

**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 INSCAPE CORPORATION, INSCAPE INC.
AND INSCAPE (NEW YORK) INC.

**FIRST REPORT OF THE MONITOR,
ALVAREZ & MARSAL CANADA INC.**

JANUARY 18, 2023

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1.0 INTRODUCTION

- 1.1 On January 12, 2023 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) made an initial order (the “**Initial Order**”) granting Inscape Corporation (“**Inscape Corp**”), Inscape (New York) Inc. (“**Inscape New York**”) and Inscape Inc. (“**Inscape Delaware**”, and collectively with Inscape Corp and Inscape New York, the “**Inscape Group**” or the “**Applicants**”) certain relief pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings commenced thereby are referred to herein as the “**CCAA Proceedings**”.
- 1.2 Inscape Corp is publicly listed on the Toronto Stock Exchange (TSX:INQ)¹ and incorporated under the laws of the Province of Ontario. Inscape New York (a New York registered corporation) is a wholly-owned direct subsidiary of Inscape Delaware (a Delaware registered corporation), and an indirect subsidiary of Inscape Corp.
- 1.3 The Inscape Group’s business is the manufacturing and distribution of office furniture to customers predominantly located in the United States and Canada, with product lines that include cubicles, movable walls, filing cabinets, bookcases and other ergonomic furniture.
- 1.4 The Initial Order, among other things:
- (i) granted a stay of proceedings in respect of the Applicants until and including January 20, 2023 (the “**Stay Period**”);

¹ The Toronto Stock Exchange has advised the Applicants that a meeting of the Continued Listing Committee has been scheduled for January 20, 2023 to consider the delisting of the securities of Inscape Corp.

- (ii) appointed Alvarez & Marsal Canada Inc. (“**A&M**”) as monitor of the Applicants (in such capacity, the “**Monitor**”) in the CCAA Proceedings;
- (iii) authorized the continued use by the Applicants of their centralized Cash Management System (as defined in the Initial Order); and
- (iv) granted a charge:
 - (a) in the amount of \$250,000 on all of the Applicants’ current and future assets, property and undertaking (collectively, the “**Property**”) to secure the fees and disbursements of the Applicants’ legal counsel, as well as the fees and disbursements of the Monitor and its legal counsel (the “**Administration Charge**”); and
 - (b) in the amount of \$750,000 on the Property in favour of the director and officers of the Applicants (the “**D&O Charge**”); and
- (v) relieved Inscap Corp, a reporting issuer listed on the Toronto Stock Exchange, of its reporting obligations under applicable securities law.

1.5 The CCAA Proceedings were commenced to provide a platform for the Applicants to conduct a wind-down and liquidation of their assets and business in an orderly fashion, and to maximize realizations for the benefit of all stakeholders (the “**Orderly Wind-Down**”).

1.6 A&M filed and served a Pre-Filing Report dated January 11, 2023 (the “**Pre-Filing Report**”) prior to the commencement of the CCAA Proceedings. The Pre-Filing Report and other Court-filed documents in the CCAA Proceedings are available on the Monitor’s

case website at: www.alvarezandmarsal.com/InscapeCorporation (the “**Case Website**”). A copy of the Pre-Filing Report (without appendices) is attached hereto as **Appendix “A”**.

2.0 PURPOSE OF THIS REPORT

2.1 The purpose of this first report (the “**First Report**”) is to provide the Court with information and, where applicable, the Monitor’s views on:

- (i) general updates since the granting of the Initial Order, including with respect to the proposed Chapter 15 recognition proceedings to be commenced by the Applicants;
- (ii) the proposed next steps in respect of the Orderly Wind-Down;
- (iii) the key employee retention plan (“**KERP**”) proposed by the Applicants and the related charge over the Property for \$350,000 (the “**KERP Charge**” and collectively with the Administration Charge and the D&O Charge, the “**Charges**”);
- (iv) the relief sought by the Applicants pursuant to the proposed amended and restated Initial Order (the “**Amended and Restated Initial Order**”), including with respect to:
 - (a) extending the Stay Period to and including March 9, 2023;
 - (b) increasing the quantum of the Administrative Charge from \$250,000 to \$800,000; and
 - (c) declaring that, pursuant to section 5(5) of the *Wage Earner Protection Program Act* (“**WEPPA**”), Inscape Corp is a “former employer” in

accordance with the criteria established by section 3.2 of the Wage Earner Protection Program Regulations (the “**WEPP Regulations**”);

- (v) the activities of the Monitor since its appointment; and
- (vi) the Monitor’s conclusions and recommendations as it relates to the relief sought by the Applicants.

3.0 TERMS OF REFERENCE AND DISCLAIMER

3.1 In preparing this First Report, the Monitor has been provided with, and has relied upon, unaudited financial information and the books and records prepared by the Applicants, and has had discussions with management of the Applicants and its legal counsel (collectively, the “**Information**”). Except as otherwise described in this First Report:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or any other form of assurance contemplated under the CAS in respect of the Information; and
- (ii) some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

- 3.2 Future-oriented financial information referred to in this First Report was prepared based on the Applicants' management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.
- 3.3 This First Report should be read in conjunction with the affidavit of Eric Ehgoetz sworn January 17, 2023 (the "**Second Ehgoetz Affidavit**"). Capitalized terms used but not defined in this First Report have the meanings given to them in the Second Ehgoetz Affidavit.
- 3.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars ("**CAD**").

4.0 UPDATES SINCE THE INITIAL ORDER

Employees

- 4.1 Following the commencement of the CCAA Proceedings, the Applicants initiated the layoff and termination of approximately 138 employees in Canada and approximately 28 employees in the United States. The Monitor understands that all normal-course salaries and wages owing to these terminated employees through their employment date will be paid by the Applicants in the ordinary course.
- 4.2 Following these terminations, the Applicants continue to employ approximately 29 employees (26 in Canada and 3 in the U.S.) to assist with the Orderly Wind-Down (as described further below).

Lease Payments

4.3 The Monitor understands that:

- (i) the Inscape Group is current on their lease payments in respect of the Holland Landing Facility and the Jamestown Facility.² The majority of the Applicants' inventory, furniture, fixtures and equipment, and other assets, which will be sold or liquidated pursuant to the Orderly Wind-Down, are located at these two locations;
- (ii) the Applicants have not yet paid rent for their retail showrooms located in Washington D.C. and New York for the month of January 2023 (in aggregate, approximately \$120,000); and
- (iii) the Monitor understands that the Applicants are currently working with their Canadian and U.S. restructuring counsel to determine what alternatives they may have to exit all locations while preserving cash and, on-balance, maximizing the value of the estate for all creditors, including the potential monetization of certain of these real property leases.

