



**First Report to Court of
KSV Restructuring Inc. as Proposal
Trustee of Reset Beauty Inc.**

June 14, 2021

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COURT FILE NO.: 31-2733618

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
RESET BEAUTY INC.,
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO

FIRST REPORT TO COURT OF
KSV RESTRUCTURING INC. AS PROPOSAL TRUSTEE

JUNE 14, 2021

1.0 Introduction

1. This report (“Report”) has been prepared by KSV Restructuring Inc. (“KSV”) in its capacity as proposal trustee (the “Proposal Trustee”) in connection with a Notice of Intention to Make a Proposal (“NOI”) filed on April 29, 2021 (the “Filing Date”) by Reset Beauty Inc. (the “Company”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “BIA”).
2. The principal purposes of these proceedings are to create a stabilized environment to allow the Company an opportunity to formulate a proposal to its creditors which provides a result superior to bankruptcy and to effect a reorganization of the Company’s share capital and subscription for new shares by the proposal Sponsor (as defined below).
3. On May 17, 2021, the Company filed a proposal (the “Proposal”) with the Official Receiver in accordance with Section 62(1) of the BIA. A Certificate of Filing a Proposal (“Certificate”) was issued by the Office of the Superintendent of Bankruptcy (Canada) (“OSB”) on that date. Copies of the Proposal and the Certificate are attached as Appendices “A” and “B”, respectively.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company;
 - b) summarize the results of the meeting of creditors held on June 7, 2021 to consider and vote on the Proposal (the “Meeting”);

- c) provide the statutory disclosure required under Sections 58(d) and 59(1) of the BIA; and
- d) provide the Proposal Trustee's recommendation to the Ontario Superior Court of Justice (Commercial List) (the "Court") with respect to the approval of the Proposal, including the corporate reorganization of the Company as contemplated by the Articles of Reorganization included as Schedule "A" to the Proposal.

1.2 Currency

1. All currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company's representatives, the books and records of the Company and discussions with representatives of the Company. The Proposal Trustee has not audited, reviewed or otherwise verified the accuracy or completeness of the information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants Canada Handbook*.
2. The Proposal Trustee expresses no opinion or other form of assurance with respect to the financial information presented in this Report or relied upon by the Proposal Trustee in preparing this Report. 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. Any party wishing to place reliance on the Company's financial information should perform its own due diligence. The Proposal Trustee accepts no responsibility for any reliance by any party based on the information in this Report.

2.0 Background

2.1 Overview

1. The Company was incorporated under the *Business Corporations Act* (Ontario) on April 22, 2005 under the name "Domainer Inc." with a focus on domain name search monetization strategies. On July 15, 2014, the Company changed its name to "Parsel Inc." to more closely reflect its then business strategy of pursuing brand monetizing strategies through social influencers. The Company was amalgamated with its existing subsidiaries on January 1, 2015 and continued to carry on business under the name "Parsel Inc.". On March 5, 2020, the Company again changed its name, this time to "Reset Beauty Inc." to align with another strategy, as discussed below.
2. The Company was founded by Adam Sadowski in 2005 and has undergone several senior management changes since inception coincident with its changes in business strategy. Since 2015, Josh Brandley has served as the Company's Chief Executive Officer.

3. The Company develops, launches, and markets cosmetic brands in partnership with high-profile digital media influencers. The Company provides investment, behind-the-scenes operations and management, and strategic guidance to influencer-led brands.
4. The Company holds an investment in Brand Lab Partners Inc. (“Brand Lab”), a wholly-owned subsidiary incorporated in Delaware, United States. Based on discussions with the Company’s management, the Proposal Trustee understands that Brand Lab has no assets and has not carried on business since 2019. The Company’s management has advised that it intends to dissolve Brand Lab.
5. On numerous occasions since inception in 2005 to October 2016, Intercap Equity Inc. (“Intercap” or the “Sponsor”), or certain affiliates of the Sponsor, have made equity investments in the Company. As a result of these investments, the Proposal Trustee understands that the Sponsor holds approximately 85.2% of the outstanding voting shares of the Company.
6. Pursuant to a loan agreement dated June 4, 2018, as amended on May 24, 2019, December 9, 2019 and April 27, 2021, Intercap Income Inc. (“Intercap Income”), an affiliate of Intercap, made an unsecured loan to the Company in the amount of US\$1.75 million (the “Intercap Loan”). Pursuant to an agreement dated November 30, 2019, Intercap purchased the Intercap Loan from Intercap Income for its face value at the time of US\$525,526. On December 9, 2019 and April 27, 2021 Intercap increased the amount of credit extended to the Company under the Intercap Loan to US\$1.75 million. At the time it filed the NOI, the Company owed approximately \$2.15 million to Intercap in respect of the Intercap Loan, including accrued and unpaid interest (the “Intercap Claim”).
7. At the time it filed the NOI, the Company had one full-time employee and carried on business from leased office space in Toronto, Ontario.
8. On April 30, 2021, the Company disclaimed the lease for its former office premises. The lease is subject to two sub-tenancy agreements whereby the sub-tenants pay the landlord directly the amounts set forth in the Company’s lease. The Proposal Trustee wrote to the landlord and each of the sub-tenants to advise them of the Proposal and to advise that the sub-tenants should continue to pay the amounts set out in the Company’s lease directly to the landlord.
9. The Company has been selling its existing inventory and collecting outstanding accounts receivable following the filing of the NOI. The present bank balance is approximately US\$265,000.
10. As discussed in Section 4 of this Report, Intercap has agreed to sponsor the Proposal and by doing so significantly increase recoveries for creditors such that creditors may receive payment in full of their claims against the Company.
11. Additional information related to the Company, including its historical operating results, is included in the Proposal Trustee’s Report to Creditors dated May 25, 2021 (the “Report to Creditors”). A copy of the Report to Creditors is provided in Appendix “C”, without attachments.

3.0 Creditors

1. A summary of the Company's creditors which have filed claims in these proceedings is provided below. The Company's accounts payable list is attached as Appendix "D".

Creditor	Amount (\$000)
Fuller Landau LLP	47
Bossin, Tin Yan Chartered Accountants	23
Speigel Nichols Fox LLP	18
Former Employee	4
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2. On May 25, 2021, the Proposal Trustee mailed to each creditor and posted on its website a creditors' package, including a Proof of Claim form, voting letter and the Report to Creditors.

4.0 The Proposal¹

1. The terms of the Proposal were summarized in the Report to Creditors and are not repeated herein.
2. The overall purpose of the Proposal is to:
 - a) distribute funds from the Unsecured Creditor Cash Pool to the Proven Claims of Preferred Creditors and Ordinary Creditors (together, the "Unsecured Creditors");
 - b) redeem for cancellation the Company's Existing Shares, pursuant to the Articles of Reorganization;
 - c) issue New Shares to the Sponsor, pursuant to the Articles of Reorganization; and
 - d) obtain releases of any and all Proven Claims and Director Claims.
3. The "Unsecured Creditor Cash Pool" in the Proposal is to include:
 - a) the net proceeds realized from the sale of the Company's assets and collection of its accounts receivable (the "Proceeds²"); and
 - b) the "Unsecured Creditor Cash Payment", being an amount equal to the lesser of:
 - i. \$250,000; and

¹ Unless otherwise defined, capitalized terms used in this section of the Report have the meanings provided to them in the Proposal.

² As set out in the Report to Creditors, the realization of the Liquidation Proceeds in a bankruptcy was estimated to be \$371,000.

- ii. the amount, net of Administrative Fees and Expenses including the Administrative Fee Reserve, required to pay Proven Claims of Preferred Creditors and Ordinary Creditors, following the Proposal Trustee's collection of the Liquidation Proceeds.
4. For the purposes of the Proposal, if accepted by the Unsecured Creditors and approved by the Court, the Sponsor has agreed to subordinate the InterCap Claim. The subordination of the InterCap Claim will not apply if the Proposal is not implemented and the Company is deemed to have made an assignment in bankruptcy.
5. The Proposal contemplates a corporate reorganization of the capital structure of the Company pursuant to section 59(4) of the BIA (the "Reorganization"). Effective upon Court approval of the Proposal, the Articles of Reorganization shall amend the constating documents of the Company to, *inter alia*, effect the redemption or cancellation of all Existing Shares, and authorize the issuance of New Shares of the Company to the Sponsor or its nominee.

4.1 Statutory Disclosure

1. On May 25, 2021, the Proposal Trustee provided a Notice of Proposal to Creditors ("Notice") by regular mail to the Company, the OSB and to every known creditor affected by the Proposal. The Proposal Trustee also posted the Notice on its website (with all attachments).
2. As required pursuant to Section 54(2) of the BIA, in order to attend the Meeting and/or vote on the Proposal, creditors were required to submit a proof of claim to the Proposal Trustee.

