
**Second Report of
Duff & Phelps Canada Restructuring Inc.
as Receiver of
Xchange Technology Group LLC,
IT Xchange Inc., IT Xchange Corp.,
BlueRange Technology Corp.,
BlueRange Technology Inc.,
IT Xchange Financial Services LLC and
Partstock Computer LLC**

December 12, 2013

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COURT FILE NO: CV-13-10310-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

CALLIDUS CAPITAL CORPORATION

APPLICANT

- AND -

**XCHANGE TECHNOLOGY GROUP LLC, IT XCHANGE INC.,
IT XCHANGE CORP., BLUERANGE TECHNOLOGY CORP.,
BLUERANGE TECHNOLOGY INC., IT XCHANGE FINANCIAL SERVICES LLC AND
PARTSTOCK COMPUTER LLC**

RESPONDENTS

**SECOND REPORT OF
DUFF & PHELPS CANADA RESTRUCTURING INC.
AS RECEIVER**

DECEMBER 12, 2013

1.0 Introduction

1. This report ("Report") is filed by Duff & Phelps Canada Restructuring Inc. ("D&P") in its capacity as receiver ("Receiver") of the property, assets and undertaking of Xchange Technology Group LLC, IT Xchange Inc. ("ITX Canada"), IT Xchange Corp., BlueRange Technology Corp., BlueRange Technology Inc., IT Xchange Financial Services LLC and Partstock Computer LLC (collectively, the "XTG Debtors").
2. The XTG Debtors have numerous foreign affiliates that are not subject to these proceedings. They are: IT Xchange Limited (UK); IT Xchange Japan LLC (Japan); Hire Information Technology Ltd. (UK); Xchange Technology Rentals Ltd. (UK); IT Xchange Macao Commercial Offshore Ltd. (Macao); IT Xchange Pty Ltd. (Australia); and Xchange Technology GmbH (Germany) (collectively, the "Foreign Affiliates" and together with the XTG Debtors, referred to as the "XTG Group"). A corporate organizational chart is provided in Section 2 below.
3. Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "Court") made on October 29, 2013 (the "Receivership Order"), D&P was appointed Receiver. A copy of the Receivership Order is attached as Appendix "A".

