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**Report of  
Duff & Phelps Canada  
Restructuring Inc.  
as Proposed CCAA Monitor of  
iMarketing Solutions Group Inc.**

April 11, 2013

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**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 AND ARRANGEMENT OF  
iMARKETING SOLUTIONS GROUP INC. AND THE COMPANIES REFERRED TO IN  
SCHEDULE "A"**

**REPORT OF  
DUFF & PHELPS CANADA RESTRUCTURING INC.  
AS PROPOSED MONITOR  
April 11, 2013**

## **1.0 Introduction**

1. On April 11, 2013, iMarketing Solutions Group Inc. ("IMSG") and the companies referred to in Schedule "A" (together with "IMSG", the "Company") filed application materials with the Ontario Superior Court of Justice (Commercial List) ("Court") seeking, *inter alia*, protection under the *Companies' Creditors Arrangement Act* (the "CCAA") and the appointment of Duff & Phelps Canada Restructuring Inc. ("D&P") as the Monitor.
2. D&P consents to act as Monitor.
3. D&P is filing this report ("Report") as proposed monitor (the "Proposed Monitor").
4. The Affidavit of Andrew Langhorne, the Company's Chief Executive Officer, sworn April 11, 2013 (the "Langhorne Affidavit") and filed in support of the Company's application for CCAA protection, describes, *inter alia*, the Company's background, including the reasons for the commencement of these proceedings.
5. If the relief being sought by the Company from the Court is granted, IMSG intends to immediately bring an application, in its capacity as foreign representative, for recognition of the CCAA proceedings in the United States by commencing proceedings pursuant to Chapter 15 of Title 11 of the *United States Code* ("Chapter 15") in the United States Bankruptcy Court for the District of Delaware ("U.S. Court").

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6. The principal purpose of these restructuring proceedings is to create a stabilized environment in order to carry out a process to solicit investors, strategic partners, plan sponsors or purchasers for the Company's business and assets in order to preserve its going-concern value.

### **1.1 Purposes of this Report**

1. The purposes of this Report are to:
- a) Provide background information about the Company and these proceedings;
  - b) Provide D&P's qualifications to act as Monitor;
  - c) Provide the Proposed Monitor's conclusions on the Company's cash flow projection for the 16-week period ending August 2, 2013;
  - d) Provide D&P's view that Toronto, Ontario is the center of main interest for the Company's business and operations;
  - e) Provide the Proposed Monitor's views on the relief sought by the Company, including:
    - The Company's continued use of its centralized cash management system during these proceedings;
    - The debtor-in-possession facility (the "DIP Facility") between the Company and Shotgun Fund Limited Partnership III ("Shotgun" or the "DIP Lender");
    - The ability to pay, during these proceedings, certain pre-filing obligations owed to the Company's customers;
    - The retention of Illumina Partners Inc. ("Illumina") as the Company's Chief Restructuring Officer ("CRO");
    - The quantum of the Court-ordered charges, being the Administration Charge, the DIP Lender's Charge and the Directors' Charge (each as defined in the proposed Initial Order); and
    - Creditor notification of the Company's intention to commence this CCAA proceeding.
  - f) Recommend that this Honourable Court grant the relief sought by the Company in its application materials.

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## **1.2 Currency**

1. Unless otherwise noted, all currency references in this Report are to Canadian dollars.

## **1.3 Defined Terms**

1. Capitalized terms not defined in this Report have the meanings provided to them in the Langhorne Affidavit.

## **1.4 Restrictions**

1. In preparing this Report, D&P has relied upon unaudited financial information prepared by the Company's representatives, the Company's books and records, discussions with management and discussions with the Company's advisors. D&P has not performed an audit or other verification of such information. An examination of the Company's cash flows and/or financial forecasts as outlined in the *Canadian Institute of Chartered Accountants Handbook* has not been performed. Future oriented financial information relied upon in this Report is based on the Company's assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.
2. Based on its review of the cash flows and/or financial forecasts, their underlying assumptions and on discussions with management, D&P is of the view that the cash flow projection attached in Appendix "A" is reasonable. Any party relying on the cash flow projection and/or financial forecasts is encouraged to perform its own diligence.

## **1.5 D&P's Qualification to Act as Monitor**

1. D&P is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). D&P is not subject to any of the restrictions to act as Monitor as set out in Section 11.7(2) of the CCAA.
2. D&P has extensive experience acting as a monitor under the CCAA, including in cross border proceedings under the CCAA.
3. D&P has consented to act as Monitor in these proceedings should the Court grant the Initial Order.

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## 2.0 Background

1. IMMSG was incorporated under the Alberta *Business Corporations Act*. IMMSG's common shares are listed on the Canadian National Stock Exchange under the symbol "IMR".
2. The Company operates 22 direct and indirect subsidiaries in Canada and the US. IMMSG's corporate chart is provided in Appendix "B".
3. The Company's management, accounting, treasury and administrative functions are carried out from its headquarters in Toronto, Ontario.
4. The Company is an integrated marketing services provider of direct marketing solutions for not-for-profit organizations, political organizations and professional associations.
5. The Company's core businesses include: a) tele-fundraising activities; b) data development; c) direct mail fundraising and outreach; d) data management; e) publishing; f) social media; g) secure caging (an industry term for the process or act of collecting donations, processing donor mail and depositing contributions to customer accounts); and h) marketing list rentals (the renting of donor lists to third parties in exchange for a fee).
6. Operating under its previous name, Xentel DM Incorporated ("Xentel"), which acquired The Responsive Marketing Group Inc. ("RMG") in March 2010, IMMSG and its predecessor corporations have operated in the telemarketing and fundraising sector in North America for more than 25 years.
7. The Company's principal shareholders are: the Shotgun Funds managed by Argosy Partners (28%); two of IMMSG's current directors (13%); and two of IMMSG's former directors (32%).
8. The Company operates out of twenty-five (25) leased premises located across Canada and the US. Specifically, the Company's Canadian operations are located in the provinces of Ontario, British Columbia, Alberta, Manitoba, Quebec and New Brunswick. US operations are located in the states of Wisconsin, Colorado, Pennsylvania, Missouri, Virginia, New Mexico and Florida. The Company has closed, or is in the process of closing and vacating, 11 of its locations.
9. IMMSG employs approximately 1,140 individuals, as shown below:

	Canada	United States	Total
Active	450	212	662
Layoff	122	359	481
Total	572	571	1,143

10. In March, 2013, the Company laid off approximately 480 employees as part of a comprehensive cost cutting initiative described further in the Langhorne Affidavit. The Company is continuing to eliminate surplus costs to return to profitability.
11. The Company's employees are non-unionized and the Company does not maintain any pension plans.
12. Further information concerning the Company, its background, operations and financial position is provided in the Langhorne Affidavit. In order to avoid duplication, it is not repeated herein.

### 3.0 Creditors

#### 3.1 Secured Creditors and Priority Obligations

1. The Company's secured obligations total approximately \$5.5 million (before accrued interest), comprised of the following:

Lenders	Facility	Amount (\$000s)
Canadian Imperial Bank of Commerce	Credit Facility	2,000
Shotgun	Convertible Note	3,500
Total secured debt, before accrued and unpaid interest		5,500

2. The Company has a credit facility with the Canadian Imperial Bank of Commerce ("CIBC") of \$2 million. CIBC has registered security against RMG, one of IMSG's wholly-owned subsidiaries, pursuant to a general security agreement. Certain subsidiaries of RMG are guarantors. The credit facility is substantially fully drawn.
3. On December 4, 2012, the Company completed a private placement offering of a \$3.5 million secured convertible promissory note with Shotgun ("Convertible Note"). The Convertible Note matures in December, 2015. Annual interest is calculated at a rate of 20%.
4. Other than in respect of equipment leases, purchase money security interests or similar arrangements, no other parties have a registered security interest against the Company in the Canadian provinces or the US.
5. In addition to the above, the Company has the following priority sales and withholding tax obligations:
  - a. Canadian sales taxes: \$690,000; and
  - b. Canadian withholding taxes: \$235,000.

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6. The Langhorne Affidavit details these obligations and the reasons that they have accrued.

### **3.2 Unsecured Creditors**

1. As at April 5, 2013, the Company's books and records indicate that the Company's unsecured obligations total approximately \$7.6 million (excluding the tax amounts referenced above).
2. The Company's vendor obligations (totalling approximately \$4.3 million) consist mainly of obligations due to landlords and telecommunication, courier and utility companies.
3. The Company has an imminent liquidity crisis: the credit facility is fully drawn; the proceeds from the Convertible Note have been fully utilized; and the Company's vendors will no longer extend credit. As discussed below, the Company is seeking Court approval of a DIP Facility to fund its operations until it generates positive cash flow or completes a restructuring (in a manner to be determined).

### **4.0 Sale and Investor Solicitation Process**

1. The Company intends to develop a process to solicit investors, strategic partners, plan sponsors or purchasers for the Company's business and assets in Canada and the US ("SISP"). Court approval of this process is not being sought at this time. The process would be carried out under the supervision of the Monitor.
2. If the proposed Orders are made, the Company intends to return to Court in the near term to seek approval of a SISP.

### **5.0 Cash Flow**

1. The Company has prepared a cash flow projection for the period April 15, 2013 to August 2, 2013 ("Cash Flow"). The Cash Flow is provided in Appendix "A". The Company's statutory report on the Cash Flow pursuant to Section 10(2)(b) of the CCAA is attached as Appendix "C".
2. The Cash Flow reflects that the Company is projected to require funding of approximately \$1 million in order to continue to operate during these proceedings and to continue to normalize its business. The Cash Flow also reflects that the Company is projected to generate positive cash flow from operations early in these proceedings, which will assist to fund the costs of these proceedings. The ability to generate positive cash flow results from the Company's cost-cutting and other restructuring efforts in recent months.



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3. The Cash Flow assumes that: a) the Company's continuing revenue streams are consistent with historical patterns, adjusted to reflect the Company's recent cost-cutting initiatives and changes to its strategic direction; b) customers continue to pay the Company pursuant to contract terms for ongoing project work performed by the Company; and c) certain critical vendors are paid on a COD or prepayment basis.
  4. Based on the Proposed Monitor's review of the Cash Flow, there are no material assumptions which seem unreasonable in the circumstances. The Proposed Monitor's statutory report on the cash flow is attached as Appendix "D".

## **6.0 Chapter 15 Proceedings**

1. If the Initial Order is granted, the Company intends to immediately commence proceedings under Chapter 15 and will seek to have the CCAA proceedings recognized as a foreign main proceeding and the Initial Order enforced in the US. This will include an immediate request for an order granting provisional relief under Chapter 15 and implementing a stay of proceedings in the US to prevent impediments to the Company's ability to carry on its business operations in the US, pending further order of the U.S. Court.
2. As set out in the draft Initial Order, the Company intends to name either IMSG or the Monitor as the Foreign Representative in respect of each of IMSG's subsidiaries in the US proceedings.

### **6.1 Centre of Main Interest**

1. The Langhorne Affidavit details the reasons why the Company believes that its centre of main interest is Ontario. The Proposed Monitor shares that view for the following reasons:
  - Primarily all of the Company's corporate, management, banking, accounting and strategic functions are undertaken from IMSG's head office in Ontario;
  - The Company's senior management team and its directors reside in Ontario;
  - Accounting functions are performed and the books and records are maintained at IMSG's head office in Ontario;
  - Investor communication activities are coordinated at the Ontario office;
  - The Company's lenders, being CIBC and Shotgun, are located in Ontario and their loan documents are governed by Ontario law;

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- The Company's cash management system and treasury functions are carried out in Ontario;
  - The Company's financial reporting is done on a consolidated basis (except where separate entity reporting is required by taxing authorities) and the audited financial statements are prepared in Ontario; and
  - Human resource policy and administration, including certain human resource functions such as employee recruitment strategy and the administration of employee benefits, are performed and located in Ontario.