4.2 The Meeting

1. The Meeting was convened virtually on June 7, 2021 and was chaired by the Proposal Trustee. The Proposal was unanimously accepted by Creditors voting at the Meeting. A copy of the voting register is attached as Appendix "E".
2. A copy of the minutes of the Meeting is attached as Appendix "F".

5.0 Conclusion and Recommendation

1. In the Report to Creditors, the Proposal Trustee advised that the Proposal provides creditors with a better outcome than a bankruptcy and therefore recommended that the creditors vote in favour of the Proposal. Specifically, Section 5 of the Report to Creditors provides that the estimated recovery to the Company's creditors based on the realizable value of the Company's assets, net of the costs of realization, is approximately 16¢ on the dollar. The Proposal Trustee noted that the Proposal provides an opportunity for a full recovery for Unsecured Creditors by way of the Unsecured Creditor Cash Pool and the subordination of the InterCap Claim, both of which would not be available in the event of a bankruptcy. Assuming the Proposal is implemented, Unsecured Creditors are expected to be paid in full.

2. The Proposal Trustee recommends that the Court issue an order approving the Proposal for the following reasons:
 - a) it was unanimously accepted by creditors at the Meeting; and
 - b) acceptance and implementation of the Proposal will result in a significantly superior result for creditors than a bankruptcy of the Company.
3. Based on the foregoing, the Proposal Trustee respectfully recommends that the Court make an order granting the relief requested in the Notice of Motion of the Proposal Trustee.

* * *

All of which is respectfully submitted,

KSV Restructuring Inc.

**KSV RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE OF
RESET BEAUTY INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*,
R.S.C. 1985, c. B-3, AS AMENDED**

**AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF RESET BEAUTY INC., OF THE CITY OF TORONTO IN THE
PROVINCE OF ONTARIO**

PROPOSAL

Reset Beauty Inc. hereby submits the following Proposal to all of its Creditors pursuant to Part III of the BIA.

**ARTICLE 1
DEFINITIONS**

1.1 Definitions

In this Proposal:

- (a) “Administrative Fees and Expenses” means the proper fees, expenses and legal fees and disbursements of the Trustee and the Debtor on and incidental to the negotiation, preparation, presentation, consideration, Court approval of, and implementation of the Proposal and all proceedings and matters relating to or arising out of the Proposal including, without limitation, any meeting or meetings of creditors to consider the Proposal;
- (b) “Administrative Fee Reserve” means an amount determined by the Trustee to be maintained in the Unsecured Creditors Cash Pool on account of Administrative Fees and Expenses required to complete the administration of the Proposal by the Trustee;
- (c) “Affected Claims” means all Claims which are not Unaffected Claims;
- (d) “Affected Creditor” means a Creditor having an Affected Claim;
- (e) “Approval Order” means an Order of the Court approving the Proposal;
- (f) “Articles of Reorganization” means the articles of reorganization of the Debtor to become effective on the Implementation Date attached hereto as Schedule “A”;
- (g) “BIA” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3, as amended and in force as at the NOI Filing Date;

(h) “Business Day” means each day other than a Saturday or Sunday or a statutory or civic holiday on which banks are open for business in Toronto, Ontario, Canada;

(i) “Canada Pension Plan” means the *Canada Pension Plan*, R.S.C. 1985, c. C-8, as amended;

(j) “Claim” means:

(i) any right of any Person against the Debtor in connection with any indebtedness, liability or obligation of any kind of the Debtor which indebtedness, liability or obligation is in existence on, or which is based in whole or in part on any act, omission or fact that occurred or existed prior to the NOI Filing Date, whether or not reduced to judgement, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured, under-secured, unsecured, present, future, direct or indirect, known or unknown, by guarantee, by surety or otherwise, at law or in equity, and whether or not such a right is executory in nature, including, without limitation, the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action (each, a “**Pre-Filing NOI Claim**”);

(ii) a claim against Directors of the Debtor that is based in whole or in part on facts, events or matters which existed or occurred on or before the NOI Filing Date and that relates to the obligations of the Debtor for which the Directors are by law liable in their capacity as Directors for the payment of such obligations. Director Claims do not include claims that relate to: (a) contractual rights of one or more Creditors arising from contracts with one or more Directors; or (b) wrongful or oppressive conduct by Directors (each, a “**Director Claim**”); and

(iii) any right or claim of any Person against the Debtor, whether or not made, in connection with any indebtedness, liability or obligation of any kind whatsoever owed by the Debtor to such Person arising out of the restructuring, disclaimer, repudiation, resiliation, termination or breach of any lease, contract or other arrangement, agreement or obligation (whether oral or written) by the Debtor on or after the NOI Filing Date, and includes a Landlord Restructuring Claim (each, a “**Restructuring Claim**”).

- (k) “Court” means the Ontario Superior Court of Justice (Commercial List) (in Bankruptcy and Insolvency);
- (l) “Creditor” means any Person having a Claim and may, if the context requires, mean a trustee, receiver, receiver-manager or other Person acting on behalf of or in the name of such Person;
- (m) “Creditors’ Meeting” means any meeting of the Affected Creditors called for the purpose of considering and voting upon the Proposal;
- (n) “Creditors’ Meeting Date” means 10:00 a.m. on the date and time as may be called by the Trustee in consultation with the Official Receiver pursuant to Section 6.2 of the Proposal;
- (o) “Debtor” means Reset Beauty Inc., a company existing under the laws of the Province of Ontario;
- (p) “Directors” means the present and former directors of the Debtor;
- (q) “Directors’ Indemnity Claims” means all claims by Directors against the Debtor for indemnity in respect of obligations of the Debtor for which the Directors are by law liable in their capacity as Directors for the payment of such obligations;
- (r) “Employment Insurance Act” means the *Employment Insurance Act*, S.C. 1996, c. 23, as amended;
- (s) “Existing Shares” means all issued preferred and common shares of the Debtor and any and all, warrants, options, instruments, rights or entitlements which have the capacity to be converted into or exchanged for, or give the right to acquire, shares of the Debtor in existence on the Implementation Date;
- (t) “Implementation Date” means the date upon which the conditions set forth in Section 9.3 have been satisfied;
- (u) “Income Tax Act” means *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), as amended;
- (v) “Inspectors” means one or more Inspectors appointed pursuant to the BIA as provided for in the Proposal;
- (w) “Intercap Loan” means the unsecured loan in the principal amount of US\$1.5 million, owing by the Debtor to Intercap Equity Inc. pursuant to the loan agreement dated June 4, 2018, originally between the Debtor and Intercap Income Inc., as assigned and amended, together with interest thereon;
- (x) “Landlord” means Allied Property Management GP Limited, as General Partner for Allied Properties Management Limited Partnership, as Agent for and on behalf of 1302207 Ontario Limited, and its successors and assigns;

(y) “Landlord Restructuring Claim” means a Restructuring Claim, if any, of the Landlord, arising in respect of the Notice of Disclaimer of Lease dated April 30, 2021 delivered by the Debtor to the Landlord in respect of the Lease pursuant to section 65.2(1) of the BIA;

(z) “Lease” means the lease of premises at 134 Peter Street, Suite 1302, Toronto Ontario signed by the Debtor on the 16th day of January 2017, as amended on the 23rd day of February, 2017, and on the 30th day of May, 2017.

(aa) “Levy” has the meaning ascribed to it in Section 4.8 of the Proposal.

(bb) “Liquidation” means the liquidation of the Debtor’s assets, which shall be overseen by the Trustee and commenced after the filing of the Proposal with the Official Receiver;

(cc) “Liquidation Proceeds” means the proceeds of the Liquidation, net of the direct costs of the Liquidation, together with the proceeds of the Debtor’s accounts receivable and any other assets of the Debtor;

(dd) “New Shares” means the shares of the Debtor to be issued to the Sponsor on the Implementation Date pursuant to the Articles of Reorganization;

(ee) “NOI Filing Date” means April 29, 2021;

(ff) “Official Receiver” shall have the meaning ascribed thereto in the BIA;

(gg) “Ordinary Claim Determination Date” means the date on which the validity of all Proofs of Claim filed by Ordinary Creditors has been finally determined in accordance with the BIA;

(hh) “Ordinary Creditors” means Creditors with Proven Claims, except for those Claims that:

(i) are Claims by Preferred Creditors; or

(ii) are Unaffected Claims.

