

**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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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

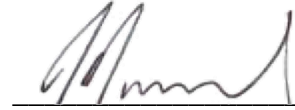
12.1 For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants in the proposed Initial Order is reasonable, appropriate and necessary, having regard to the current circumstances of the Applicants. As such, the

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 “A”

13-WEEK CASH FLOW FORECAST

Appendix A - 13-Week Cash Flow Forecast

Inscape Group

13-Week Cash Flow Forecast ending April 7, 2023

Unaudited \$CAD '000's

Cash Flow Week:

Week Ending:

		Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	13-Week
	Notes	13-Jan-23	20-Jan-23	27-Jan-23	3-Feb-23	10-Feb-23	17-Feb-23	24-Feb-23	3-Mar-23	10-Mar-23	17-Mar-23	24-Mar-23	31-Mar-23	7-Apr-23	Total
Receipts															
AR collections	1	-	573	521	781	521	521	781	312	208	156	156	156	156	4,842
Proceeds from sale of inventory	2	-	-	-	57	57	57	57	57	-	-	-	-	-	287
Proceeds from sale of fixed assets	3	-	-	-	-	-	-	-	-	-	-	-	3,056	-	3,056
Total Receipts		-	573	521	838	578	578	838	370	208	156	156	3,213	156	8,185
Disbursements															
General & admin	4	(59)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	-	-	-	-	(299)
Salaries & benefits	5	(873)	(108)	(435)	(5)	(131)	(5)	(101)	(5)	(70)	(5)	(54)	-	(54)	(1,843)
Proposed KERP	6	-	-	-	(100)	(42)	-	(52)	-	(20)	-	-	-	-	(214)
Insurance	7	-	-	(26)	-	(6)	-	-	(26)	(6)	-	-	(26)	-	(91)
Utilities	8	-	(50)	-	(17)	(38)	-	-	(17)	(38)	-	-	(17)	(38)	(212)
Rent	9	(99)	(117)	-	(175)	-	(175)	-	(125)	-	(125)	-	(125)	-	(943)
Taxes	10	-	-	(27)	-	-	(27)	-	-	-	(27)	-	-	-	(82)
Professional fees	11	-	-	(305)	-	(305)	(238)	(299)	(28)	(271)	-	(192)	(135)	-	(1,774)
Total Disbursements		(1,031)	(305)	(824)	(326)	(551)	(475)	(482)	(231)	(435)	(157)	(246)	(303)	(91)	(5,457)
Net Cash Flow		(1,031)	268	(303)	512	27	103	356	139	(226)	(1)	(89)	2,910	65	2,729
Opening Cash															
Net cash flow	12	1,186	155	423	120	632	658	762	1,118	1,257	1,030	1,029	940	3,849	1,186
Closing Cash (Bank)		(1,031)	268	(303)	512	27	103	356	139	(226)	(1)	(89)	2,910	65	2,729
Hilco Facility (HUK 116)															
Opening revolver	13	2,624	2,635	2,651	2,668	2,689	2,706	2,722	2,739	2,761	2,777	2,794	2,811	2,828	2,624
Accrued interest		7	13	13	14	14	14	14	14	14	14	14	14	14	173
Non-utilization interest		5	3	3	3	3	3	3	3	3	3	3	3	3	38
Closing Revolver		2,635	2,651	2,668	2,689	2,706	2,722	2,739	2,761	2,777	2,794	2,811	2,828	2,850	2,850

Appendix A - 13-Week Cash Flow Forecast Assumptions

Inscape Group

13-Week Cash Flow for the period ending April 7, 2023

Notes and Summary Assumptions

Disclaimer

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

The Forecast is presented in thousands of Canadian dollars. Receipts and disbursements denominated in Canadian currency have been converted into U.S. dollars at an exchange rate of US\$1.00:CAD\$1.34.

Notes

(1) AR collections

AR collections are forecast based on the Company's accounts receivable ledger as of January 3, 2023, adjusted for certain collection timing assumptions.

(2) Proceeds from sale of inventory

Forecast realization of finished goods Furniture inventory.

(3) Proceeds from sale of fixed assets

Forecast realization of machinery and equipment at Holland Landing and Jamestown facilities, based on a draft third-party appraisal report received by the Company on December 28, 2022.

(4) General & admin

General & admin disbursements relate to the Company's monthly credit card settlements and a reserve for general weekly disbursements.

(5) Salaries & benefits

Salaries & benefits disbursements are forecast based on the Company's budgeted salaries, wages, and related benefits.

(6) Proposed KERP

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

(7) Insurance

Insurance disbursements are forecast based on the Company's historical premiums related to its insurance policies.

(8) Utilities

Utilities are forecast based on the Company's budgeted run-rates for the Holland Landing facility.

(9) Rent

Rent includes scheduled disbursements for the Holland Landing and Jamestown facilities, and showrooms in New York and Washington.

(10) Taxes

Taxes disbursements relate to the Company's US sales tax payments, and are forecast based on historical remittances.

(11) Professional fees

Disbursements include: the Applicant's Canadian counsel, U.S. counsel, employment counsel and special counsel; the Monitor and its Canadian and U.S. counsel; the directors counsel, pension actuary related advisory fees in Canada and the U.S., and tax administration fees.

(12) Opening cash

Projected cash balance as of close of business on January 11, 2023.

(13) Opening revolver

Includes \$1.2 million advanced by HUK 116 on January 11, 2023, under the terms of the Forbearance Agreement.

APPENDIX “B”

**MANAGEMENT’S REPRESENTATION LETTER
REGARDING THE CASH FLOW FORECAST**

January 11, 2023

Alvarez & Marsal Canada Inc.
200 Bay Street, Suite 2900
Toronto ON M5J 2J1

Attention: Mr. Joshua Nevsky

Dear Sirs:

Re: Inscape Corporation, Inscape Inc. and Inscape (New York) Inc. (collectively the “Inscape Group” or the “Applicants”) – CCAA section 10(2) Prescribed Representations with Respect to Cash Flow Forecast

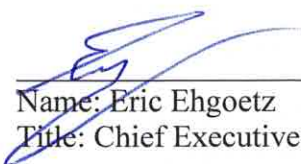
In connection with the application by the Inscape Group for the commencement of proceedings under the *Companies' Creditors Arrangement Act*, the management of Inscape have prepared the attached 13-week projected cash flow statement for the period January 12, 2023 to April 7, 2023 (the “**Cash Flow Forecast**”) and the list of assumptions on which the Cash Flow Forecast is based. The purpose of the Cash Flow Forecast is to determine the liquidity requirements of Inscape Group during the CCAA proceedings.

Inscape Group confirms that the hypothetical assumptions on which the Cash Flow Forecast is based are reasonable and consistent with the purpose described herein, and the probable assumptions are suitably supported and consistent with the plans of Inscape Group and provide a reasonable basis for the projections. All such assumptions are disclosed in notes to the Cash Flow Forecast (the “**Notes**”).

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projections have been prepared solely for the purpose described herein, using the probable and hypothetical assumptions set out in the Notes. Consequently, readers are cautioned that the Cash Flow Forecast may not be appropriate for other purposes.

Yours truly,

Per: 
Name: Eric Ehgoetz
Title: Chief Executive Officer

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

Court File No.: _____

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

PRE-FILING REPORT OF THE PROPOSED MONITOR

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