## **7.0 Relief Sought**

1. The following sections summarize the material relief being sought by the Company and the Proposed Monitor's views thereon.

### **7.1 Cash Management System**

1. The Company's centralized cash management system is detailed in the Langhorne Affidavit.
2. The cash management system is integrated among the Company's entities and centrally managed from IMSG's head office in Toronto, Ontario. Cash is transferred daily, as needed, among the bank accounts of the Company's operating entities at multiple financial institutions in Canada and the US as well as customer accounts controlled by the Company.
3. It is contemplated that the Company would continue to use the existing cash management system during these proceedings.
4. The Proposed Monitor believes that it is necessary for the Company to continue to use the existing cash management system as doing so would avoid: a) delays in accounts receivable collections and accounts payable payments until new bank and credit card accounts are established; b) a distraction of management's limited resources; c) payroll payment disruptions; and d) reduce administrative costs and expenses. The Cash Flow does not consider the impact of cash flow delays. Such delays would result in a need for increased funding, which is not presently available.

### **7.2 Payment of Pre-Filing Customer Obligations**

1. The Langhorne Affidavit explains the process by which the Company receives and remits funds it raises on behalf of its customers. The Proposed Monitor understands that remittance of \$573,000 in the aggregate to certain customers in Canada and the US ("Customer Obligations") was not made on a timely basis and remains outstanding.

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2. The Company is proposing to pay the Customer Obligations as it believes these payments are necessary to preserve the value of its business. The Proposed Monitor believes these payments are appropriate and necessary for the following reasons:
- The Company is regularly engaged on a per-contract or per-service basis by its customers. Customers may terminate or not renew the contracts if the Company does not honour the terms of the contracts;
  - The Company is of the view, and the Proposed Monitor concurs, that the Customer Obligations must be repaid in order to preserve the value of customer relationships;
  - The Company's business would be impaired if these amounts are not paid. There is a likelihood that accounts receivable collections would be affected by the amount of any outstanding balance and/or that customers would lose confidence in the Company and seek to immediately transition their business to new suppliers;
  - The Cash Flow projects that the Company will have sufficient liquidity to make these payments over the next several weeks; and
  - The DIP Lender has consented to the Company making these payments.

### 7.3 DIP Facility

1. The DIP Lender has agreed to fund the Company's operations during the CCAA proceedings pursuant to the DIP Facility. The significant terms of the DIP Facility include:
- The committed amount is \$1 million;
  - The maturity date is the earlier of: i) the occurrence of any Event of Default which is continuing; or ii) August 1, 2013;
  - Interest is to be charged at a rate of 5% per annum, compounded monthly;
  - A facility fee in the amount of \$100,000 is fully earned in advance on the date of the DIP Order and is payable on the earlier of: a) the Maturity Date; or b) the occurrence of an Event of Default;
  - The DIP Facility is conditional on, *inter alia*, the granting of the DIP Lender's Charge over the Company's property in Canada and the US, ranking subordinate only to the Administration Charge and CIBC's security interest against RMG.

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2. A copy of the credit agreement governing the DIP Facility is included in the Company's CCAA application materials.
  3. The Proposed Monitor believes that the terms of the DIP Facility are reasonable for the following reasons:
    - The Company is facing an imminent liquidity crisis and is without the cash needed to operate – short term funding is needed urgently. The Company's ability to procure ongoing services is limited in light of past due obligations with many of its vendors, including certain suppliers that provide telecommunication and fulfillment services (mailings, postage, courier) as well as certain landlords. Some vendors have threatened to discontinue supplying services and/or supplies;
    - The Proposed Monitor understands that the Company evaluated alternatives and met with other potential lenders. None of them was prepared to provide new financing;
    - The Company's operations will cease and the Company will have virtually no prospect of restructuring if the DIP Facility is not available;
    - The interest and fees payable under the DIP Facility, considered together (15% - interest of 5% and a \$100,000 fee), appear to be consistent with market rates for debtor-in-possession facilities of this size, particularly given the attributes of the Company's business and the risks inherent in these proceedings;
    - The Company secured the Convertible Note in December, 2012. This instrument bears interest at 20% annually. The all-in cost of the DIP Facility is less than the cost of the Convertible Note;
    - Further delays sourcing an alternative DIP Facility cannot be justified. Even if a less expensive facility could be sourced (which is highly remote), the cost savings that would result are immaterial given the amount of the DIP Facility, particularly in light of the potential risk to the business during the time a new facility is sought;
    - The Company's assets are largely intangibles and its operations are complex – cross-border with multiple operating entities. It is difficult to source a DIP Facility in such circumstances; and
    - In light of the foregoing, it is the Proposed Monitor's view that further time spent attempting to source debtor-in-possession financing would:
      - i. not be in the interest of the Company and/or its stakeholders;
      - ii. not result in finalization of an alternative DIP facility on better terms; and

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- iii. would severely, and likely fatally, compromise the Company's ability to continue to operate.