(ii) “Person” means any individual, general or limited partnership, joint venture, trust, corporation, unincorporated organization, government, or any agency, regulatory body or instrumentality thereof, or any other entity howsoever designated or constituted;

(jj) “Preferred Claim Determination Date” means the date on which the validity of all Proofs of Claim filed by Preferred Creditors has been finally determined in accordance with the BIA;

(kk) “Preferred Creditors” means Creditors with Proven Claims and which are, subject to the rights of secured creditors, required by the BIA to be paid in priority to all other Claims under a proposal made by a debtor and including, without limitation, the Required

Employee Amount (for greater certainty a Person can be both a Preferred Creditor and an Unsecured Creditor in respect of distinct Claims);

(ll) “Priority Creditor Cash Amount” means the cash amount necessary to pay and satisfy: (i) the Affected Claims of Preferred Creditors, including the Required Employee Amount; and (ii) the Required Crown Amount, to be delivered by the Sponsor to the Trustee within five (5) Business Days of the Preferred Claim Determination Date;

(mm) “Proof of Claim” shall mean the proof of claim required by the BIA to be mailed to each known Creditor prior to the Creditors’ Meeting;

(nn) “Proposal” means this proposal together with any amendments or additions thereto;

(oo) “Proven Claim” of a Creditor means the amount of the Affected Claim of such Creditor finally determined in accordance with BIA;

(pp) “Required Employee Amount” means an amount equal to the amount employees and former employees of the Debtor, not to include independent commissioned sales agents or contractors, would be qualified to receive under paragraph 136(1)(d) of the BIA if the Debtor became bankrupt on the NOI Filing Date, as well as wages, salaries, commissions or compensation for services rendered after that date and before the Court approval of the Proposal, together with, in the case of travelling salespersons, disbursements properly incurred by those salespersons in and about the Debtor’s business during the same period;

(qq) “Required Crown Amount” means all amounts outstanding at the time of the filing of the Proposal with the Official Receiver to Her Majesty in Right of Canada or a Province and that are of a kind that could be subject to a demand under,

(i) subsection 224(1.2) of the *Income Tax Act*;

(ii) any provision of the Canada Pension Plan or of the *Employment Insurance Act* that refers to subsection 224(1.2) of the *Income Tax Act* and provides for the collection of a contribution, as defined in the Canada Pension Plan, or an employee’s premium, or employer’s premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts; or

(iii) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the *Income Tax Act*, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:

(A) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the *Income Tax Act*, or

(B) is of the same nature as a contribution under the Canada Pension Plan if the province is a “province providing a comprehensive pension plan” as defined in subsection 3(1) of the Canada Pension Plan and the provincial legislation establishes a “provincial pension plan” as defined in that subsection;

(rr) “Sponsor” means Intercap Equity Inc.;

(ss) “Subordinated Intercap Claim” means the amounts owing by the Debtor in respect of the Intercap Loan as of the NOI Filing Date including accrued and unpaid interest to the NOI Filing Date;

(tt) “Trustee” means KSV Restructuring Inc., or its duly appointed successor or successors;

(uu) “Unaffected Claims” means the Directors’ Indemnity Claims, the Subordinated Intercap Claim and the Administrative Fees and Expenses;

(vv) “Unsecured Creditors” means, collectively, the Preferred Creditors and the Ordinary Creditors;

(ww) “Unsecured Creditor Cash Payment” means the payment or payments to be made by the Sponsor into the Unsecured Creditors Cash Pool, in an amount equal to the lesser of (i) \$250,000 and (ii) the amount, net of Administrative Fees and Expenses including the Administrative Fee Reserve, required to pay (i) the amount that remains owing by the Debtor on account of the Proven Claims of Preferred Creditors and the Proven Claims of Ordinary Creditors, following the Trustee’s collection of the Liquidation Proceeds, which amount shall be paid by the Sponsor to the Trustee within three Business Days of the Trustee’s written request;

(xx) “Unsecured Creditors Cash Pool” mean the fund made up of the Liquidation Proceeds and the Unsecured Creditor Cash Payment, to be administered by the Trustee for payment of (in order of priority); (i) the Administrative Fees and Expenses and Administrative Fee Reserve; (ii) the Proven Claims of Preferred Creditors (inclusive applicable Levy); and (iii) the Proven Claims of Ordinary Creditors (inclusive applicable Levy); and

(yy) “Voting Letter” shall mean the voting letter required by Section 51(1) of the BIA to be mailed to each known Creditor prior to the Creditors’ Meeting.

1.2 Articles of Reference

The terms “hereof”, “hereunder”, “herein” and similar expressions refer to the Proposal and not to any particular article, section, subsection, clause or paragraph of the Proposal and include any agreements supplemental hereto. In the Proposal, a reference to an article, section, subsection, clause or paragraph will, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Proposal.

1.3 Interpretation Not Affected by Headings

The division of the Proposal into articles, sections, subsections, clauses or paragraphs and the insertion of a table of contents and headings are for convenience of reference only and will not affect the construction or interpretation of this Proposal.

1.4 Date for Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action will be required to be taken on the next succeeding day which is a Business Day.

1.5 Time

All times expressed herein are local time in Toronto, Ontario, Canada unless otherwise stipulated. Where the time for anything pursuant to the Proposal on a particular date is unspecified herein, the time shall be deemed to be 5:00 p.m. local time in Toronto, Ontario, Canada.

1.6 Numbers, Gender

In the Proposal, where the context requires, a word importing the singular number will include the plural and vice versa and a word or words importing gender will include all genders.

1.7 Currency

Unless otherwise stated herein, all references to currency in the Proposal are to lawful money of Canada.

1.8 Statutory References

Except as otherwise provided herein, any reference in the Proposal to a statute includes all regulations made thereunder, all amendments to such statute or regulation(s) in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation(s).

1.9 Successors and Assigns

The Proposal will be binding upon and will enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in the Proposal.

1.10 Schedule

The terms and conditions of Schedule "A" - Articles of Reorganization forms an integral part of this Proposal and should be read in conjunction with this Proposal.

ARTICLE 2

PURPOSE OF THE PROPOSAL

2.1 PURPOSE OF THE PROPOSAL

The purpose of this Proposal is to allow the Debtor to effect the restructuring of the indebtedness of the Debtor in the manner contemplated herein and as permitted by the BIA in the expectation that all Affected Creditors will derive greater benefit from the restructuring than they would otherwise receive from a bankruptcy of the Debtor and to provide for:

- (a) the payment of the Proven Claims of Preferred Creditors (including the Required Employee Amount and the Required Crown Amount) and the Proven Claims of Ordinary Creditors, other than the Sponsor, from the Unsecured Creditor Cash Pool;
- (b) the effective cancellation of all Existing Shares; and
- (c) the issuance of New Shares to the Sponsor.

The Proposal applies to all Affected Creditors, whether or not any such Affected Creditor proves a Claim against the Debtor under this Proposal. This Proposal does not affect Unaffected Claims.

2.2 Corporate Reorganization

This Proposal contemplates a corporate reorganization of the capital structure of the Debtor in accordance with section 59(4) of the BIA. The Articles of Reorganization attached as Schedule "A" to the Proposal shall, upon Court approval of the Proposal, amend the constating documents of the Debtor to, *inter alia*, effect the redemption or cancellation of all Existing Shares, and authorize the issuance of a series of New Shares by the Debtor to the Sponsor or such Person as designated by the Sponsor.

ARTICLE 3 CLASSIFICATION OF CREDITORS

3.1 Classes of Creditors

For the purposes of voting on the Proposal, the Creditors of the Debtor shall be comprised of one class of Unsecured Creditors.

ARTICLE 4 TREATMENT OF CREDITORS

4.1 Administrative Fees and Expenses

On the Implementation Date, or as soon as sufficient funds become available in the Unsecured Creditor Cash Pool, all Administrative Fees and Expenses

incurred to that date which remain unpaid shall be paid, in full, in accordance with the BIA.

4.2 Subordination of Intercap Loan

For the purposes of the distribution to Affected Creditors under the Proposal, the Intercap Loan Claim shall be subordinated to the Proven Claims of all other Unsecured Creditors such that no distribution shall be made from the Unsecured Creditor Cash Pool on account of the Intercap Loan Claim, which shall remain an Unaffected Claim.

4.3 Compromise and Satisfaction of Creditor Claims

The Claims of all Affected Creditors shall be compromised on the Implementation Date and thereafter each Affected Creditor with a Proven Claim shall receive the following in full satisfaction of its Proven Claim(s):

- (a) within ten (10) Business Days of the Preferred Claim Determination Date, distribute from the Unsecured Creditor Cash Pool the amounts of the Proven Claim of each Preferred Creditor, including, subject to Section 4.6, the Required Crown Amount; and
- (b) within ten (10) Business Days of the Ordinary Claim Determination Date and subject to section 4.2, the Trustee shall distribute the balance of the Unsecured Creditor Cash Pool, net of the Administrative Fee Reserve, to Ordinary Creditors on account of, and in full satisfaction of, their Proven Claims.

4.4 Interest on Claims

Interest will not accrue or be paid on Affected Claims after or in respect of the period following the NOI Filing Date and no Creditor with an Affected Claim will be entitled to any interest in respect of such Claim accruing on or after or in respect of the period following the NOI Filing Date.

4.5 Required Crown Amount

In the event that the Trustee determines that the Preferred Claim Determination Date will occur more than six (6) months from the date of Court approval of the Proposal, the Required Crown Amount shall be remitted by the Trustee to Her Majesty in Right of Canada from the Unsecured Creditor Cash Pool within six (6) months of the date of Court approval of the Proposal.

