara will not be remitting any of the funds to Pandora for payments made on gift cards in the restaurant for the extension period.
- 4 - This represents interim financing to be provided by a third party.
- 5 - Professional fees are based on estimates of fees provided by the Proposal Trustee and the Company's legal counsel.
- 6 - The Food and beverage expense and G&A expenses are based on management's projections and historical levels of expenses.
- 7 - The Payroll expense relate to management and staff salaries based on management's projections and historical staffing levels.
- 8 - The rent expense relates to payments to Cara for the Restaurant sub-lease. The company has agreed to pay \$5,000 for the first two weeks of the extension period and \$2,500 for the remaining half week to February 10, 2016.
- 9 - This represents monthly payment of principal and interest for a term loan with Scotia Bank.