## **7.4 Chief Restructuring Officer**

1. The Company engaged Upkar Arora of Illumina as interim CFO on September 24, 2012 upon the resignation of IMSG's previous CFO. Mr. Arora has experience working with distressed businesses in Canada and internationally. Mr. Arora's resume is attached as Appendix "E".
2. The Proposed Monitor understands that Mr. Arora currently oversees the Company's financial affairs both in Canada and the US and has provided the Company with substantial assistance and guidance to allow it to continue to operate.
3. Mr. Arora's knowledge of the business should facilitate the Company's operations and restructuring during the proceedings. It should also assist to reduce the fees and costs of certain of the professionals, which is a primary consideration in these proceedings given the size of the business, notwithstanding its substantial complexity.
4. A copy of Illumina's engagement letter with IMSG is provided in Appendix "F". Illumina has agreed, among other things, to a fee of \$75,000 per month plus a success fee on terms to be negotiated, subject to Court approval. Based on the Proposed Monitor's experience, the monthly fee appears reasonable in the circumstances. The Proposed Monitor believes that absent the retention of Illumina, professional fees would increase by at least the monthly fee payable to Illumina.
5. The DIP Lender has consented to the retention of Illumina as CRO pursuant to the terms of its engagement letter.
6. For the foregoing reasons, the Proposed Monitor believes that it is appropriate that Illumina be retained as CRO in these proceedings.

## **7.5 Court-Ordered Charges**

### **7.5.1 Administration Charge**

1. The Company is seeking an Administration Charge in the amount of \$300,000, which would have priority over all claims against the Company other than CIBC's security interest to the extent such charge is properly perfected against the assets of RMG.
2. The beneficiaries of the Administration Charge would be the Company's legal advisors, the Monitor and the Monitor's legal counsel, the CRO and its counsel.

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3. The Administration Charge is a standard provision of CCAA proceedings in order to secure payment for the legal counsel, professional advisors and the Monitor involved in the restructuring proceedings. The charge protects the professionals engaged in these proceedings in the event that the Company is unable to pay them on the basis contemplated in the Cash Flow, or should actual costs exceed budget and the Company is unable to pay them as and when due. The amount of the Administration Charge appears to be reasonable in the circumstances.

### **7.5.2 DIP Lender's Charge**

1. The Company requires immediate funding to continue to operate during these proceedings, as evidenced by the Cash Flow.
2. As discussed above, a condition of the DIP Term Sheet is that the DIP Lender receive the benefit of the DIP Lender's Charge, being priority charge equal to its actual advances, plus its post-filing fees, costs and interest to a maximum of \$1.4 million.
3. The Proposed Monitor understands that the secured creditors who are likely to be affected by the charges created under the proposed Initial Order, including the DIP Lender's Charge, are to be provided notice, albeit limited, of the Company's application.
4. The Company, with the DIP Lender's consent, is proposing that the DIP Lender's Charge be subordinate to the Administration Charge and the security interest of CIBC as it relates to RMG.
5. The Proposed Monitor has reviewed the Cash Flow and its underlying assumptions. The activity reflected in the Cash Flow appears consistent with the Company's historical results, adjusted to reflect certain assumptions to account for the impact of these insolvency proceedings. DIP Funding is required. Absent the DIP Lender's Charge, the DIP Facility would not be available and the Company's operations would terminate. Accordingly, the Proposed Monitor supports the Company's request for the DIP Lender's Charge.

### **7.5.3 Directors' Charge**

1. The proposed Initial Order contemplates a Directors' Charge in the amount of \$1.3 million for any liabilities the directors and officers may incur from and after the commencement of the CCAA proceedings.

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2. The Directors' Charge is a standard provision of CCAA proceedings in order to maintain the involvement of the directors and officers. The involvement of the directors facilitates the continued and orderly operations of a business during its restructuring proceedings. Given the Company's corporate structure and the key relationships certain of the Company's directors enjoy with their customers, the Proposed Monitor believes the Directors' Charge is appropriate in the circumstances.
  3. The Proposed Monitor has reviewed the underlying calculations upon which the Company has based the estimate of directors' and officers' potential exposure in these proceedings (largely payroll, payroll remittances, vacation pay and sales taxes) and is of the view the Directors' Charge is reasonable in relation to the quantum of the estimated potential liability.
  4. The Company maintains a director and officer insurance policy with a limit of \$5 million. The proposed Initial Order provides that the beneficiaries of the Directors' Charge shall only be entitled to coverage to the extent that coverage under the Company's D&O insurance policy is not available or insufficient.

## **7.6 Creditor Notification**

1. Pursuant to Section 23(1) (a) of the CCAA, the proposed Initial Order requires the Monitor to:
  - Publish a notice in the *Globe and Mail* containing the information prescribed under the CCAA; and
  - Within five days of the issuance of the Initial Order to:
    - i. make the Order publicly available in the manner prescribed under the CCAA;
    - ii. send, in the prescribed manner, a notice to every known creditor who has a claim against the Company of more than \$1,000 advising them that the order is publicly available, and
    - iii. prepare a list, showing the names and addresses of those creditors, and the estimated amounts of those claims, and make it publicly available in the prescribed manner.
2. Immediately following the filing of the motion seeking recognition of the CCAA proceeding pursuant to Chapter 15 (the "Recognition Motion"), the Company is also filing the Foreign Representative's Motion for Order Scheduling Hearing and Specifying the Form and Manner of Service of Notice (the "Notice Motion").

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3. The Notice Motion deals with both notice of the Recognition Motion and the notice requirements in general in the Company's proceedings in the US (the "Chapter 15 cases") for the remainder of the Chapter 15 cases. In particular, per the Notice Motion, the Company requests that the U.S. Court enter an order: (a) approving a notice (the "Recognition Hearing Notice") of (i) the filing of the chapter 15 petitions and certain related pleadings, including the Recognition Motion, (ii) the U.S. Court's entry of the order granting entry of a temporary order recognizing and enforcing in the US, on an interim basis, the Initial Order if made by the Court, (iii) the deadline to object to the Court's entry of the final order approving the Recognition Motion, and (iv) the Recognition Hearing; (b) approving the manner of service of the Recognition Hearing Notice on any party that files a notice of appearance in the Chapter 15 cases; (c) approving the manner of service on the Master Service List (which consists of counsel to the Company's proposed debtor in possession lender; counsel to the Company's prepetition secured lenders; principal parties that have appeared in the CCAA proceeding as of the date of the service of the relevant pleading; the U.S. Trustee; and all parties that have requested notice of these proceedings pursuant to Bankruptcy Rule 2002) of any pleadings that the Foreign Representative files in the Company's Chapter 15 cases; and (d) granting certain related relief.
  4. If appointed, D&P will also post the Initial Order on its website at <http://www.duffandphelps.com/services/restructuring/Pages/RestructuringCases.aspx>.