4.6 Obligations of the Sponsor

- (a) The Sponsor shall subordinate the Intercap Loan Claim to the Proven Claims of all Affected Creditors, and not receive any distribution under this Proposal; and

(b) The Sponsor shall pay the Unsecured Creditor Cash Payment to the Trustee within three Business Days of the Trustee's request.

4.7 Superintendent of Bankruptcy Levy

The Office of the Superintendent of Bankruptcy shall be paid its prescribed levy by the Debtor from payments to Ordinary Creditors and to Preferred Creditors, as required by sections 60(4) and 147 of the BIA (the "Levy").

ARTICLE 5 PROCEDURE FOR VALIDATION OF CLAIMS

5.1 Allowance or Disallowance of Claims by the Trustee

Upon receipt of a completed Proof of Claim, the Trustee shall examine the Proof of Claim and shall deal with each claim in accordance with the provisions of the BIA. The Trustee shall have the power and authority to determine the validity of all claims made against the Debtor.

5.2 Landlord Restructuring Claim

For purposes of subsection 65.2(4)(b) of the BIA, the Landlord may file a Proof of Claim for the actual losses, if any, in respect of the Landlord Restructuring Claim.

5.3 Claims Bar Process

Forthwith after the Creditors' Meeting, the Trustee shall give notice pursuant to section 149 of the BIA, by registered mail, to every Person with an Affected Claim that the Trustee has notice or knowledge but whose claim has not been filed or proven, that if such Person does not prove his claim within a period of thirty (30) days after the mailing of the notice, the Trustee will proceed to declare a dividend without regard to such Person's claim and the dividend referred to in said notice shall be deemed a final dividend and any Person so notified who does not provide its claim within the said thirty (30) day period shall be barred from making a claim in this Proposal, subject to any exceptions set out in subsections 149(2)(3) and (4) of the BIA.

ARTICLE 6 MEETING OF CREDITORS

6.1 Creditors' Meeting

On the Creditors' Meeting Date, the Trustee shall hold the Creditors' Meeting in order for the Creditors to consider and vote upon the Proposal.

6.2 Time and Manner of Meeting

The Creditors' Meeting shall be held at a time and in a manner, including by video-conference, to be established by the Trustee in consultation with Official Receiver, or the nominee thereof, and confirmed in its notice of meeting to be mailed by the Trustee pursuant to the BIA. All Proofs of Claim shall be delivered in accordance with the provisions of the Proposal, the BIA and any Order which may be issued by the Court in respect of the procedure governing the Creditors' Meeting, but in any event shall be no later than twenty-one (21) days following the filing of the Proposal with the Official Receiver.

6.3 Conduct of Meetings

The Official Receiver, or the nominee thereof, shall preside as the chair of the Creditors' Meeting and will decide all matters relating to the conduct of the Creditors' Meeting. The only Persons entitled to attend the Creditors' Meeting are those Unsecured Creditors, including the holders of proxies, entitled to vote at the Creditors' Meeting and their respective legal counsel, if any, the officers, directors, auditors and legal counsel of the Debtor, one or more representatives of and legal counsel to the Sponsor, together with such representatives of the Trustee as the Trustee may appoint in its discretion, and such scrutineers as may be duly appointed by the chair of such meeting. Any other Person may be admitted on invitation of the chair of the Creditors' Meeting or with the consent of the Creditors.

6.4 Adjournment of Meetings

The Creditors' Meeting may be adjourned in accordance with Section 52 of the BIA.

6.5 Voting by Creditors

To the extent provided for herein, each Creditor will be entitled to vote to the extent of the amount which is equal to that Creditor's Proven Claim, or such amount as may be agreed to by the Trustee for voting purposes at or prior to the Creditors' Meeting (dollar amounts to be voted by Creditors in accordance with the foregoing are referred to as "**Voting Claims**").

6.6 Approval by Creditors

In order that the Proposal be binding on the class of Unsecured Creditors in accordance with the BIA, it must first be accepted by a majority in number of the Unsecured Creditors who actually vote upon the Proposal (in person or by proxy) at the Creditors' Meeting or by a Voting Letter, representing two-thirds in value of the Voting Claims of the Unsecured Creditors who actually vote upon the Proposal (whether in person or by proxy) at the Creditors' Meeting or by a Voting Letter.

6.7 Appointment of Inspectors

At the Creditors' Meeting, the Creditors may appoint up to five (5) Inspectors whose powers will be limited to:

- (a) advising the Trustee concerning any dispute which may arise as to the validity of Claims; and
- (b) advising the Trustee from time to time with respect to any other matter that the Trustee may refer to them.

Any decision, direction or act of the Inspectors may be referred to the Court by the Trustee and the Court may confirm, reverse or modify the decision, direction or act and make such order as it thinks just.

The authority and term of office of the Inspectors will terminate upon the performance of the Proposal.

6.8 Valuation of Claims

The procedure for valuing Claims of Creditors and resolving disputes with respect to such Claims will be as set forth in Section 5 and the BIA. The Debtor and/or the Trustee reserve the right to seek the assistance of the Court in valuing the Claim of any Unsecured Creditor, if required, to ascertain the result of any vote on the Proposal or the amount payable or to be distributed to such Unsecured Creditor under the Proposal, as the case may be.

ARTICLE 7 COMPLETION OF THE PROPOSAL

7.1 Discharge of Trustee

Upon distribution by the Trustee of the balance of the Unsecured Creditor Cash Pool, net of the Administrative Fee Reserve, as contemplated in Section 4.3(b), the Trustee shall have discharged its duties as Trustee, the Proposal shall be fully performed and the Trustee shall be entitled to apply for its discharge as Trustee hereunder.

The Trustee is acting in its capacity as Trustee under the BIA and not in its personal capacity and no officer, director, employee or agent of the Trustee shall incur any liabilities or obligations in connection with the Proposal or in respect of the business or obligations of the Debtor or the Sponsors and will be exempt from any personal liability in fulfilling any duties or exercising any powers conferred upon it by this Proposal unless such acts have been carried out in bad faith and constitute wilful misconduct or gross negligence.

7.2 Completion of The Proposal

The payment, compromise, extinguishment or other satisfaction of any Affected Claim under the Proposal will be binding upon each Affected Creditor, its heirs, executors, administrators, successors and assigns, for all purposes, and as and from the Implementation Date all Affected Claims shall be forever discharged and released, excepting only the obligations to make distributions in respect of such Affected Claims in the manner and to the extent provided for in the Proposal.

**ARTICLE 8
PREFERENCES, TRANSFERS AT UNDER VALUE, ETC.**

8.1 Sections 95-101 of the BIA

Sections 95-101 of the BIA and any provincial statute related to preference, fraudulent conveyance, transfer at undervalue, or the like shall not apply to this Proposal.

8.2 Recourse

As a result of and in accordance with Section 8.1 hereof and all of the rights, remedies, recourses and Affected Claims described therein:

(a) all such rights, remedies and recourses and any Affected Claims based thereon shall be completely unavailable to the Trustee or any Creditor against the Company, any other Creditor or any other person whatsoever; and

(b) the Trustee and all of the Creditors shall be deemed, for all purposes whatsoever, to have irrevocably and unconditionally waived and renounced such rights, remedies and recourses and any Affected Claims based thereon against the Company, any other Creditor or any other persons.

**ARTICLE 9
MISCELLANEOUS**

9.1 Modification of Proposal

The Debtor, with the consent of the Trustee and the Sponsor, may propose an alteration or modification to the Proposal prior to the conclusion of the first Creditors' Meeting called to consider the Proposal.

9.2 Consents, Waivers and Agreements

As at 12:01 a.m. on the Implementation Date, each Creditor will be deemed to have:

(a) executed and delivered to the Debtor all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Proposal in its entirety;

(b) waived any default by the Debtor in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor that has occurred on or prior to the Implementation Date;

(c) agreed, in the event that there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor as at the Implementation Date (other than those entered into by the Debtor on, or with effect from, the Implementation Date) and the provisions of the Proposal, that the provisions of this Proposal shall take precedence and priority and the provisions of such agreement or other arrangement shall be amended accordingly; and

(d) released the Debtor, the Trustee, the Directors, and all of their respective affiliates, employees, agents, directors, officers, shareholders, advisors, consultants and solicitors from any and all demands, claims, actions, causes of action, counter-claims, suits, debts, sums of money, accounts, covenants, damages, judgements, expenses, executions, liens, set off rights and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Implementation Date, relating to or arising out of or in connection with the matters herein.

9.3 Conditions to Proposal Implementation

The implementation of the Proposal by the Debtor will be conditional upon the fulfilment or satisfaction of the following conditions:

- (a) acceptance of the Proposal by the Unsecured Creditors;
- (b) approval of the Proposal and the amendments to the Debtor's constating documents as set out in the Articles of Reorganization by the Court pursuant to a final and non-appealable Approval Order; and
- (c) the payment by the Sponsor of the amount set out in Section 4.6(b).