Chapter 15 Proceedings

4.4 As discussed in the Pre-Filing Report and the Second Ehgoetz Affidavit, the Applicants intend to seek recognition of these CCAA Proceedings under Chapter 15 of the United States Bankruptcy Code as a "Foreign Main Proceeding".

² As described in the Pre-Filing Report: (i) the Holland Landing Facility is located in Holland Landing, Ontario, and houses the Inscape Group's Head Office and primary manufacturing facility; and (ii) the Jamestown Facility is located in Jamestown, New York, and houses the Inscape Group's U.S. manufacturing facility.

- 4.5 The Monitor is advised that the Applicants intend to seek the appointment of Inscape Corp or, in the alternative, Mr. Eric Ehgoetz (the Applicants' CEO), as a foreign representative under such recognition proceedings. Inscape Corp has retained Willkie Farr & Gallagher LLP as its U.S. legal counsel.
- 4.6 Provided that the Amended and Restated Initial Order is granted, the Monitor understands that the Applicants intend to commence the Chapter 15 proceedings to seek recognition of these CCAA Proceedings as soon as possible.

5.0 ORDERLY WIND-DOWN

- 5.1 The purpose of the Orderly Wind-Down is to conduct a wind-down and liquidation of the Applicants' assets and business in an orderly fashion, and maximize realizations for the benefit of all creditors.
- 5.2 The primary assets of the Applicants, based on their approximate book values,³ can be summarized as follows:

Book Value (C\$'000)	Inscape Corp (Canada)	Inscape New York & Inscape Delaware (U.S.)	Combined Totals
Accounts receivable	\$208	\$6,659	\$6,867
Inventories	4,336	1,110	5,446
Furniture, fixtures & equipment	4,287	448	4,735
Deposits, pre-pays and other	2,714	736	3,450
HST refund	1,257	--	1,257
Intellectual property and intangibles	655	--	655
TOTAL	13,457	8,953	22,410

³ Book value of accounts receivable is as at the Filing Date. Book value of all other assets are as at November 30, 2022. Book values are provided for informational purposes only, the Monitor notes that book value is not representative of actual realizable value.

- 5.3 Pursuant to paragraph 12 of the Amended and Restated Initial Order, the Applicants are seeking the ability to pursue all avenues of recovery, including, but not limited to, selling their assets and business, in whole or in part, provided that, if the Monitor determines that approval of this Court is appropriate in the circumstances, the Applicants shall seek and obtain such approval prior to any material sale or reorganization.
- 5.4 The Monitor understands that the Applicants, in consultation with the Monitor, intend to perform the following:
- (i) pursue the collection of all accounts receivable from third-party customers;
 - (ii) pursue all avenues to maximize the value of the Applicants' inventory, furniture, fixtures and equipment and other assets, including seeking multiple bids for substantially all of the assets, groups of assets, or individual assets, from a variety of professional liquidators, other office furniture manufacturers and distributors, and other parties who, in the opinion of the Applicants or the Monitor, may be interested in acquiring certain of the assets; and
 - (iii) pursue the collection and/or refund of the HST refund,⁴ prepaid assets, deposits and all other assets.

⁴ As described in the Pre-Filing Report, the Inscope Group has an HST refund of approximately \$1.3 million which is currently being withheld by the CRA pending determination of a notice of reassessment regarding approximately \$2.6 million in income tax liability.

5.5 The Monitor is of the view that the Orderly Wind-Down (including the proposed revisions to paragraph 12 of the Amended and Restated Initial Order) are appropriate in the circumstances for the following reasons:

- (i) the Orderly Wind-Down will provide the Applicants, in consultation with the Monitor, with a platform to canvass the market for the sale of the Inscope Group's assets, including providing liquidators and other purchasers an opportunity to put forth a bid for the Applicants' assets with a view of maximizing value for all stakeholders;
- (ii) the Applicants' senior secured Lender (as defined in the Pre-Filing Report) is supportive of the Orderly Wind-Down;
- (iii) no stakeholder appears likely to be prejudiced by the proposed process;
- (iv) the Monitor's consent will be required before the Applicants may complete any material sale or reorganization, and allowing the Applicants to complete a sale without returning to Court for approval would be consistent with the goal to effect the Orderly Wind-Down in a cost-efficient manner under the flexibility of the CCAA; and
- (v) the Monitor is of the view that time is of the essence in carrying out the Orderly Wind-Down, with a view to minimizing carrying costs of the Applicants' Property and maximizing recoveries for all creditors.

6.0 KEY EMPLOYEE RETENTION PLAN

6.1 In order to facilitate and encourage the continued participation of senior management and other key employees during the CCAA Proceedings, the Inscope Group seeks approval of:

- (i) the KERP for certain of the retained employees who are considered by the Applicants to be critical to the success of the Orderly Wind-Down (the “**KERP Participants**”); and
- (ii) the creation of a related KERP Charge to secure the payments anticipated to become due under the KERP.

6.2 The KERP can be summarized as follows:

- (i) the Applicants’ senior management team would receive: (a) retention bonuses totaling \$100,000, in the aggregate, payable upon approval of the KERP by this Court; (b) their ordinary course salary and benefits during the CCAA Proceedings; and (c) performance-based bonuses totaling \$200,000, in the aggregate, payable if overall creditor recoveries exceed the amount required to fully satisfy all priority claims as outlined in section 81 of the *Bankruptcy and Insolvency Act* and all amounts due and owing to the Lender; and
- (ii) the remaining KERP Participants would receive: (a) retention bonuses totalling approximately \$150,000, in the aggregate, payable upon the end of the service period required from the KERP Participants; and (b) their ordinary course salary, and benefits during the CCAA Proceedings.

6.3 On a combined basis, if each of the targets described above are met, the total KERP payout would be approximately \$450,000 paid to 21 employees.

- 6.4 Additional information regarding the KERP is included in **Appendix “B”**, which sets out the title and amounts to be received by each KERP Participant.
- 6.5 The Monitor supports the approval of the KERP as: (i) it will provide stability to the business and facilitate the successful completion of the Orderly Wind-Down by encouraging key employees to remain with the Applicants; (ii) the KERP Participants are considered to be key to maximizing realizations for the benefit of stakeholders; (iii) the KERP is supported by the Lender; and (iv) the terms of the KERP and the quantum of the payouts are reasonable both in the circumstances and when compared to other key employee retention and incentive plans approved by this Court in the past.
- 6.6 As part of its review and consideration of the KERP, the Monitor examined a number of key employee retention plans that have recently been approved by this Court in similar proceedings. A summary of these comparable plans is attached hereto as **Appendix “C”**.