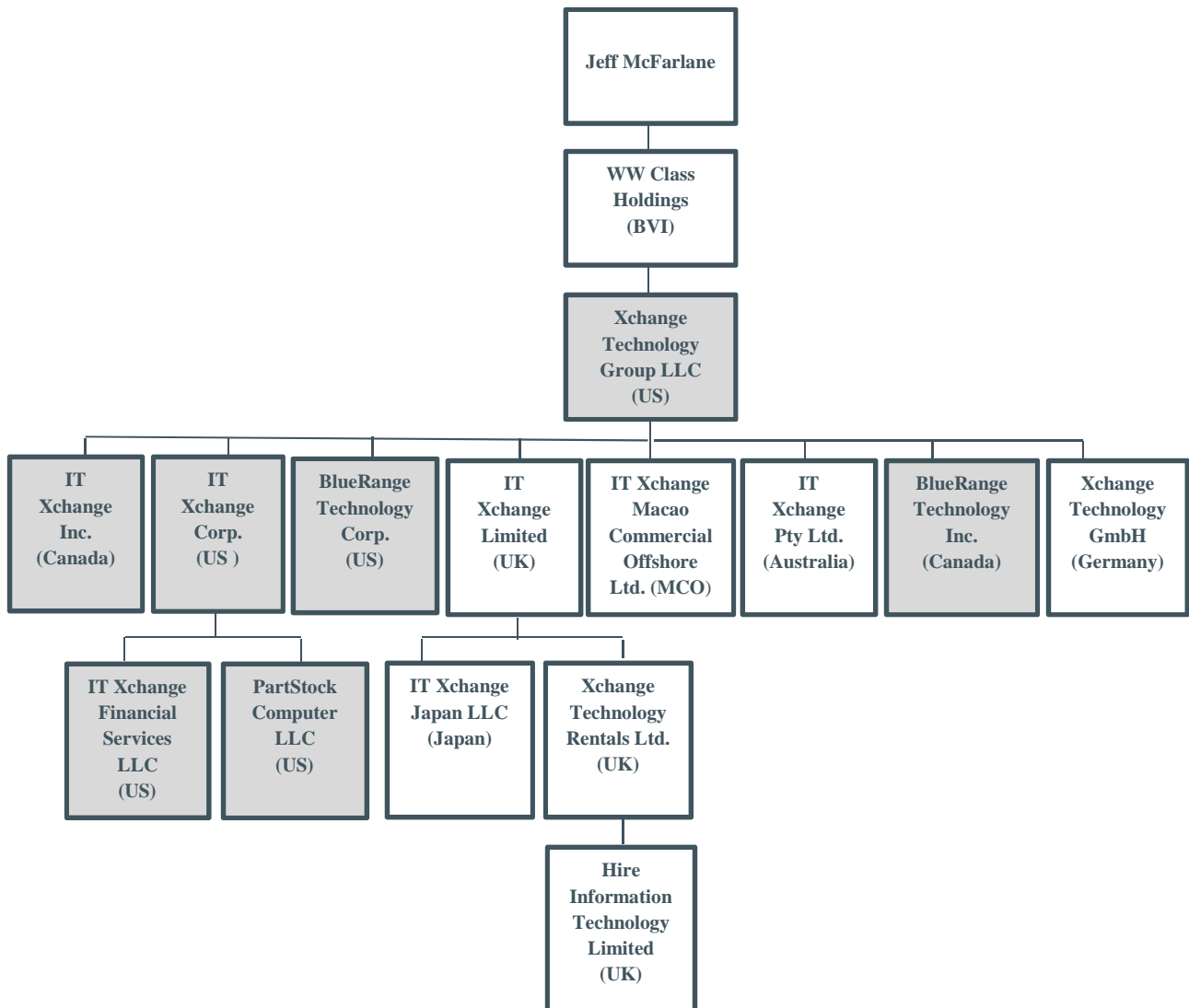
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4. On October 30, 2013, the Receiver, as Foreign Representative, commenced proceedings in the United States Bankruptcy Court for the District of Delaware ("US Court") seeking recognition of the Canadian receivership proceeding as a foreign non-main proceeding under Chapter 15 of the *US Bankruptcy Code*. On October 30, 2013 and November 25, 2013, the US Court entered an order granting provisional relief in aid of the Canadian proceeding and the Recognition Order, respectively.
 5. The primary purpose of these proceedings has been to complete a sale of substantially all of the XTG Debtors' business and assets through a Court supervised sale process ("Sale Process").
 6. On November 22, 2013, the Court approved the sale of the majority of the XTG Debtors' assets, property and undertaking to 2393134 Ontario Inc., the Purchaser ("Purchaser"), an entity recently incorporated by Callidus Capital Corporation ("Callidus"), the XTG Group's senior secured lender ("Transaction"). The US Court approved the Transaction on November 25, 2013. The Transaction is presently expected to close by December 31, 2013.
 7. Pursuant to the terms of the Transaction, the Receiver and the Purchaser intend to enter into a Transition Services Agreement ("TSA"), pursuant to which the Purchaser will have access on an interim basis to contracts, leased premises and employees required to transition the business on an orderly basis, but which may not be required for the go-forward business.

1.1 Purposes of this Report

1. The purposes of this report are to:
 - a) Summarize a dispute among the Receiver, the Purchaser and the ultimate 100% shareholder of the XTG Group, Jeff McFarlane ("McFarlane"), regarding premises he owns at 2590 Sheridan Garden Drive, Oakville, Ontario (the "Oakville Premises") and which are occupied by ITX Canada;
 - b) Update the Court on the Purchaser's efforts to relocate from the Oakville Premises to new premises; and
 - c) Recommend that this Court issue an order allowing ITX Canada to continue to occupy the Oakville Premises until the Purchaser has relocated to a new location, provided rent is paid bimonthly in advance on the 1st day and the 15th day of each month, as well as the other monthly occupancy charges under the lease between McFarlane and ITX Canada, such as property taxes and utilities, forthwith upon receipt of invoices for those costs or when otherwise payable. All such amounts have been paid by the Receiver to date.

2.0 Background Information

1. XTG Group was founded in 1996 in Ontario by McFarlane. XTG Group's corporate organizational chart is as follows (the XTG Debtors are shaded):



2. XTG Group is a supplier of information technology ("IT") products with operations in Canada, the United States, the United Kingdom, Germany, Australia, Macao and Japan. XTG Group also provides IT rental assets and programs, including servers, storage devices, laptops and desktop computers.
3. XTG Group's Canadian head office is located at the Oakville Premises.