9.4 Release

Upon the Implementation Date, each and every Director shall be released and discharged from any and all Director Claims. This release shall have no force or effect if the Debtor goes bankrupt before the terms of the Proposal are performed.

9.5 Effect of Proposal Generally

As at 12:01 a.m. on the Implementation Date, the treatment of all Claims under the Proposal shall be final and binding on the Debtor and all Creditors (along with their respective heirs, executors, administrators, legal personal representatives, successors and assigns) and the Proposal shall constitute (i) a full, final and absolute settlement of all rights of the holders of the Claims affected hereby; and (ii) an absolute release and discharge of all indebtedness, liabilities and obligations of the Debtor of or in respect of such Claims.

9.6 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall refer to this Proposal and may, subject as hereinafter provided, be made or given by personal delivery, by prepaid mail or by receipted email (except for Proofs of Claim which may only be sent by personal delivery, receipted email or registered mail) addressed to the respective parties as follows:

(a) if to the Debtor:

c/o Meretsky Law Firm
121 King Street West, Suite 2150
Toronto, Ontario M5H 3T9

Attention: Jason Meretsky
email: jason@meretsky.com

(b) if to a Creditor, to the address or email address for such Creditor specified in the Proof of Claim filed by Creditor or, if no Proof of Claim has been filed, to such other address or email address at which the notifying party may reasonably believe that the Creditor may be contacted; and

(c) if to the Trustee:

KSV Restructuring Inc.
150 King Street West, P.O. Box 42
Toronto Ontario M5H 1J9

Attention: Bobby Kofman / Mitch Vininsky
Email: bkofman@ksvadvisory.com /
mvininsky@ksvadvisory.com

or to such other address or email address as any party may from time to time notify the others in accordance with this section. In the event of any strike, lock-out and other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery or by receipted email and any notice or other communication given or made by prepaid mail within the five (5) Business Day period immediately preceding the commencement of such interruption will be deemed not to have been given or made. All such notices and communications will be deemed to have been received, in the case of notice by email or by delivery prior to 5:00 p.m. (local time) on a Business Day, when received or if received after 5:00 p.m. (local time) on a Business Day or at any time on a non-Business Day, on the next following Business Day and in the case of notice mailed as aforesaid, on the fifth (5th) Business Day following the date on which such notice or other communication is mailed. The unintentional failure to give a notice contemplated hereunder to any particular Creditor will not invalidate this Proposal or any action taken by any Person pursuant to this Proposal.

9.7 Assignment of Claims

No assignment of a Claim by an Affected Creditor is effective to give the assignee any rights in respect of the Proposal unless written notice of the assignment is given to the Debtor and the Trustee in accordance with the requirements of Section 9.6. The assignment of the Claim will not be effective for a period of five (5) Business Days from the date of effective receipt of the notice of assignment by the Debtor and by Trustee as determined in accordance with Section 9.6.

9.8 Foreign Currency Obligations

For purposes of this Proposal, Claims denominated in a currency other than Canadian funds will be converted to Canadian Dollars at the closing spot rate of exchange of the Bank of Canada on the NOI Filing Date.

9.9 Applicable Law

The Proposal shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

9.10 Non-Severability

It is intended that all material provisions of this Proposal shall be fully binding on and effective between all Persons named or referred to in this Proposal and in the event that any material provision or provisions of the Proposal is or are found by the Court to be void, voidable or unenforceable for any reason whatever, then the remainder of this Proposal and all other provisions shall be void and of no force or effect.


9.11 Deeming Provisions

In the Proposal the deeming provisions are not rebuttable and are conclusive and irrevocable.

DATED at the City of Toronto, in the Province of Ontario, this 17th day of May, 2021.

RESET BEAUTY INC.

Per:



Josh Brandley, CEO

Schedule to Articles of Reorganization of Reset Beauty Inc.

1. to create an unlimited number of shares of a class designated as “New Common Shares”;
2. to change each Class A Common Share, each Class B Common Share and each Special Share into 0.000001 (one one-millionth) of a Redeemable Share;
3. to cancel all options, warrants, convertible instruments and any other rights or interests that are capable of being converted into Class A Common Shares, Class B Common Shares and Special Shares;
4. to remove the authorized but unissued Class A Common Shares, Class B Common Shares and Special Shares and all rights, privileges, restrictions and conditions attaching thereto;
5. to declare that the capital of the Corporation after giving effect to the foregoing shall consist of an unlimited number of New Common Shares and an unlimited number of Redeemable Shares with the rights, privileges, restrictions and conditions set out in these Articles attaching thereto;
6. to establish that there shall be a minimum number of one and a maximum number of ten directors of the Corporation and that the number of directors of the Corporation, and the number of directors to be elected at each annual meeting of the shareholders of the Corporation, within the minimum and maximum numbers provided for above, shall be one until otherwise determined by the board of directors;
7. to provide that the issue, transfer or ownership of shares is restricted and the restrictions (if any) are as follows:

The right to transfer shares of the Corporation shall be restricted in that no shares shall be transferred without either: (a) the consent of the directors of the Corporation expressed by a resolution passed by the directors or by an instrument or instruments in writing signed by a majority of the directors, which consent may be given either prior or subsequent to the time of transfer of such shares, or (b) the consent of the holders of shares of the Corporation to which are attached at least a majority of the votes attaching to all shares of the Corporation for the time being outstanding carrying a voting right either under all circumstances or under some circumstances that have occurred and are continuing, expressed by resolution passed by such shareholders or by an instrument or instruments in writing by such shareholders, which consent may be given either prior or subsequent to the time of transfer of such shares.

8. The rights, privileges, restrictions and conditions attaching to the Redeemable Shares are as follows:

- (a) **Fractional interest:** No holder of a fractional interest in a Redeemable Share will be entitled to be registered on the books of the Corporation in respect of such fraction of a Redeemable Share.
 - (b) **Redemption by the Corporation:** All of the Redeemable Shares, into which the Class A Common Shares, the Class B Common Shares and the Special Shares and fractional interests therein outstanding immediately prior to the Effective Time were changed pursuant to the Proposal and the terms hereof, will be deemed to be automatically redeemed by the Corporation without further notice as of the Effective Time, without notice to the holders of such Redeemable Shares, on payment, subject to the terms hereof, of \$1.00 for each whole Redeemable Share (such amount being herein referred to as the “**Redemption Price**”). The Corporation will pay or cause to be paid to each holder of Redeemable Shares or fractional interests therein to be redeemed the Redemption Price by cheque, provided that if the aggregate Redemption Price payable to any particular holder is less than \$10.00, the actual Redemption Price payable to each such holder of Redeemable Shares will be deemed to be \$0.00 and the Redeemable Shares or fractional interests therein held by each such holder of Redeemable Shares will be redeemed without any payment or further act or formality by the Corporation or otherwise.
 - (c) **Voting Rights:** The holders of the Redeemable Shares or fractional interests therein will not be entitled to receive notice of or to attend any meeting of the shareholders of the Corporation and will not be entitled to vote at any such meeting.
9. The rights, privileges, restrictions and conditions attaching to the New Common Shares are as follows:
- (a) **Payment of Dividends:** The holders of the New Common Shares will be entitled to receive dividends if, as and when declared by the board of directors of the Corporation out of the assets of the Corporation properly applicable to the payment of dividends in such amounts and payable in such manner as the board may from time to time determine. Subject to the rights of the holders of any other class of shares of the Corporation entitled to receive dividends in priority to or concurrently with the holders of the New Common Shares, the board may in its sole discretion declare dividends on the New Common Shares to the exclusion of any other class of shares of the Corporation.
 - (b) **Participation upon Liquidation, Dissolution or Winding Up:** In the event of the liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of the New Common Shares will, subject to the rights of the holders of any other class of shares of the Corporation entitled to receive assets of the Corporation upon such

a distribution in priority to or concurrently with the holders of the New Common Shares, be entitled to participate in the distribution. Such distribution will be made in equal amounts per share on all the New Common Shares at the time outstanding without preference or distinction.

- (c) **Voting Rights:** The holders of the New Common Shares will be entitled to receive notice of and to attend all annual and special meetings of the shareholders of the Corporation and to one vote in respect of each New Common Share held at all such meetings.
10. For the purposes of these Articles the following capitalized terms shall have the following respective meanings:
- (a) “**Act**” shall mean the *Business Corporations Act* (Ontario), as amended.
 - (b) “**Class A Common Shares**” shall mean the Class A Common Shares of the Corporation in existence immediately prior to the Effective Time.
 - (c) “**Class B Common Shares**” shall mean the Class B Common Shares of the Corporation in existence immediately prior to the Effective Time.
 - (d) “**Effective Time**” shall mean 12:01 a.m. on the “Implementation Date” as defined in the Proposal.
 - (e) “**New Common Shares**” shall mean the new common shares of the Corporation.
 - (f) “**Proposal**” shall mean the Proposal pursuant to Part III of the *Bankruptcy and Insolvency Act* (Canada) of the Corporation to all of its Creditors dated May 17, 2021.
 - (g) “**Redeemable Shares**” shall mean the redeemable shares of the Corporation into which the Class A Common Shares, the Class B Common Shares and the Special Shares are changed pursuant to the terms hereof.
 - (h) “**Special Shares**” shall mean the Special Shares of the Corporation in existence immediately prior to the Effective Time.