KERP Charge

- 6.7 The Amended and Restated Initial Order provides for a KERP Charge over the Property in an amount not to exceed \$350,000 in favour of the KERP Participants. The KERP Charge represents total amounts payable to the KERP Participants, excluding the \$100,000 portion payable upon approval of the KERP by this Court.
- 6.8 In the Monitor’s view, the quantum of the KERP Charge is reasonable both in the circumstances and when compared to other key employee retention and incentive plans approved by this Court in the past.
- 6.9 The Monitor supports the granting of the KERP Charge.

7.0 COURT-ORDERED CHARGES

- 7.1 The Initial Order granted the Administration Charge and the D&O Charge over the Property. As described in the Pre-Filing Report, these charges were sized to the extent reasonably necessary for the initial 10-day Stay Period.

Administration Charge

- 7.2 The Initial Order provides for an Administration Charge over the Property in an amount not to exceed \$250,000 in favour of the Monitor, its Canadian and U.S. counsel, Canadian and U.S. counsel to the Applicants (including special counsel to the Applicants, and counsel to the director and officers of the Applicants). The Applicants now seek to increase the Administration Charge to \$800,000.
- 7.3 The Monitor assisted the Applicants in the calculation of the Administration Charge and is of the view that the increased amount of the charge is reasonable and appropriate in the circumstances, having regard to the nature of the proceedings, the proposed Chapter 15 proceedings, the cross-border work to be completed, potential work involved at peak times, and the size of charges approved in similar CCAA proceedings.

D&O Charge

- 7.4 The Initial Order provides that the Inscope Group will indemnify its director and officers against obligations and liabilities that they may incur in their capacity as director and officers of the Applicant from the commencement of the CCAA Proceedings, except to the extent that any obligation or liability was incurred as a result of gross negligence or wilful misconduct. The Initial Order provides for a D&O Charge over the Property in the amount of \$750,000, in favour of the Applicants' director and officers for that indemnity.

- 7.5 No change to the quantum of the D&O Charge is being sought at this time. The Monitor notes that the primary components of the D&O Charge are approximately: (i) \$200,000 for employee salary and wages and related statutory employee obligations, taking into consideration the Applicants' Canadian and U.S. payroll cycles; (ii) \$450,000 for accrued vacation pay; and (iii) \$100,000 for ongoing sales tax obligations.
- 7.6 The Monitor is of the view that the quantum of the D&O Charge continues to be appropriate and reasonable in the circumstances.

Priority of Charges

- 7.7 The priorities of the Charges are proposed to be as follows:
- (i) First – Administration Charge (to the maximum amount of \$800,000);
 - (ii) Second – D&O Charge (to the maximum amount of \$750,000); and
 - (iii) Third – KERP Charge (to the maximum amount of \$350,000).
- 7.8 As set out above, the Monitor believes that the Charges are reasonable in the circumstances.

8.0 WEPPA DECLARATION

- 8.1 Section 5(1) of the WEPPA provides that an individual is eligible to receive payment under WEPPA if, among other things: (i) the individual is owed eligible wages by a former employer; (ii) the former employer is subject to proceedings under the CCAA; and (iii) a court determines under subsection 5(5) that criteria prescribed by regulation are met.

- 8.2 Section 3.2 of the WEPP Regulations provides that the Court “may determine whether the former employer is the former employer of all of whose employees in Canada have been terminated other than any retained to wind down its business operations.”
- 8.3 As described in Section 4.1 of this First Report, Inscope Corp has terminated the majority of its employees (other than those who are assisting with the Orderly Wind-Down). The Monitor supports the Applicants’ request for a declaration that Inscope Corp is a former employer for the purposes of section 5(5) of the WEPPA.
- 8.4 The Monitor will work with the Inscope Group to identify all employees that may be eligible for payments under WEPPA and will assist those eligible employees in their claim submissions to Service Canada at the appropriate time.

9.0 EXTENSION OF THE STAY PERIOD

- 9.1 Pursuant to the Initial Order, the Stay Period is set to expire on January 20, 2023. The Applicants are seeking an extension of the Stay Period until and including March 9, 2023.
- 9.2 The Monitor supports the Applicants’ motion to extend the Stay Period for the following reasons:
- (i) it will provide the Inscope Group with the stability necessary to execute the Orderly Wind-Down;
 - (ii) the Applicants are projected to have sufficient liquidity to fund their operations, as reflected in the Cash Flow Forecast (as defined in the Pre-Filing Report), through to the end of the proposed extended Stay Period;

- (iii) the Monitor does not believe that any creditor will be prejudiced if the extension is granted;
- (iv) as of the date of this First Report, neither the Applicants nor the Monitor are aware of any party opposed to the requested extension; and
- (v) the Applicants continue to act in good faith and with due diligence.

10.0 ACTIVITIES OF THE MONITOR SINCE THE FILING DATE

10.1 Since the Filing Date, the primary activities of the Monitor have included the following:

- (i) engaging in discussions with the Inscape Group and their legal counsel regarding the CCAA Proceedings;
- (ii) assisting the Inscape Group with communications to employees, suppliers and other parties;
- (iii) corresponding and communicating with the Lender;
- (iv) assisting the Inscape Group in implementing an appropriate accounting cut-off to ensure proper determination of pre- and post-filing obligations and liabilities;
- (v) reviewing receipts and disbursements by the Inscape Group since the Filing Date;
- (vi) activating the Case Website and coordinating the uploading of Court-filed documents;
- (vii) completing and coordinating the notice requirements pursuant to paragraph 39 of the Initial Order, including:

- (a) arranging for publication of notice of the CCAA Proceedings, in the prescribed form, in *The Globe and Mail (National Edition)* on January 18, 2023 and February 25, 2023;
- (b) posting the Initial Order to the Case Website on January 12, 2023;
- (c) arranging for notices of the CCAA Proceedings to all known creditors having a claim against the Applicants of more than CAD\$1,000; and
- (d) preparing and posting to the Case Website on January 17, 2023, a listing of the names and addresses of all known creditors having a claim against the Applicants for more than \$1,000;
- (viii) activating the Monitor's hotline and email account for the CCAA Proceedings, and responding to creditor inquiries received through those contact points;
- (ix) completing the statutory filings pursuant to section 23 of the CCAA, including filing the requisite forms (Form 1 and Form 2) with the Office of the Superintendent of Bankruptcy (Canada); and
- (x) with the assistance of its legal counsel, preparing this First Report.

11.0 CONCLUSIONS AND RECOMMENDATIONS

- 11.1 For the reasons set out in this First Report, the Monitor respectfully recommends that the Court grant the Amended and Restated Initial Order containing the relief requested by the Applicants.