## 8.0 Conclusion and Recommendation

1. Based on the foregoing, the Proposed Monitor respectfully recommends that this Honourable Court make the Orders granting the relief detailed in Section 1.1 of this Report.

\* \* \*

All of which is respectfully submitted,

*Duff + Phelps Canada Restructuring Inc.*

**DUFF & PHELPS CANADA RESTRUCTURING INC.  
IN ITS CAPACITY AS PROPOSED CCAA MONITOR OF  
iMARKETING SOLUTIONS GROUP INC.  
AND NOT IN ITS PERSONAL CAPACITY**



**SCHEDULE "A"**

**LIST OF APPLICANTS**

iMarketing Solutions Group Inc.  
The Responsive Marketing Group Inc.  
GWE Consulting Group (USA) Inc.  
Direct Contact Strategies Inc.  
Front Line Support Inc.  
iMark Events Inc.  
RMG General Partner Inc.  
Cabot Call Centre Inc.  
Engage Interactive Inc.  
MLHL Marketing Inc.  
RMG Smith Falls, LLP  
RMG Thunder Bay LLP  
Xentel Inc. (Delaware)  
Wellesley Corporation Inc. (Delaware)  
US Billing Inc. (Delaware)  
American Graphics & Design Inc. (Wisconsin)  
Courtesy Health Watch Inc. (Delaware)  
Target Outreach Inc. (Nevada)  
Engage Funding Inc. (Delaware)

## **Appendix “A”**

**IMarketing Solutions Group Inc. and its Direct and Indirect Subsidiaries**

Projected Statement of Cash Flows <sup>(1)</sup>

For the Period April 15, 2013 to August 2, 2013

(\$CAD; Unaudited)

	Notes	For the Weeks Ending														Total		
		19-Apr	26-Apr	3-May	10-May	17-May	24-May	31-May	7-Jun	14-Jun	21-Jun	28-Jun	5-Jul	12-Jul	19-Jul		26-Jul	2-Aug
<b>Cash Inflow from Operations</b>																		
Collections from opening accounts receivable balance		899,100	899,100	599,400	449,550	-	-	-	-	-	-	-	-	-	-	-	-	2,847,150
Collections from new accounts receivable		-	-	99,912	399,647	1,267,112	851,052	844,815	876,550	781,590	818,167	825,635	819,366	810,369	800,348	800,906	791,128	10,786,597
<b>Total Cash Inflows from Operations</b>	(2)	<b>899,100</b>	<b>899,100</b>	<b>699,312</b>	<b>849,197</b>	<b>1,267,112</b>	<b>851,052</b>	<b>844,815</b>	<b>876,550</b>	<b>781,590</b>	<b>818,167</b>	<b>825,635</b>	<b>819,366</b>	<b>810,369</b>	<b>800,348</b>	<b>800,906</b>	<b>791,128</b>	<b>13,633,747</b>
<b>Cash Outflow from Operations</b>																		
Variable Costs:																		
Tele-fundraising		270,250	270,250	270,250	282,000	282,000	282,000	293,750	293,750	293,750	293,750	293,750	293,750	293,750	293,750	293,750	293,750	4,594,250
Direct mail		38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	38,462	615,385
Direct voter contact		36,075	36,075	36,075	36,075	36,075	-	-	-	-	-	-	-	-	-	-	-	180,375
<b>Total Variable Costs</b>	(3)	<b>344,787</b>	<b>344,787</b>	<b>344,787</b>	<b>356,537</b>	<b>356,537</b>	<b>320,462</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>332,212</b>	<b>5,390,010</b>
Fixed and Other Operating Costs	(4)	382,100	299,600	685,659	169,600	252,200	334,800	621,300	416,300	333,700	333,900	333,700	515,500	281,600	281,600	281,600	515,500	6,038,659
<b>Total Cash Outflows from Operations</b>		<b>726,887</b>	<b>644,387</b>	<b>1,030,446</b>	<b>526,137</b>	<b>608,737</b>	<b>655,262</b>	<b>953,512</b>	<b>748,512</b>	<b>665,912</b>	<b>666,112</b>	<b>665,912</b>	<b>847,712</b>	<b>613,812</b>	<b>613,812</b>	<b>613,812</b>	<b>847,712</b>	<b>11,428,669</b>
<b>Net Cash from Operations</b>		<b>172,213</b>	<b>254,713</b>	<b>(331,134)</b>	<b>323,061</b>	<b>658,376</b>	<b>195,790</b>	<b>(108,696)</b>	<b>128,039</b>	<b>115,679</b>	<b>152,055</b>	<b>159,723</b>	<b>(28,346)</b>	<b>196,557</b>	<b>186,536</b>	<b>187,095</b>	<b>(56,584)</b>	<b>2,205,078</b>
<b>Restructuring and Other Costs</b>																		
Professional fees	(5)	100,000	-	105,000	-	160,000	100,000	-	-	205,000	-	-	-	210,000	-	-	-	880,000
Contingency	(6)	305,500	305,500	-	-	-	-	-	-	-	-	-	-	-	-	-	(549,900)	61,100
DIP loan fee and interest	(7)	-	-	-	-	75,000	-	-	25,000	-	-	-	25,000	-	-	-	-	125,000
Customer remittances	(8)	84,186	63,407	-	184,575	209,500	30,900	-	-	-	-	-	-	-	-	-	-	572,568
Past due Payroll withholdings	(9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	233,889	233,889
State regulators	(10)	22,300	-	-	-	22,300	-	-	-	-	22,300	-	-	-	22,300	-	-	89,200
Sales taxes	(11)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Restructuring and Other Costs</b>		<b>511,986</b>	<b>368,907</b>	<b>105,000</b>	<b>184,575</b>	<b>466,800</b>	<b>130,900</b>	<b>-</b>	<b>25,000</b>	<b>205,000</b>	<b>22,300</b>	<b>-</b>	<b>25,000</b>	<b>210,000</b>	<b>22,300</b>	<b>-</b>	<b>(191,011)</b>	<b>2,086,757</b>
<b>Net Cash Flow</b>		<b>(339,773)</b>	<b>(114,194)</b>	<b>(436,134)</b>	<b>138,486</b>	<b>191,576</b>	<b>64,890</b>	<b>(108,696)</b>	<b>103,039</b>	<b>(89,321)</b>	<b>129,755</b>	<b>159,723</b>	<b>(53,346)</b>	<b>(13,443)</b>	<b>164,236</b>	<b>187,095</b>	<b>134,427</b>	<b>118,321</b>
DIP loan balance	(12)	-	(339,773)	(453,967)	(890,100)	(751,615)	(560,039)	(495,149)	(603,845)	(500,806)	(590,127)	(460,372)	(300,649)	(353,995)	(367,438)	(203,201)	(16,107)	
<b>(DIP Loan)/End of Period Cash Balance</b>		<b>(339,773)</b>	<b>(453,967)</b>	<b>(890,100)</b>	<b>(751,615)</b>	<b>(560,039)</b>	<b>(495,149)</b>	<b>(603,845)</b>	<b>(500,806)</b>	<b>(590,127)</b>	<b>(460,372)</b>	<b>(300,649)</b>	<b>(353,995)</b>	<b>(367,438)</b>	<b>(203,201)</b>	<b>(16,107)</b>	<b>118,321</b>	