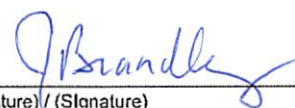
6. The terms and conditions to which the reorganization is made subject by the Order have been complied with.
Les conditions que l'ordonnance impose à la réorganisation ont été respectées.

These articles are submitted under section 186 of the *Business Corporations Act* and are signed in duplicate.
Les présents statuts sont déposés en vertu de l'article 186 de la *Loi sur les sociétés par actions*. Ils sont signés en double exemplaire.

RESET BEAUTY INC.

(Name of Corporation) / (Dénomination sociale de la société)

By/
Par :



(Signature) / (Signature)

CHIEF EXECUTIVE OFFICER

(Description of Office) / (Fonction)

Appendix “B”



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of Ontario
Division No. 09 - Toronto
Court No. 31-2733618
Estate No. 31-2733618

In the Matter of the Proposal of:

Reset Beauty Inc.

Debtor

KSV RESTRUCTURING INC.

Licensed Insolvency Trustee

Date of Proposal:	May 17, 2021	Security:	\$
Meeting of Creditors:	June 07, 2021, 10:00 Meeting to be held by Zoom Meeting ID: 953 3135 0639 425695, Ontario Canada,		
Chair:	Trustee		

CERTIFICATE OF FILING OF A PROPOSAL - Section 62

-- AMENDED --

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that:

- a proposal in respect of the aforementioned debtor was filed under section 62 of the *Bankruptcy and Insolvency Act*.

The aforementioned trustee is required:

- to provide to me, without delay, security in the aforementioned amount; and
- to send to all creditors, at least ten days prior to the meeting, a notice of a meeting of creditors, which will be held at the aforementioned time and place.

Date: May 20, 2021, 15:24

E-File/Dépôt Electronique

Official Receiver

151 Yonge Street, 4th Floor, Toronto, Ontario, Canada, M5C2W7, (877)376-9902

Canada

Appendix “C”



**Report to Creditors of
Reset Beauty Inc.
By KSV Restructuring Inc.
as Proposal Trustee**

May 25, 2021

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COURT FILE NO.: 31-2733618

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
RESET BEAUTY INC.,
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO

PROPOSAL TRUSTEE'S PRELIMINARY REPORT TO CREDITORS**

MAY 25, 2021

1.0 Introduction

1. This report ("Report") has been prepared by KSV Restructuring Inc. ("KSV") in its capacity as proposal trustee ("Proposal Trustee") in connection with a Notice of Intention to Make a Proposal ("NOI") filed on April 29, 2021 by Reset Beauty Inc. (the "Company") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended ("BIA").
2. The principal purposes of these proceedings are to create a stabilized environment to allow the Company an opportunity to formulate a proposal to its creditors which provides a result superior to bankruptcy and to effect a reorganization of the Company's share capital and subscription for new shares by the proposal Sponsor (as defined below).
3. On May 17, 2021, the Company filed a proposal (the "Proposal") with the Official Receiver in accordance with Section 62(1) of the BIA and a Certificate of Filing a Proposal (the "Certificate") was issued by the Office of the Superintendent of Bankruptcy (Canada) ("OSB") on that date. Copies of the Proposal and the Certificate are attached as Appendices "A" and "B", respectively.

1.1 Meeting to Consider the Proposal

1. The details of the creditors' meeting to consider and vote on the Proposal to be held pursuant to Section 51(1) of the BIA (the "Meeting") are as follows:

Date: June 7, 2021

Time: 10:00 a.m. (EST)

Location: to be convened virtually via Zoom:

<https://zoom.us/j/95331350639?pwd=Vkt1SEV3eFICaGFTZXVrMDdkRTIPZz09>

2. As described in greater detail below, to vote on the Proposal, a creditor of the Company must file a proof of claim with the Proposal Trustee prior to the Meeting. Creditors can vote at the Meeting by attending in person (virtually) or by submitting voting letters to the Proposal Trustee prior to the Meeting. Creditors can also vote by way of proxy and can identify the Proposal Trustee as their proxy.
3. A proof of claim form, proxy, voting letter and instruction letter are provided in Appendix "C". Creditors should read the instruction letter to understand the voting procedures, including the procedure to register claims with the Proposal Trustee.
4. The Proposal Trustee's Notice of Proposal to Creditors, a summary of the Company's Statement of Affairs and a list of creditors are attached as Appendices "D", "E" and "F", respectively.

1.2 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide background information about the Company;
 - b) summarize the terms of the Proposal;
 - c) discuss the Company's ability to fulfill the terms of the Proposal;
 - d) provide the Proposal Trustee's opinion as to the reasonableness of the provision in the Proposal that sections 95 to 101 do not apply in respect of the Proposal, as required pursuant to Section 50 (10) (b) of the BIA;
 - e) compare the result for creditors under the Proposal to the result if the Proposal is not accepted and the Company is deemed to have made an assignment in bankruptcy; and
 - f) provide the Proposal Trustee's recommendation on the Proposal.

1.3 Currency

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

1.4 Restrictions

1. In preparing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company's representatives, the books and records of the Company and discussions with representatives of the Company. The Proposal Trustee has not audited, reviewed or otherwise verified the accuracy or completeness of the information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants Canada Handbook*.

2. The Proposal Trustee expresses no opinion or other form of assurance with respect to the financial information presented in this Report or relied upon by the Proposal Trustee in preparing this Report. Any party wishing to place reliance on the Company's financial information should perform its own due diligence and any reliance placed by any party on the information presented herein shall not be considered sufficient for any purpose whatsoever. The Proposal Trustee accepts no reliance by any party based on the information in this Report.

2.0 Background

2.1 Overview

1. The Company was incorporated under the *Business Corporations Act* (Ontario) on April 22, 2005 under the name "Domainer Inc." with a focus on domain name search monetization strategies. On July 15, 2014, the Company changed its name to "Parsel Inc." to more closely reflect its then business strategy of pursuing brand monetizing strategies through social influencers. The Company was amalgamated with its existing subsidiaries at the time on January 1, 2015 and continued to carry on business under the name "Parsel Inc.". On March 5, 2020, the Company changed its name to "Reset Beauty Inc." to more closely align with its new strategy as noted below. The Company was founded by Adam Sadowski in 2005 and has undergone numerous senior management changes since inception coincident with its changes in business strategy. Since 2015, Josh Brandley has served as the Company's Chief Executive Officer.
2. The Company develops, launches, and markets cosmetic brands in partnership with high-profile digital media influencers. The Company provides investment, behind-the-scenes operations and management, and strategic guidance to influencer-led brands.
3. The Company holds an investment in Brand Lab Partners Inc. ("Brand Lab"), a wholly-owned subsidiary incorporated in Delaware, United States. Based on discussions with the Company's management, the Proposal Trustee understands that Brand Lab has no assets and carried on no business in 2020 or 2021. The Company's management has advised that it intends to dissolve Brand Lab.
4. On numerous occasions since inception in 2005 to October 2016, Intercap Equity Inc. ("Intercap" or the "Sponsor") or certain affiliates of the Sponsor have made equity investments in the Company to ensure its ongoing viability. As a result of such investments over time, the Sponsor holds approximately 85.2% of the outstanding voting shares and economic value of the Company.
5. Pursuant to a loan agreement dated June 4, 2018, as amended on May 24, 2019, December 9, 2019 and April 27, 2021, Intercap Income Inc. ("Intercap Income"), an affiliate of Intercap, made an unsecured loan to the Company in the amount of US\$1.75 million (the "Intercap Loan"). Pursuant to a purchase of indebtedness agreement dated November 30, 2019, Intercap purchased the Intercap Loan from Intercap Income for its face value at the time of US\$525,526.62 and thereafter, on each of December 9, 2019 and April 27, 2021, increased the amount of credit extended to the Company under the Intercap Loan to US\$1.75 million. At the time it

filed the NOI, the Company owed approximately \$2.15 million to InterCap in respect of the InterCap Loan, including accrued and unpaid interest (the “InterCap Claim”).