All of which is respectfully submitted to the Court this 18th day of January, 2023.

**Alvarez & Marsal Canada Inc., in its capacity as
Monitor of Inscope Corporation, Inscope Inc. and Inscope (New York) Inc.,
and not in its personal or corporate capacity**

Per: _____

Josh Nevsky

Senior Vice-President

Appendix “A”

Pre-Filing Report (without appendices)

**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 INSCAPE CORPORATION, INSCAPE INC. AND INSCAPE (NEW YORK)
INC.

**PRE-FILING REPORT OF THE PROPOSED MONITOR
ALVAREZ & MARSAL CANADA INC.**

JANUARY 11, 2023

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APPENDICES

Appendix A – 13-Week Cash Flow Forecast

Appendix B – Management’s Representation Letter Regarding the Cash Flow Forecast

1.0 INTRODUCTION

- 1.1 Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Proposed Monitor**”) understands that Inscape Corporation (“**Inscape Corp**”), Inscape (New York) Inc. (“**Inscape New York**”) and Inscape Inc. (“**Inscape Delaware**”, and collectively with Inscape Corp and Inscape New York, the “**Inscape Group**” or the “**Applicants**”) intend to make an application to the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) for an order (the “**Initial Order**”) granting, among other things, an initial stay of proceedings pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing A&M as Monitor of the Applicants (in such capacity, the “**Monitor**”). The proceedings to be commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 The Inscape Group’s business is the manufacturing and distribution of office furniture to customers predominantly located in the United States and Canada, with product lines that include cubicles, movable walls, filing cabinets, bookcases and other ergonomic furniture.
- 1.3 Inscape Corp is publicly listed on the Toronto Stock Exchange (TSX:INQ) and incorporated under the laws of the Province of Ontario. Inscape Corp’s head office is located in Holland Landing, Ontario, approximately one hour north of Toronto.
- 1.4 Inscape New York (a New York registered corporation) is a wholly owned direct subsidiary of Inscape Delaware (a Delaware registered corporation), and an indirect subsidiary of Inscape Corp. A simplified legal structure is attached as Exhibit “**D**” to the Ehgoetz Affidavit (as defined below).

- 1.5 The principal purpose of these CCAA Proceedings is to provide a platform to allow the Applicants to conduct a wind-down and liquidation of their assets and business in an orderly fashion, designed to maximize realizations for the benefit of all creditors (the “**Orderly Wind-Down**”). The Proposed Monitor understands that the Applicants are not seeking any specific relief in the proposed Initial Order in respect of the Orderly Wind-Down, but intend to do so in the amended and restated Initial Order at the Comeback Hearing (as defined below).
- 1.6 The Affidavit of Eric Ehgoetz, the CEO of each of the Inscape Group entities, sworn January 11, 2023 in support of the CCAA application (the “**Ehgoetz Affidavit**”), provides a detailed summary of the Applicants’ background, including the events leading up to, and reasons for, the commencement of these CCAA Proceedings.

2.0 PURPOSE OF THIS PRE-FILING REPORT

- 2.1 The purpose of this pre-filing report (the “**Report**”) is to provide the Court with information and, where applicable, the Proposed Monitor’s views on:
- (i) A&M’s qualifications to act as Monitor (if appointed);
 - (ii) some background information with respect to the Applicants;
 - (iii) the Applicants’ cash flow projection for the period January 12, 2023 through to April 7, 2023 (the “**Cash Flow Forecast**”);
 - (iv) the Inscape Group’s centralized cash management system;

- (v) intended next steps in the CCAA Proceedings, including the proposed Chapter 15 recognition proceedings;
- (vi) the priority Court-ordered charges as sought in the Initial Order as follows:
 - (a) an initial charge in the amount of \$250,000 on all of the Applicants' current and future assets, property and undertaking (collectively, the "**Property**") to secure the fees and disbursements of the Applicants' legal counsel, as well as the fees and disbursements of the Monitor and its independent counsel (the "**Administration Charge**"); and
 - (b) a charge in the amount of \$750,000 on the Property in favour of the director and officers of the Applicants (the "**D&O Charge**" and collectively with the Administration Charge, the "**Charges**"); and
- (vii) the Proposed Monitor's conclusions and recommendations in connection with the foregoing.

2.2 If the Initial Order is granted, the Applicants intend to return to Court on or around January 20, 2023 (the "**Comeback Hearing**") to seek the Court's approval of an amended and restated Initial Order which, among other things, would:

- (i) extend the stay of proceedings;
- (ii) increase the amount of the Administration Charge;
- (iii) seek relief in respect of the Orderly Wind-Down, including, among other things, the ability to: (a) disclaim real property leases in accordance with the CCAA; (b)

seek additional relief as it relates to the Chapter 15 recognition proceedings; and

(c) implement a key employee retention plan.

2.3 If the Initial Order is granted by the Court, the Monitor will file a subsequent report to the Court in respect of the Comeback Hearing and the amended and restated Initial Order.

3.0 TERMS OF REFERENCE AND DISCLAIMER

3.1 In preparing this Report, A&M, in its capacity as the Proposed Monitor, has been provided with, and has relied upon, unaudited financial information and the books and records prepared by the Applicants, and has had discussions with management of the Applicants and its legal counsel (collectively, the “**Information**”). Except as otherwise described in this Report in respect of the Applicants’ cash flow forecast:

- (i) the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

- 3.2 Future oriented financial information referred to in this Report was prepared based on the Applicants' management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
- 3.3 This Report should be read in conjunction with the Ehgoetz Affidavit. Capitalized terms used and not defined in this Report have the meanings given to them in the Ehgoetz Affidavit.
- 3.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars ("CAD").

4.0 A&M'S QUALIFICATIONS TO ACT AS MONITOR

- 4.1 Alvarez & Marsal Canada ULC, an affiliate of A&M, was engaged to act as a consultant to the Applicants on December 19, 2022, and, as such, the Proposed Monitor is familiar with the business and operations of the Applicants, its personnel and the key issues and stakeholders in the proposed CCAA Proceedings. A&M is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the "**BIA**") and is not subject to any of the restrictions on who may be appointed as monitor set out in subsection 11.7(2) of the CCAA.
- 4.2 A&M is related to Alvarez & Marsal Holdings, LLC, which is an independent international professional services firm, providing, among other things, bankruptcy, insolvency and restructuring services. The senior A&M personnel with carriage of this matter include experienced insolvency and restructuring practitioners who are Chartered Professional

Accountants, Chartered Insolvency and Restructuring Professionals, and Licensed Insolvency Trustees, and whom have previously acted in CCAA matters of a similar nature.