iMarketing Solutions Group Inc. and its Direct and Indirect Subsidiaries

**Notes to Projected Statement of Cash Flows**

For the Period April 15, 2013 to August 2, 2013

(\$CAD, Unaudited)

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**Purpose and General Assumptions**

1. The purpose of the projection is to present the forecast of the cash flow of iMarketing Solutions Group Inc. and its direct and indirect subsidiaries (collectively, the "Company") for the period April 15, 2013 to August 2, 2013 ("Period") in respect of its proceedings pursuant to the *Companies' Creditors Arrangement Act* and Chapter 15 of Title 11 of the *United States Code*.

The projected cash flow statement has been prepared based on hypothetical and most probable assumptions developed and prepared by the Company.

**Specific Assumptions**

2. Represents collection of accounts receivable balances from the pre-filing period, inclusive of sales taxes, and from revenues to be generated during the Period, net of sales taxes. Collections are based on historical patterns.
3. Represents variable costs associated with continued operation of the Company's fundraising, direct mail and direct voter contact businesses. Costs include direct labour and fulfillment costs (printing, postage, courier).
4. Includes fixed costs associated with continued operations, such as salaries, rent and utilities.
5. Represents the professional fees to be paid in the period related to the restructuring proceedings, including the fees of the Company's Canadian and US legal counsel, Monitor and its Canadian and US legal counsel.
6. Represents a contingency for unknown expenses, including, potentially, security deposits to critical vendors and a return of such deposits in the week ended August 2, 2013.
7. Relates to fees, costs and interest associated with the DIP loan facility.
8. Reflects payment to certain customers regarding pre-filing amounts collected.
9. Includes source deductions and withholding taxes immediately prior to the Period.
10. Reflects balances owing to certain State regulators in the United States.
11. Reflects pre-filing sales taxes owing.
12. Assumes an opening cash balance of nil as the CIBC line of credit is fully drawn.

## **Appendix “B”**



# Corporate Structure

**iMarketing Solutions Group Inc.**  
 (formerly Xentel DM Incorporated)  
 Alberta Corporation  
 Public Company CNSX  
 Canadian Operating entity