6. At the time it filed the NOI, the Company had one full-time employee and carried on business from leased office premises in Toronto, Ontario.
7. On April 30, 2021, the Company disclaimed the lease for its former office premises. The lease is subject to two sub-tenancy agreements whereby the sub-tenants pay the landlord directly the amounts set forth in the Company’s lease.
8. The Company has been selling its existing inventory and collecting outstanding accounts receivable following the filing of the NOI.
9. InterCap has agreed to sponsor the Proposal and by doing so significantly increase recoveries for creditors. This is discussed further below in Section 3 of the Report.

2.2 Historical Operating Results

1. The Company has incurred losses and generated negative cash flow from operations since inception. These losses have been funded primarily through equity (mostly by InterCap and its affiliates) and the InterCap Loan.
2. The Company’s internal unaudited financial results for the fiscal year ending December 31, 2020 are summarized in the table below:

(US \$000s)	Year Ended Dec. 31, 2020 (unaudited)
Revenue	698
Gross Profit	566
Operating costs	
Salaries and benefits	402
Marketing and Advertising	529
Other	247
Loss from operations	(911)
Net other expenses	84
Net loss for the period	(995)
Deficit, beginning of period	(4,378)
Net loss for the period	(995)
Deficit, end of period	(5,373)

3. As presented above, the Company: a) generated US\$911,000 in operating losses for the year ending December 31, 2020; and b) has an accumulated deficit of approximately US \$5.4 million, reflecting its history of losses.

3.0 The Proposal¹

1. This section provides an overview of the terms of the Proposal. Review of this section is not a substitute for reading the Proposal. Creditors are strongly encouraged to read the Proposal in its entirety prior to voting on the Proposal. Creditors are encouraged to discuss the terms of the Proposal with their legal counsel. A copy of the Proposal is provided in Appendix "A".

3.1 Purpose and Effect

1. The overall purpose of the Proposal is to:
 - a) give effect to a distribution of funds from the Unsecured Creditor Cash Pool to the Proven Claims of Preferred Creditors and Ordinary Creditors (together, the "Unsecured Creditors");
 - b) effect a cancellation of the Company's Existing Shares;
 - c) issue New Shares to the Sponsor, pursuant to the Articles of Reorganization; and
 - d) effect releases of any and all Proven Claims.
2. The Unsecured Creditor Cash Pool in the Proposal will include:
 - a) all of the net proceeds of a liquidation of the Company's assets and collection of the Company's accounts receivable (the "Liquidation Proceeds"); and
 - b) the "Unsecured Creditor Cash Payment", being an amount equal to the lesser of:
 - i. \$250,000; and
 - ii. the amount, net of Administrative Fees and Expenses including the Administrative Fee Reserve, required to pay Proven Claims of Preferred Creditors and Ordinary Creditors, following the Proposal Trustee's collection of the Liquidation Proceeds.
3. For the purposes of the Proposal, if accepted by the Unsecured Creditors and approved by the Ontario Superior Court of Justice (Commercial List) (the "Court"), the Sponsor has agreed to subordinate the Intercap Claim. The subordination of the Intercap Claim will not apply if the Proposal is not implemented for any reason and the Company is deemed to have made an assignment in bankruptcy.

3.2 Classes of Creditors

1. For the purpose of voting on the Proposal, there shall be one class of Unsecured Creditors.

¹ Capitalized terms in this section of the Report not defined in the Report have the meanings provided to them in the Proposal.

3.3 Treatment of Claims

1. The Proposal is being made to the holders of Affected Claims against the Company (the “Affected Creditors”). Unaffected Claims include:
 - a) the Intercap Claim;
 - b) the Directors’ Indemnity Claims; and
 - c) Administrative Fees and Expenses, including the proper fees, expenses and legal fees and disbursements of the Proposal Trustee and the Company.

3.4 Proposed Distributions

1. On the Implementation Date, or as soon as sufficient funds become available in the Unsecured Creditor Cash Pool, all Administrative Fees and Expenses incurred to that date which remain unpaid shall be paid, in full, in accordance with the BIA.
2. On the Implementation Date, the Claims of all Affected Creditors shall be compromised and thereafter each Affected Creditor with a Proven Claim shall receive the following in full satisfaction of its Proven Claim(s):
 - a) within ten (10) Business Days of the Preferred Claim Determination Date, a distribution from the Unsecured Creditor Cash Pool in the amounts of the Proven Claim of each Preferred Creditor, including the Required Crown Amount, if any; and;
 - b) within ten (10) Business Days of the Ordinary Claim Determination Date, the Proposal Trustee shall distribute the balance of the Unsecured Creditor Cash Pool, net of the Administrative Fee Reserve, to Ordinary Creditors on account of, and in full satisfaction of, their Proven Claims.
3. As referenced above, to facilitate the approval and implementation of the Proposal, the Sponsor has agreed to subordinate the Intercap Claim to the claims of Unsecured Creditors, and also agreed to make available the Unsecured Creditor Cash Payment. For greater certainty, no distribution from the Unsecured Creditor Cash Pool shall be made to the Sponsor in respect of the Intercap Claim.

3.5 Voting on the Proposal

1. To vote at the Meeting, each Creditor shall file a valid Proof of Claim with the Proposal Trustee and thereafter the Proposal Trustee shall determine the claims in accordance with the provisions of Section 135 of the BIA. The Proof of Claim form is attached as Appendix “C”.
2. In order to receive a distribution from the Proposal, a Creditor must submit a valid Proof of Claim prior to the time the Proposal Trustee distributes the funds in accordance with the Proposal.

3.6 Dividend Amount

1. As at the date the Proposal was filed, Creditors were owed approximately \$2.26 million, of which approximately \$2.15 million represents the Intercap Claim. Excluding the Intercap Claim, Creditors were owed approximately \$110,000.
2. Based on the list of known creditors attached in Appendix "F", distribution of the Unsecured Creditor Cash Pool is expected to result in a full recovery for Unsecured Creditors.
3. Pursuant to Section 147 of the BIA, payments under the Proposal are subject to the statutory levy of 5% payable to the OSB.

3.7 Proposal Conditions

1. Implementation of the Proposal is conditional upon:
 - a) acceptance of the Proposal by the statutory majority of the Unsecured Creditors as required under the BIA (described in Section 3.9 below);
 - b) an order of the Court approving the Proposal and the Articles of Reorganization; and
 - c) if so requested by the Proposal Trustee, payment by the Sponsor of the Unsecured Creditor Cash Payment to the Proposal Trustee within three Business Days of the Proposal Trustee's request.

3.8 Other Proposal Terms

1. Other Proposal terms are summarized below:
 - a) Forthwith after the Meeting, the Proposal Trustee shall give notice to every Person with an Affected Claim of which the Proposal Trustee has notice or knowledge but whose claim has not been filed or proven, that if such Person does not prove its claim within a period of thirty (30) days after the mailing of the notice, the Trustee will proceed to declare a dividend without regard to such Person's claim and the dividend referred to in said notice shall be deemed a final dividend and any Person so notified who does not provide its claim within the said thirty (30) day period shall be barred from making a claim in this Proposal, subject to any exceptions set out in subsections 149(2)(3) and (4) of the BIA;
 - b) At the Meeting, the Creditors may appoint up to five (5) Inspectors whose powers will be limited to:
 - i. advising the Proposal Trustee concerning any dispute which may arise as to the validity of Claims; and
 - ii. advising the Proposal Trustee from time to time with respect to any other matter that the Proposal Trustee may refer to them.

- c) The Company, with the consent of the Proposal Trustee and the Sponsor, may propose an alteration or modification to the Proposal prior to the conclusion of the Meeting;
- d) Interest will not accrue or be paid on Affected Claims after or in respect of the period following the filing of the NOI Filing Date and no Creditor with an Affected Claim will be entitled to any interest in respect of such Claim accruing on or after or in respect of the period following the NOI Filing Date; and
- e) Upon the Implementation Date, each and every Director shall be released and discharged from any and all Director Claims. This release shall have no force or effect if the Company becomes bankrupt before the terms of the Proposal are performed.

3.9 Acceptance and Approval of the Proposal

1. In order for the Proposal to be accepted, two-thirds in dollar value and over 50% in number of the Unsecured Creditors present and voting, in person or by proxy, must vote in favour of the Proposal.
2. Rejection of the Proposal by the creditors would result in the Company being deemed to have made an assignment in bankruptcy.
3. Upon being accepted by creditors, the Proposal must be approved by the Court. If the Court does not approve the Proposal, the Company is deemed to have made an assignment in bankruptcy.