- 4.3 The Proposed Monitor has retained Aird & Berlis LLP to act as its independent legal counsel.

5.0 BACKGROUND INFORMATION

Overview

- 5.1 A more extensive background of the Applicants is set out in the Ehgoetz Affidavit. Certain key details are summarized below.
- 5.2 The Inscope Group maintains its head office in Holland Landing, East Gwillimbury, Ontario (the “**Head Office**”) and operates from: (i) two leased manufacturing facilities comprised of: (a) a 313,000 square foot facility adjacent to the Head Office (the “**Holland Landing Facility**”); and (b) a 30,000 square foot facility in Jamestown, New York (the “**Jamestown Facility**”); and (ii) three leased retail showrooms located in Chicago, Washington, and New York.
- 5.3 The Applicants’ customers include a variety of large and small corporations and government agencies. Over 90% of the Applicants’ sales are to customers located in the United States.
- 5.4 The Inscope Group holds a number of design and utility patents relating to its products in the principal markets in which it competes.

Financial Results

- 5.5 As detailed in the Ehgoetz Affidavit, the Inscape Group has faced a number of challenges as a result of the continued impact of the Covid-19 pandemic, including a dramatic decline in order volumes and average order size. These challenges are attributed to a slower than expected return-to-office by corporate and government employees, many offices instituting work from home policies or transitioning to an entirely virtual office environment, and a general reduction in the investment in new office furniture.
- 5.6 The Inscape Group has also suffered from a number of supply chain and tightening liquidity issues, resulting in a shortage of production materials, which in turn has perpetuated delays to the completion of existing customer projects and orders.
- 5.7 The following table provides a summary of the Applicants' consolidated revenue, EBITDA and net loss,¹ highlighting the negative trend in the business and the material impact resulting from the Covid-19 pandemic:

\$000's	FY 2019 ²	FY 2020 ²	FY 2021	FY 2022	YTD Nov 22
Revenue	\$90,583	\$75,818	\$38,203	\$38,741	\$17,160
EBITDA	\$(4,708)	\$(1,609)	\$521	\$3,908	\$(11,943)
Net Loss	\$(8,746)	\$(5,406)	\$(891)	\$(839)	\$(15,262)

¹ Financial results for the last four fiscal periods ended April 30 and for the year to date period November 30, 2022. Financial results per Inscape's publicly filed financial statements.

² The "pre-Covid" period.

Senior Secured Credit Facility

- 5.8 Inscape Corp, as borrower, entered into a credit agreement on October 28, 2022 (the “**Senior Credit Agreement**”), with HUK 116 Limited, as lender (the “**Lender**”), an affiliate of Hilco Capital Limited,³ for a revolving demand facility (the “**Credit Facility**”).
- 5.9 As of the date of this Report, the total indebtedness outstanding under the Credit Facility is approximately \$2.6 million, inclusive of interest, management fees and expenses, and as described in the Cash Flow Forecast section below, no additional borrowings under the Credit Facility are currently forecast during the CCAA Proceedings.
- 5.10 The Credit Facility is described in the Ehgoetz Affidavit and is attached thereto as Exhibit “N”. Key terms and components of the Senior Credit Agreement include the following:
- (i) Inscape Corp’s borrowings under the Credit Facility are guaranteed by Inscape New York and Inscape Delaware;
 - (ii) the Credit Facility provides for a maximum credit amount of \$5 million, subject to applicable borrowing bases;
 - (iii) interest under the Credit Facility:
 - (a) during the first 12 months, interest is “paid-in-kind” (i.e., capitalized) at either Prime or US Prime plus 15%, as applicable;
 - (b) Default Interest Rate is Prime or US Prime plus 20%;

³ As described in the Ehgoetz Affidavit, Hilco Capital Limited, through its affiliate HUK 121 Limited, also owns approximately 88% of the outstanding shared of Inscape Corp.

- (c) a Non-Utilisation Fee is calculated using the prevailing Prime or US Prime rate based on the unused facility amount; and
 - (iv) the Credit Facility provides for an Early Termination Fee of \$250,000 to be immediately paid upon the termination of the Credit Facility by the Borrower prior to the Termination Date of October 28, 2024.
- 5.11 As described in the Ehgoetz Affidavit, Inscape Corp is in default under the terms of the Senior Credit Agreement, which defaults continues, and on December 28, 2022, the Lender advised the Applicants that it was no longer prepared to extend or advance any further loans or advances under the Credit Facility or otherwise under the circumstances as they existed at that time.
- 5.12 To address these defaults and allow for ongoing fundings to the Inscape Group, in the days leading up to these proposed CCAA Proceedings, the Applicants and the Lender negotiated and formalized a forbearance agreement dated January 10, 2023 (the “**Forbearance Agreement**”). A copy of the executed Forbearance Agreement is attached as Exhibit “S” to the Ehgoetz Affidavit.
- 5.13 Among other things, the Forbearance Agreement provided the Applicants with additional funding of approximately \$1.2 million (funded by the Lender on January 11, 2023), which was immediately used to fund normal course employee payroll costs, critical vendor payments and certain of the restructuring costs associated with these CCAA Proceedings.
- 5.14 The Proposed Monitor notes the following with respect to the Forbearance Agreement:

- (i) the stated purpose of the Forbearance Agreement is to provide committed funding for the Inscope Group's liquidity and cash flow requirements during the proposed CCAA Proceedings and to complete the Orderly Wind-Down;
- (ii) it is structured in a manner that amends and supplements the terms of the Senior Credit Agreement in that the applicable interest rate, both on current and future advances, shall accrue at the Default Interest Rate (as described above), which is currently approximately 26.5%;
- (iii) it includes a forbearance fee of \$100,000; and
- (iv) it provides the Inscope Group with the option of engaging a third party collections agent, approved by the Lender, who shall be responsible for managing collection of the Applicants' outstanding accounts receivable during the proposed CCAA Proceedings. The terms and fee associated with such engagement have not been finalized and are subject to approval of the Monitor and/or the Court.

Employees

- 5.15 The Applicants currently employ approximately 218 people, comprised of 184 in Canada and 34 in the U.S. Approximately 92 of the Applicants' employees are unionized, comprised of 83 in Canada and nine in the U.S.
- 5.16 The Applicants' payroll is processed by Ceridian HCM, a third-party payroll processor, and paid through the Inscope Group's Cash Management System (as defined below).