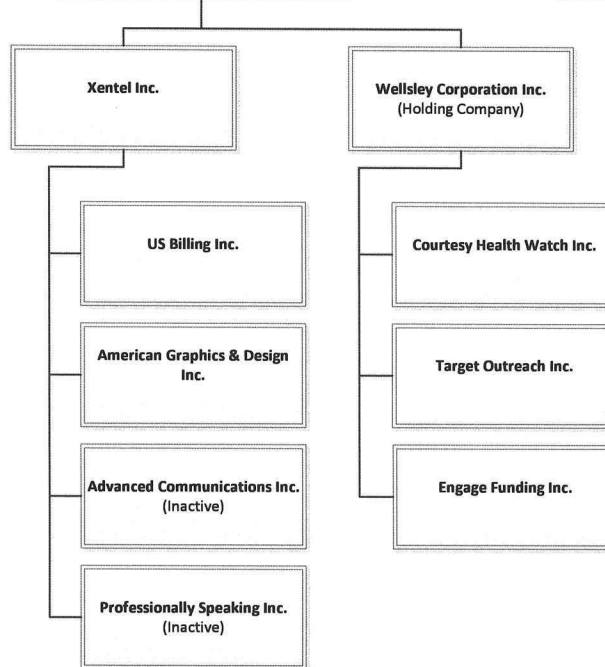
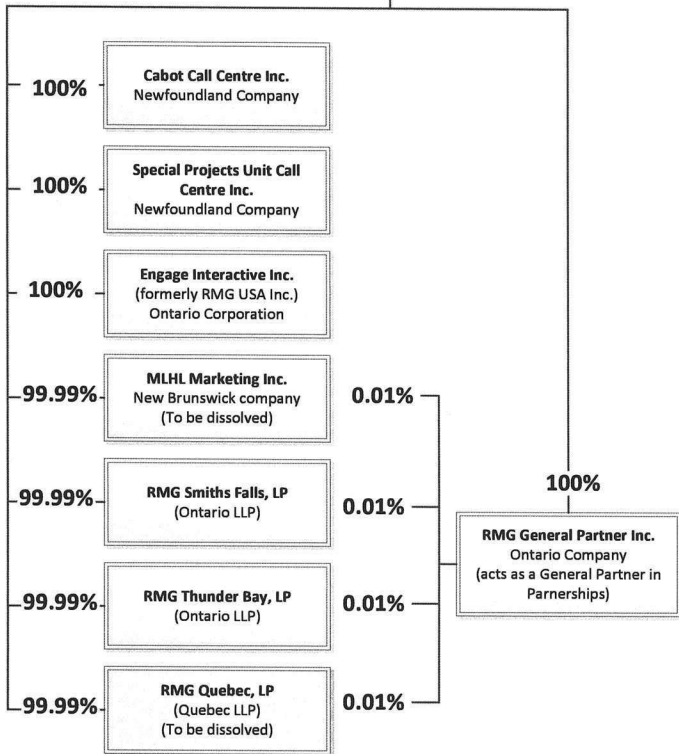
**The Responsive Marketing Group Inc.**  
 Ontario Corporation

**GWE Consulting Group (USA) Inc.**  
 Holding Company for US entities

**Direct Contact Strategies Inc.**  
 Alberta Corporation

**Front Line Support Inc.**  
 Federal Corporation

**iMark Events Inc.**  
 Ontario Corporation



## **Appendix “C”**

**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  
IMARKETING SOLUTIONS GROUP INC.**

**MANAGEMENT'S REPORT ON CASH FLOW STATEMENT**  
(paragraph 10(2)(b) of the CCAA)

The management of iMarketing Solutions Group Inc. (the "Company") has developed the assumptions and prepared the attached statement of projected cash flow as of the 11<sup>th</sup> day of April, 2013 for the period April 15, 2013 to August 2, 2013 ("Cash Flow").

The hypothetical assumptions are reasonable and consistent with the purpose of the Cash Flow as described in Note 1 to the Cash Flow, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the Cash Flow. All such assumptions are disclosed in Notes 2 to 12.

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

The Cash Flow has been prepared solely for the purpose outlined in Note 1, using a set of hypothetical and probable assumptions set out in Notes 2 to 12. Consequently, readers are cautioned that the Cash Flow may not be appropriate for other purposes.

Dated at Toronto, Ontario this 11<sup>th</sup> day of April, 2013.



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Upkar Arora, Chief Financial Officer

iMarketing Solutions Group Inc.



## **Appendix “D”**

**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  
iMARKETING SOLUTIONS GROUP INC.**

**MONITORS' REPORT ON CASH FLOW STATEMENT  
(paragraph 23(1)(b) of the CCAA)**

The attached statement of projected cash-flow of iMarketing Solutions Group Inc. (the "Company"), as of the 11<sup>th</sup> day April, 2013, consisting of a weekly projected cash flow statement for the period April 15, 2013, to August 2, 2013 ("Cash Flow") has been prepared by the management of the Company for the purpose described in Note 1, using the probable and hypothetical assumptions set out in Notes 2 to 12.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied by the management and employees of the Company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the Cash Flow;
- b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow, given the hypothetical assumptions; or
- c) the Cash Flow does not reflect the probable and hypothetical assumptions.

Since the Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report.

The Cash Flow has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto this 11<sup>th</sup> day of April, 2013.

*Duff + Phelps Canada Restructuring Inc.*

**DUFF & PHELPS CANADA RESTRUCTURING INC.  
IN ITS CAPACITY AS PROPOSED CCAA MONITOR OF  
IMARKETING SOLUTIONS GROUP INC.  
AND NOT IN ITS PERSONAL CAPACITY**

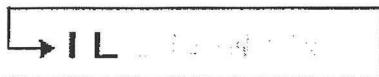
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## **Appendix “E”**

Upkar Arora is Managing Director and Co-Founder of Illumina Partners, an independent boutique advisory firm specializing in providing operational, financial and strategic expertise to facilitate corporate turnarounds of mid-sized businesses. He has over 25 years of experience working extensively with public and private companies on operations, capital markets transactions, acquisitions, dispositions, turnarounds and financings, as a senior executive, advisor or principal. Prior to forming Illumina he was Executive VP and minority owner of Reliance Aerotech. In 1999, as Managing Director he helped establish Oncap Investment Partners, a \$400 million private equity fund sponsored by Onex Corporation. From 1988 to 1999, Mr. Arora held senior financial and operational roles with TrizecHahn in Canada, the US and England and Olympia and York and Reichmann International. Mr. Arora is a CA, CMA and holds an Independent Corporate Director (ICD.D) designation.

He has been on the Board of Trustees of the McMichael Canadian Art Collection for four years and Chair of the board for the past two years.

## **Appendix “F”**



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Illumina Partners Inc.  
Suite 800, 357 Bay Street  
Toronto, Ontario  
M5H 2T7

April 11, 2013

iMarketing Solutions Group Inc.  
6th Floor, 481 University Avenue,  
Toronto, ON M5G 2E9

**Attn: Andrew Langhorne, CEO**

Dear Mr. Langhorne:

**Re: Appointment of Chief Restructuring Officer**

On April 11, 2013, iMarketing Solutions Group Inc. and those related companies noted on Schedule "A" (collectively referred as the "**Company**") filed for protection from their creditors pursuant to *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**").