4.0 Preferences and Transfers at Undervalue

1. As part of its statutory duties under the BIA, the Proposal Trustee conducted a review of the Company's bank statements and cancelled cheques for the twelve-month period (the "Review Period") immediately preceding the commencement of the NOI proceedings to identify transactions that could be considered preferences or transfers at undervalue. The focus of the Review Period was transactions above \$10,000. The Proposal Trustee's review did not identify any transaction that could be considered a preference or transfer at undervalue.
2. Article 8.1 of the Proposal provides that Sections 95 to 101 of the BIA, being the relevant sections under the BIA dealing with transactions that may be challenged by a Proposal Trustee, do not apply to the Proposal and may not be relied upon by the creditors or by the Proposal Trustee. Therefore, by voting in favour the Proposal, creditors will be giving up their right to pursue any of the remedies under these sections of the BIA.
3. As the Proposal Trustee did not identify any transactions that could be considered a preference or transfer at undervalue during the Review Period, the Proposal Trustee is of the view that Article 8.1 of the Proposal is reasonable. Additionally, as the Proposal contemplates payment in full of Proven Claims based on known creditors, no parties are prejudiced by this provision of the Proposal.

5.0 Estimated Distribution in the Event of a Bankruptcy

1. A summary of the book value² and estimated realizable value of the Company's assets in a bankruptcy is included in the table below:

(\$000s)		As at May 17, 2021	
Assets		Book Value	Estimated Realizable Value
Cash		48	48
Inventory	1	155	155
Accounts Receivable	2	318	318
Total Assets before costs of realization		521	521
Estimated costs of realization	3		(150)
Total Assets after costs of realization			371
Creditor claims	4		2,258
Estimated recovery			16¢

Notes

1 – Represents the net realizable value of the Company's existing inventory in an orderly liquidation, as per an appraisal prepared by Infinity Asset Solutions dated April 20, 2021 for the Proposal Trustee (the "Infinity Appraisal"). The Infinity Appraisal is attached as Appendix "G".

2 – Represents the Company's existing accounts receivable. For the purpose of this analysis, it is assumed that the accounts receivable will be collected in full.

3 – Represents estimated costs of realization, including professional fees of the Licensed Insolvency Trustee, its legal counsel and the Company's legal counsel.

4 – Creditor claims in a bankruptcy would include the Intercap Claim, which has been subordinated to the Unsecured Creditors pursuant to the Proposal but otherwise ranks *pari passu* with all other unsecured creditors.

As reflected in the table above, the estimated realizable value of the Company's assets in a bankruptcy is approximately \$521,000. This amount is reduced by an estimate of \$150,000 for professional and other costs associated with administering a bankruptcy, which would further reduce the realizations to \$371,000. This represents an estimated recovery of approximately 16¢ on the dollar for the Company's creditors.

² The book value of the assets is based on the values in the Statement of Affairs sworn on May 17, 2021 by a representative of the Company.

6.0 Conclusion and Recommendation

1. Unsecured Creditors will have an opportunity for full recovery should the Proposal be accepted and approved by the Court. If the Proposal is not accepted by creditors or approved by the Court, the Company will be deemed to have made an assignment in bankruptcy. In such a case, distributions to creditors are estimated to be approximately 16¢. **Accordingly, the Proposal Trustee strongly recommends that the Company's creditors vote in favour of the Proposal.**
2. If the Proposal is accepted by the Unsecured Creditors at the Meeting, the Proposal Trustee will seek the Court's approval shortly thereafter.

* * *

All of which is respectfully submitted,



**KSV RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE OF
RESET BEAUTY INC.,
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “D”

RESET BEAUTY INC.

Preliminary list of creditors as at April 27, 2021
as submitted Reset Beauty Inc.
(Unaudited)

Creditor	Address	Amount due (CDN\$)
Intercap Equity	261 Davenport Rd, Toronto, ON M5H 1K3	2,149,350.00
Fuller Landau	151 Bloor St West, 12th Floor, Toronto, ON M5S 1S4	47,053.60
Bossin, Tin Yan Chartered Accountants	1210 Sheppard Ave E, Suite 200, Toronto, ON M2K 1E3	22,741.25
Speigel Nichols Fox	1 Robert Speck Parkway, Suite 200, Mississauga, ON L4Z 3M3	17,023.45
Commerce Garage Inc.	4585 Massey Rd, Port Hope, ON L1A 3V5	8,197.70
Meretsky Law Firm	121 King Street W, Suite 2150, Toronto, ON M5H 2T9	6,480.88
Dorsey and Whitney LLP	P.O. Box 1680, Minneapolis, MN 55480	7,172.07
Ministry of Labour, Training & Skills Development	Provincial Claims Centre, 70 Foster Dr, Suite 410, Sault Ste. Marie, ON P6A 6V4	4,061.50
1302207 Ontario Limited c/o Allied Properties	134 Peter St., Suite 1700, Toronto ON M5V 2H2	1.00
		<u>2,262,081.45</u>

Appendix “E”

**Reset Beauty Inc.
Claims Summary
(unaudited; \$C)**

Date received	Creditor	Address	City	Province	Postal Code	Amount filed	Vote	Vote method	Proxy	Pro-rata distribution (before Levy)	Notes
01-Jun-21	Bossin, Tin Yan Chartered Accountants	1210 Sheppard Ave E, Suite 200	Toronto	ON	M2K 1E8	22,741.25	Accept	Letter	Brian Bossin	-	Matches creditor list
01-Jun-21	Fuller Landau LLP	151 Bloor St. W, 12th floor	Toronto	ON	M5S 1S4	47,053.60	Accept	Letter	David Filice	-	Matches creditor list
01-Jun-21	Speigel Nichols Fox LLP	1 Robert Speck Parkway, Suite 200	Mississauga	ON	L4Z 3M3	17,762.22	Accept	Letter	N/A	-	Difference of \$738.77 from creditor list in respect of interest to May 17, 2021.
										-	
										-	
										-	
										-	
Grand Total						87,557.07				-	

Voting Summary

	Number of Votes	Dollar Value of Votes
Accept	3 \$	87,557.07
Reject	- \$	-
Total	3 \$	87,557.07
%	100%	100%

STAT REQ **PASS** **PASS**

Appendix “F”

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
RESET BEAUTY INC.,
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

MINUTES OF GENERAL MEETING OF CREDITORS

1. The following are the minutes of the General Meeting of Creditors in the Proposal proceedings of Reset Beauty Inc. (the "Company") held via video conference on the 7th day of June 2021 at 10:00 a.m. (the "Meeting").
2. An attendance list of those present is attached as Appendix "A".
3. Mitch Vininsky of KSV Restructuring Inc. ("KSV"), the Proposal Trustee, called the Meeting to order at 10:00 a.m., announced the presence of a quorum and that the meeting was duly constituted.
4. Mr. Vininsky informed the Meeting that he would act as Chair pursuant to Section 51(3) of the *Bankruptcy and Insolvency Act* ("BIA") and Murtaza Tallat of KSV would act as the Recording Secretary. Mr. Vininsky introduced the other representatives of the Proposal Trustee, the Proposal Trustee's counsel, the Company and its counsel.
5. The Chair advised that the Recording Secretary would make available the following documents should any creditors wish to review them:
 - Proposal (the "Proposal");
 - Notice of Meeting of Creditors;
 - Trustee's Report to Creditors ("Report");
 - Proofs of Claim, as filed; and
 - Affidavit of Service relating to the Proposal.

Review of Report and Proposal

6. A discussion followed between the Chair and the one creditor present, who confirmed that he had read the Report and understood the purpose of the proceeding and effect of the Proposal.
7. The Chair reported that it had received three voting letters representing claims of \$87,557, each in favour of the Proposal.
8. The Chair requested questions from the floor and no questions were asked.

Vote to Accept the Proposal

9. The Chair determined that a motion to accept the Proposal was not necessary, as all creditors present at the meeting had submitted voting letters.
10. The Chair announced the voting results. The Proposal was unanimously accepted by the creditors voting on the Proposal. Accordingly, the Chair declared that the vote on the Proposal had been carried.
11. The Chair advised that a motion for Court approval of the Proposal is scheduled for June 21, 2021 at 12:30 p.m. The Chair advised that a notice of the hearing date was sent to the creditors.
12. There being no further business, the meeting was terminated at 10:05 a.m.

Dated at Toronto, Ontario this 7th day of June, 2021.



Mitch Vininsky, Chair



Murtaza Tallat, Recording Secretary

Appendix “A”

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
RESET BEAUTY INC.,
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

FIRST MEETING OF CREDITORS

ATTENDANCE REGISTER

Date: June 7, 2021 at 10:00 am
Estate File No: 31-2733618

No.	Name (Print)	Representing	Amount of Claim	Remarks
1	Mitch Vininsky	KSV Restructuring Inc., Proposal Trustee	N/A	
2	Murtaza Tallat	KSV Restructuring Inc., Proposal Trustee	N/A	
3	George Benchetrit	Chaitons LLP, counsel to KSV Restructuring Inc., Proposal Trustee	N/A	
4	Josh Brandley	Reset Beauty Inc.	N/A	
5	Edmond Lamek	DLA Piper (Canada) LLP, counsel to Reset Beauty Inc.	N/A	
6	Jason Meretsky	Meretsky Law Firm, counsel to Reset Beauty Inc.	N/A	
7	David Filice	Fuller Landau LLP Proxy to Fuller Landau LLP	\$47,053.60	