- 5.17 The Applicants maintain four pension plans, comprised of: (i) two defined contribution pension plans for Canadian employees;⁴ (ii) one defined benefit pension plan for U.S. employees; and (iii) one defined contribution 401K plan for U.S. employees.
- 5.18 The Proposed Monitor understands that based on the most recent actuarial report received by Inscap New York, the defined benefit pension plan for U.S. employees had a deficit of approximately \$500,000 as of July 31, 2022.
- 5.19 The Inscap Group also sponsors an employee benefits plan, which provides medical, dental, vision and other benefits for eligible employees.
- 5.20 The Proposed Monitor understands that the Applicants remain current in all of their funding obligations in respect of payroll and related costs and that during the CCAA Proceedings, the Applicants intend to continue funding the benefits plan, pension plans, and all other employee related costs and benefits in the normal course.
- 5.21 As part of the Orderly Wind-Down, following the commencement of the proposed CCAA Proceedings, the Proposed Monitor understands that the Applicants intend to immediately terminate a significant number of their employees.

PPSA Registrations

- 5.22 Two parties have registered interests against Inscap Corp under the Personal Property Security Act: (i) the Lender with respect to all present and after-acquired personal property of Inscap Corp for all collateral classifications except consumer goods; and (ii) Dell

⁴ Inscap Corp previously maintained a defined benefit plan for its hourly employees in Canada, however this plan was converted into a defined contribution plan effective April 2, 2022.

Financial Services Canada Limited has a number of registrations with respect to computer equipment and peripherals pursuant to an equipment lease agreement. A copy of the certified Personal Property Registry search results for Inscape Corp in Ontario is attached as Exhibit “**R**” to the Ehgoetz Affidavit.

Unsecured Creditor Profile

- 5.23 Based on the Applicants’ consolidated books and records, as at January 9, 2023, amounts payable to unsecured trade creditors were approximately \$6.3 million, owing primarily to third-party suppliers of raw materials used in the furniture manufacturing process, packaging, logistics and other general goods and services.
- 5.24 The Inscape Group provides a warranty on all of its products and a provision for warranty claims of approximately \$300,000 is currently recorded in the Applicants’ consolidated books and records. During the CCAA proceedings, the Inscape Group will no longer be honouring any warranties.
- 5.25 As noted above, the Applicants are party to one Canadian and four U.S. lease agreements.
- 5.26 As described in the Ehgoetz Affidavit, in 2017, the Canada Revenue Agency (“**CRA**”) issued a notice of reassessment to Inscape Corp claiming approximately \$2.6 million in income tax liability. The Inscape Group engaged a financial advisor to assist with an independent review of the notice of reassessment and on or about October 13, 2022, the Inscape Group filed a notice of objection (“**Objection**”). As of the date of this Report, approximately \$1.3 million in respect of HST refunds has been withheld by CRA, pending determination of the Objection.

6.0 CASH FLOW FORECAST

- 6.1 The Applicants have prepared the Cash Flow Forecast for the 13-week period from January 12, 2023 to April 7, 2023 (the “**Cash Flow Period**”). A copy of the Cash Flow Forecast, together with a summary of assumptions (the “**Cash Flow Assumptions**”) and management’s report on the cash-flow statement required by subsection 10(2)(b) of the CCAA, are attached hereto as **Appendices “A” and “B”**, respectively.
- 6.2 The following table provides a summary of the Cash Flow Forecast, including the period prior to the Comeback Hearing, being January 12, 2023 to January 20, 2023 (the “**Initial Period**”):⁵

Cash Flow Forecast		CAD \$'000s		
	2-Week Period <i>20-Jan-23</i>	11-Week Period <i>7-Apr-23</i>	13-Week Total <i>7-Apr-23</i>	
Receipts				
AR collections	573	4,269	4,842	
Proceeds from sale of inventory	-	287	287	
Proceeds from sale of fixed assets	-	3,056	3,056	
Total Receipts	573	7,613	8,185	
Disbursements				
General & admin	(89)	(210)	(299)	
Salaries & benefits	(981)	(862)	(1,843)	
Proposed KERP	-	(214)	(214)	
Insurance	-	(91)	(91)	
Utilities	(50)	(162)	(212)	
Rent	(216)	(727)	(943)	
Taxes	-	(82)	(82)	
Professional fees	-	(1,774)	(1,774)	
Total Disbursements	(1,336)	(4,121)	(5,457)	
Net Cash Flow	(763)	3,492	2,729	
Opening Cash	1,186	423	1,186	
Net cash flow	(763)	3,492	2,729	
Closing Cash (Bank)	423	3,915	3,915	

⁵ The Comeback Hearing is currently scheduled to be heard on January 20, 2023.

6.3 The Proposed Monitor notes the following with respect to the Cash Flow Forecast:

- (i) during the Initial Period, total disbursements of approximately \$1.3 million are projected to be sufficiently funded by the Applicants' current cash on hand and the collection of accounts receivable;
- (ii) during the entire Cash Flow Period, net cash flows are projected to be approximately positive \$2.7 million and will be sufficiently funded by cash on hand and the collection of accounts receivable. The Applicants are not forecast to require any funding from the Lender during the Cash Flow Period;
- (iii) forecast disbursements include payments pursuant to the Orderly Wind-Down, which do not include the payment of principal or interest owing to the Lender, which are forecast to continue to accrue until the anticipated full repayment of the obligations owing to the Lender; and
- (iv) there are potential collections and realizations that may materialize during the Orderly Wind-Down that would be incremental to the Cash Flow Forecast herein, including, but not limited to, the liquidation of equipment and sale of other assets and the collection of the HST refunds described above.

6.4 Based on the Proposed Monitor's review,⁶ nothing has come to its attention that causes it to believe, in all material respects that:

⁶ The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by subsection 23(1)(b) of the CCAA. Subsection 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. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries,

- (i) the Cash Flow Assumptions are not consistent with the purpose of the Cash Flow Forecast;
- (ii) as at the date of this Report, the Cash Flow 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 Cash Flow Assumptions; or
- (iii) the Cash Flow Forecast does not reflect the Cash Flow Assumptions.

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

7.0 CASH MANAGEMENT SYSTEM

7.1 As described in the Ehgoetz Affidavit, the Applicants' cash management system is operated through various accounts with the Royal Bank of Canada ("**RBC**") and KeyBank (the "**Cash Management System**"). The Cash Management System is administered by the Applicants' finance department at the Head Office.

7.2 Inscape utilizes eight bank accounts, of which three are held at RBC, four are held at KeyBank and one is held at Platinum Bank (collectively, the "**Bank Accounts**"). The Bank Accounts are in denominated in CAD and USD.

analytical procedures and discussions related to information supplied to it by certain key members of management. The Proposed Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow 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.