The Company has brought a motion for the appointment of Duff & Phelps Canada Restructuring Inc. as the Monitor under the CCAA (the "**Monitor**") of the Company. The Company wishes to retain Illumina Partners Inc. ("**Illumina**") who will provide the services of Upkar Arora ("**Arora**") to manage the day-to-day operations of the Company in the capacity of Chief Restructuring Officer ("**CRO**"). The Company has also brought a motion confirming and approving the appointment of Illumina as CRO of the Company.

### **The Engagement**

Illumina will act as an independent contractor and provide the services of Arora as the CRO of the Company and as an officer of the Court in accordance with the terms of the Order in respect thereof (the "**CRO Appointment Order**").

Illumina will have the powers and duties of the CRO of the Company, including completing and implementing a restructuring plan for the Company, cash management

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and financial reporting in conjunction with the Monitor. Furthermore, Illumina shall (i) comply with all applicable laws, rules and regulations, and all requirements of all applicable regulatory, self-regulatory and administrative bodies; and (ii) comply with orders of the Court in connection with the Company's proceedings under the CCAA. As an officer of the Court, the CRO may apply to the Court for advice and directions in the discharge of its powers and duties, and may report to the Court as it sees fit or as requested by the Court.

Commencing on the date of the CRO Appointment Order, the CRO will have the following specific duties, all of which will be carried out for, on behalf of and in the name of the Company:

- (a) The direction of the day-to-day operations of the Company and carriage of the business of the Company, as the CRO deems necessary or advisable;
- (b) The preservation and protection of the property, assets and undertaking of the Company (the "Property");
- (c) The establishment of a plan or plans for the restructuring of the Company and reporting on its progress, timeframe and issues related thereto;
- (d) The implementation of the restructuring plan or plans and coordinating and participating in communications to the Company, creditors and other stakeholders;
- (e) The management of receipts and disbursements consistent with the cash flows filed in the proceedings and arising out of the operations of the Company (and the obligation to forthwith bring any and all issues related thereto to the attention of the Company and the Monitor);
- (f) The power to evaluate all potential sale or investment transactions and negotiate on behalf of the Company with respect to the sale of or transfer of the Property or an investment in the Company; and
- (g) The power to provide information to the Company, the Monitor and the secured lenders (and each of their advisors) regarding the business and affairs of the Company, on a basis consistent with the Orders issued in these proceedings.

(collectively, the "Engagement").



For greater certainty, the Engagement and all aspects related thereto shall be subject to the review by the Monitor. The CRO shall advise the Company and the Monitor as to the status of the Engagement and the overall business and affairs of the Company as and how requested.

The CRO will continue the Engagement until the appointment of the CRO is terminated by Order of the Court or pursuant to the terms of this Agreement.

### **Fees and Indemnity**

Provided that the CRO shall not have ceased to perform its duties and responsibilities diligently, faithfully and honestly, the Company will provide the following consideration to Illumina for the Engagement hereunder:

- (a) **Monthly Fees.** C\$75,000 per month (the “**Monthly Fees**”), payable bi-weekly in arrears, plus any applicable taxes.
- (b) **Expenses.** The Company shall reimburse Illumina for all reasonable out-of-pocket expenses incurred by it (including any applicable taxes) in connection with the Engagement upon submission of invoices therefor. Illumina’s reasonable legal expenses in connection with this Agreement or any modification thereto shall be paid by the Company upon submission of an invoice or invoices for such expenses.
- (c) **Success Fee.**
  - (i) For purposes hereof, the “**Success Event**” will have occurred upon the permanent repayment of (a) all Crown liabilities which are capable of ranking ahead of the claims of secured creditors; (b) any indebtedness owing by the Company to CIBC; and (c) any amount outstanding in respect of any debtor in possession financing.
  - (ii) If the Success Event occurs within the term of this Agreement or within six (6) months thereafter, then the Company shall pay to Illumina the Success Fee as set forth in Schedule “**B**”.
  - (iii) The Success Fee will be paid promptly following the occurrence of the Success Event.

The Company shall indemnify and hold harmless the CRO against and from any obligations and liabilities that they both or either of them may incur as CRO and the Company after the commencement of the CCAA proceedings, except in the event that

the obligation or liability was incurred as a direct result of the CRO's gross negligence or willful misconduct.

### **Role of CRO**

The CRO shall provide the services of Arora who has particular knowledge and expertise applicable to the activities and affairs of the Company, to act in such capacity and perform the services required herein on and subject to the terms and conditions contained herein. It is acknowledged and agreed that Arora shall be the only individual who performs the services required by this engagement.

### **Termination**

Subject to the CRO's right to terminate set forth below, this agreement terminates on the earlier of: (a) the closing of the sale of the Property or investment in the Company resulting from the sale and investment solicitation process to be undertaken in the CCAA proceedings; (b) the appointment of a trustee in bankruptcy of the Company and the discharge of the Monitor; and (c) September 10, 2013.

It is understood that the CRO may terminate this agreement and that the CRO shall end its engagement hereunder, on fourteen (14) calendar days written notice to the Company and the Monitor; provided that in the event that the CRO terminates this agreement, it shall forfeit any further Success Fee otherwise falling due to it thereafter. Notice shall be sent by way of email to counsel to the Monitor and the secured lender.

If this letter meets with your approval and reflects your understanding of our role and responsibilities, please sign the enclosed duplicate copy and return it to me.

Yours very truly,

**Illumina Partners Inc.**

Upkar Arora, CA, ICD.D

UA

We confirm our agreement to retain Illumina Partners Inc. as CRO on the terms described in this letter.

Dated at Toronto, this 11<sup>th</sup> day of April, 2013.

**iMarketing Solutions Group Inc.**

Per: \_\_\_\_\_

Name: Andrew Langhorne

Title: CEO