7.3 The Applicants intend to continue using its existing Cash Management System in substantially the same manner as before the commencement of the CCAA Proceedings and are seeking approval of the Court to do so. Given the scale and nature of the Applicants' operations and the volume of transactions that are processed daily within the Cash Management System, the Proposed Monitor is of the view that the continued use of the existing Cash Management System is required and appropriate during these CCAA Proceedings.

7.4 As part of its monitoring procedures, the Proposed Monitor will:

- (i) review receipts and disbursements processed through the Bank Accounts;
- (ii) review weekly receipts and disbursements summaries, compare the summaries to the corresponding cash flow forecasts and review variances with management;
- (iii) review disbursements, as reasonably appropriate, for compliance with provisions of the proposed Initial Order; and
- (iv) review and track the ordinary intercompany cash transfers that occur among the Bank Accounts.

8.0 INTENDED NEXT STEPS IN THE CCAA PROCEEDINGS

8.1 The Proposed Monitor understands that, subject to obtaining the proposed Initial Order, the Applicants intend to: (i) continue to prepare for the Orderly Wind-down; and (ii) return to Court at the Comeback Hearing to seek an amended and restated Initial Order, which, among other things: (a) extends of the stay of proceedings; and (b) approves the terms of a

key employee retention plan for certain key employee who will remain employed to assist with the Orderly Wind-down.

9.0 CHAPTER 15 RECOGNITION PROCEEDINGS

- 9.1 As discussed in the Ehgoetz Affidavit, the Applicants intend to seek recognition of these CCAA Proceedings under Chapter 15 of the United States Bankruptcy Code and for the recognition of these proposed CCAA Proceedings as “Foreign Main Proceedings”. The Proposed Monitor is also advised that the Applicants intend to seek the appointment of a foreign representative under such recognition proceedings.

10.0 COURT-ORDERED CHARGES SOUGHT IN THE INITIAL ORDER

- 10.1 The proposed Initial Order seeks the granting of the Charges and provides that the Charges are to rank ahead of all other existing security interests, trusts liens, charges and encumbrances, claims of secured creditors, statutory or otherwise, against the Property.

Administration Charge

- 10.2 The proposed Initial Order provides for an initial Administration Charge in an amount not to exceed \$250,000 in favour of the Monitor, counsel to the Monitor, counsel to the Applicants, special counsel to the Applicants and counsel to the director and officers of the Applicants.
- 10.3 The Proposed Monitor assisted the Applicants with the calculation of the Administration Charge and is of the view that the amount of the charge for the initial 10-day stay period is reasonable and appropriate in the circumstances, having regard to the nature of the

proceedings, the anticipated professional costs incurred during the initial 10-day stay period, and the size of charges approved in similar CCAA proceedings.

D&O Charge

- 10.4 Mr. Ehgoetz is currently the sole officer and director of the Applicants.
- 10.5 The proposed Initial Order provides that the Applicants will indemnify their director and officers against obligations and liabilities that they may incur in capacity as director and officers of the Applicants from the commencement of the CCAA Proceedings, except to the extent that any obligation or liability was incurred as a result of gross negligence or wilful misconduct, and provides for an initial D&O Charge on the Property in the amount of \$750,000 in favour of the Applicants' director and officers as security for any such obligations or liabilities arising after the commencement of these CCAA Proceedings.
- 10.6 The Proposed Monitor understands that the Inscape Group holds a directors' and officers' insurance policy that provides coverage for certain obligations. However, this policy contains certain exceptions, exclusions and carve-outs, and as a result, the policy may not provide adequate coverage to Inscape's director and officers during the CCAA Proceedings.
- 10.7 The Applicants' director and officers will only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under the Inscape Group's directors' and officers' insurance policy or to the extent that such coverage is insufficient to pay an indemnified amount.

10.8 The amount of the D&O Charge was estimated by the Applicants, in consultation with the Proposed Monitor, taking into consideration the Applicants' payroll, vacation pay, statutory employee obligations and sales tax liabilities, during the ten-day period prior to the Comeback Hearing.

Priority of Charges

10.9 The priorities of the Charges are proposed to be as follows:

- (i) First – Administration Charge (to the maximum amount of \$250,000); and
- (ii) Second – Directors' Charge (to the maximum amount of \$750,000).

10.10 As set out above, the Proposed Monitor believes that the Charges are reasonable in the circumstances.

11.0 STAY OF PROCEEDINGS

11.1 The proposed Initial Order contemplates the granting of an initial 10-day stay of proceedings in respect of the Applicants, its business and the Property.

11.2 The proposed stay of proceedings will provide the breathing space required for the Applicants to stabilize their business and to commence the Orderly Wind-Down which is intended to maximize value for stakeholders.

12.0 CONCLUSIONS AND RECOMMENDATIONS

12.1 For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants in the proposed Initial Order is reasonable, appropriate and necessary, having regard to the current circumstances of the Applicants. As such, the

Proposed Monitor supports the Applicants' application for CCAA protection and respectfully recommends that the Court grant the Initial Order containing the relief requested by the Applicants.

All of which is respectfully submitted to the Court this 11th day of January, 2023.

**Alvarez & Marsal Canada Inc., in its capacity as
Proposed Monitor of Inscope Corporation, Inscope Inc. and Inscope (New York) Inc.,
and not in its personal or corporate capacity**

Per: _____



Josh Nevsky
Senior Vice-President

Appendix “B”
Key Employee Retention Plan

Inscape Group
KERP Summary
\$CAD

The following table summarizes the two components of Inscape Group's KERP. Key notes and assumptions include:

(i) the Applicants' senior management team would receive: (a) retention bonuses totaling \$100,000, in aggregate, payable upon approval of the KERP by this Court; (b) their ordinary course salary during the CCAA Proceedings; and (c) performance based bonuses totaling \$200,000, in aggregate, payable if overall creditor recoveries exceed the amount required to fully satisfy all priority claims as outlined in s.81 of the Bankruptcy and Insolvency Act and all amounts due and owing to the Lender; and

(ii) the remaining KERP Participants would receive: (a) retention bonuses totalling approximately \$150,000, in aggregate, payable upon the end of the service period required from the KERP Participant; and (b) their ordinary course salary during the CCAA Proceedings.

The maximum total amount payable to Inscape Group employees could be \$448,500.

KERP Proposal									
#	Job Title	Employing Entity	Guaranteed Retention	Guaranteed Retention (% of Annual Salary)	Guaranteed Retention (% of Total Comp)	Incentive Based Retention	Total Retention	Total Retention (% of Annual Salary)	Total Retention (% of Total Comp)
Senior Management									
1	Chief Executive Officer	Inscape Corporation	50,000	15.4%	9.5%	75,000	125,000	38.5%	23.8%
2	Chief Financial Officer	Inscape Corporation	25,000	10.4%	9.4%	75,000	100,000	41.7%	37.7%
3	Vice President, Manufacturing & Supply Chain	Inscape Corporation	25,000	12.5%	12.5%	50,000	75,000	37.5%	37.5%
Senior Management Total			100,000	12.8%	10.5%	200,000	300,000	39.2%	33.0%
Other Employees									
4	Director, Procurement	Inscape Corporation	10,000	6.3%	5.9%	-	10,000	6.3%	5.9%
5	Director, HR	Inscape Corporation	10,000	6.9%	6.9%	-	10,000	6.9%	6.9%
6	Director, Finance	Inscape Corporation	10,000	7.7%	7.1%	-	10,000	7.7%	7.1%
7	Senior Engineering & Spec Manager	Inscape NY Inc.	13,400	9.8%	9.8%	-	13,400	9.8%	9.8%
8	Director Logistics & Customer Service	Inscape Corporation	10,000	8.0%	7.7%	-	10,000	8.0%	7.7%
9	Assistant Controller	Inscape Corporation	5,000	4.3%	4.2%	-	5,000	4.3%	4.2%
10	System Analyst	Inscape Corporation	10,000	9.5%	9.5%	-	10,000	9.5%	9.5%
11	Manager, Network & IT	Inscape Corporation	10,000	9.5%	9.5%	-	10,000	9.5%	9.5%
12	Production Manager	Inscape NY Inc.	13,400	13.0%	13.0%	-	13,400	13.0%	13.0%
13	Production Manager	Inscape Corporation	10,000	10.0%	10.0%	-	10,000	10.0%	10.0%
14	Corp Accounting Manager	Inscape Corporation	10,000	10.5%	10.0%	-	10,000	10.5%	10.0%
15	Plant Controller, HL	Inscape Corporation	5,000	5.6%	5.6%	-	5,000	5.6%	5.6%
16	SR Financial Analyst	Inscape Corporation	5,000	5.7%	5.7%	-	5,000	5.7%	5.7%
17	Payroll Supervisor	Inscape Corporation	5,000	5.9%	5.9%	-	5,000	5.9%	5.9%
18	HR Generalist - US	Inscape NY Inc.	6,700	8.9%	8.9%	-	6,700	8.9%	8.9%
19	HR Generalist	Inscape Corporation	5,000	7.7%	7.1%	-	5,000	7.7%	7.1%
20	Payroll Coordinator	Inscape Corporation	5,000	7.7%	7.1%	-	5,000	7.7%	7.1%
21	SR AP Admin	Inscape Corporation	5,000	9.1%	9.1%	-	5,000	9.1%	9.1%
Other Employees Total			148,500	8.1%	7.9%	-	148,500	8.1%	7.9%
Grand Total			248,500	9.5%	8.6%	200,000	448,500	17.2%	15.6%

Appendix “C”

Summary of Recently Approved KERPs

Company	Filing Type	Initial Filing Date	Province	Industry	Est. # of Participants	Est. Total (CAD)	Avg \$ Per Participant	Notes	Manufacturing	Wind-Down
Inscape Group	CCAA	1/12/2023	Ontario	Manufacturing	21	448,500	21,357		✓	✓
Spartan Bioscience Inc.	NOI continued as CCAA	4/5/2021	Ontario	Biotech	22	725,000	32,955	The KERP Participants' eligibility for and proposed compensation under the KERP is based on each respective KERP Participant's		
Atis Group	CCAA	2/24/2021	Quebec	Manufacturing	Under seal	500,000	Under seal	Unclear - KERP details filed under seal.	✓	
Roberts Company Canada Limited	CCAA	6/29/2020	Ontario	Manufacturing	9	200,000	22,222	The KERP covers 4 key supply chain professionals and 2-5 other key employees integral to the debtor's business and restructuring.	✓	
Spectra Premium Industries	CCAA	3/10/2020	Quebec	Manufacturing	10	850,000	85,000	Payments based on participants reaching certain milestones to ensure they stay on to complete the anticipated restructuring.	✓	
Ontario Graphite	CCAA	2/12/2020	Ontario	Mining	6	100,000	16,667	Covers 5 employees and 1 independent contractor. Equal to two months salary / twice the monthly fees charged.		
SFP Canada Ltd.	CCAA	1/23/2020	Ontario	Retail	28	380,560	13,591	Retention payments for highly qualified and skilled personnel essential to the group's wind-down / liquidation activities. KERP granted in US Chapter 11 proceedings of the debtor's US parent company. In Canada, court granted order allocating 30% of the KERP to SFP Canada.		✓
Wayland Group	CCAA	12/2/2019	Ontario	Cannabis	5	500,000	100,000	KERP designed for key management employees. Payment milestones match milestones in SISF process.		
Clover Leaf Seafoods	CCAA	11/22/2019	Ontario	Food processing	60	2,600,000	43,333	Structured similar to company's historical management incentive plan. KEIP payments based on combination of variables, including EBITDA results and certain operational/functional targets. A limited subset of senior management will also be eligible for incremental payments based on hitting cash flow target.		
Forever 21	CCAA	10/7/2019	Ontario	Retail	12	250,000	20,833	Participants who remain actively employed until they are terminated without cause can obtain bonuses of 15, 20 or 30% of their annual wages, depending on their position.		✓
Hollander Sleep Products	Foreign Order Recognition	5/23/2019	Ontario	Manufacturing	74	554,000	7,486	Plan contemplates a 'stay' bonus for 47 employees and an incentive plan for 27 employees. KERP is to be paid in one installment to each participant provided that they remain employed at least 3 months following the effective date of the Plan or upon closing of a transaction for all or substantially all of the debtor's assets.	✓	
Carpet Art Deco	NOI	11/28/2018	Quebec	Manufacturing	9	959,000	106,556	Put in place to retain key employees needed to complete a liquidation of the debtor's assets. Payments range from 8 to 12 weeks of annual salary. Payments based on staying employed and not tied to meeting any specific targets. For 3 most senior management employees. Potential incentive ranges from \$0.3 million to maximum \$0.9 million, depending on the values received for the inventory and receivables of the company.	✓	✓

(1) Source: Insolvency Insider Court-Approved KERP / KEIP Tracker

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

Court File No. CV-23-00692784-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
INSCAPE CORPORATION, INSCAPE INC. AND INSCAPE (NEW YORK) INC.**

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**FIRST REPORT OF THE MONITOR,
ALVAREZ & MARSAL CANADA INC.**

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