2.1 The Transaction

1. The Sale Process and the Transaction were addressed in the Receiver's First Report to Court dated November 19, 2013, a copy of which is attached as Appendix "B", without appendices. The Transaction has not yet closed, largely due to the complexity of the XTG Group's global business. There are no business issues delaying closing and the Receiver has every expectation that the Transaction will be completed.
2. The Oakville Premises exceed the needs of the Purchaser and the lease is uneconomic for it to assume. It is the Purchaser's intention to relocate as soon as reasonably possible to a smaller facility.
3. The Purchaser is working diligently to find a new location. It has engaged a commercial real estate brokerage firm and, in early December, 2013, toured several potential locations.
4. Relocating from the Oakville Premises is one of a myriad of issues with which the Purchaser has been dealing to restructure the business, which has also included closing other locations, integrating those operations into existing facilities and dealing with complications arising from the global operations of the XTG Group. Accordingly, although the Purchaser is working in good faith to move as quickly as possible to exit the Oakville Premises, it has not been able to complete that move as quickly as it would have liked as it has been managing the overall restructuring process.

3.0 The Oakville Premises

1. The Oakville Premises is occupied by ITX Canada pursuant to a lease dated January 16, 2008, between McFarlane and ITX Canada, as amended (the "Lease"). The Oakville Premises has approximately 51,000 square feet of warehouse space (the "Large Space"), approximately 8,500 square feet of warehouse space and 1,500 square feet of second floor office space (the "Small Space").
2. On November 20, 2013, rent was paid for the Oakville Premises through December 15, 2013. Uncertainty related to the amount owing by the Company for rent delayed payment of the first rent payment during the receivership proceedings. The Receiver will continue to pay all amounts related to the XTG Group's use of the Oakville Premises.
3. On November 22, 2013, McFarlane's legal counsel attended before this Court during the Sale Approval Hearing raising issues concerning ITX Canada's ongoing occupation at the Oakville Premises. A motion was scheduled for December 13, 2013, to address these matters, in the event an occupancy arrangement could not be negotiated.

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4. Since that time, the Receiver and its legal counsel have been corresponding with McFarlane's legal counsel on these issues. Copies of the correspondence between McFarlane's legal counsel and the Receiver dated November 26, 2013, December 2, 2013, December 3, 2013 and December 6, 2013 are attached in Appendix "C".
 5. Based on this correspondence and other emails and discussions between counsel, the Receiver was optimistic that an arrangement would be reached. However, on December 10, 2013, McFarlane's counsel advised that the terms set out in the Receiver's letter dated December 2, 2013 were unacceptable and that they would be proceeding with a motion on December 13, 2013.
 6. One of the most contentious issues at this time seems to be the use of office space used by the XTG Debtors' accounting and finance department. Management advises that relocating these employees to another part of the Oakville Premises will take time and cause disruption to the business. Relocating these employees would also involve considerable assistance from the IT group of the XTG Debtors, which is presently focused on addressing issues related to closing the Transaction and dealing with other issues related to the global restructuring. McFarlane has insisted that the staff located in the office space be relocated by December 15, 2013, notwithstanding he does not seem to have an urgent need for this space. In this regard, the letter from McFarlane's counsel dated December 3, 2013 included the following in respect of McFarlane's intended use of the "Small Space": *"Mr. McFarlane's use of the Small Space will be minimal during the first few months"*;
 7. McFarlane has also insisted that the Receiver assume all obligations of the tenant under the Lease during the occupation period. The Receiver has advised that it is not prepared to do so; however, it has advised that it intends to pay rent and all costs of occupancy as required under the Lease, and would leave the Oakville Premises in its condition as at the filing date, reasonable wear and tear excepted.
 8. The Receiver has also attempted to accommodate various requests made by McFarlane. In this regard:
 - The Receiver is agreeable to demise the warehouse portion of the Oakville Premises;
 - The Receiver cleared out the warehouse portion of the Small Space so that McFarlane would be able to store inventory effective December 15, 2013;
 - The Receiver has accommodated a request made by McFarlane to use a number of parking spots;

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- The Receiver has advised that it is prepared to allow McFarlane to use the shipping and receiving areas/loading docks of the Oakville Premises; and
 - The Receiver has agreed to negotiate the removal of any fixtures.
9. Based on the foregoing, the Receiver is of the view that:
- The Receiver and the Purchaser have made all reasonable efforts to accommodate the concerns and needs of McFarlane, while at the same time being mindful to avoid disruption to the XTG Debtors' business. The Receiver's letter of December 2, 2013, addressed each point raised by McFarlane, including its willingness to demise the Oakville Premises for McFarlane's benefit; and
 - The Receivership Order entitles the Receiver to occupy the Oakville Premises provided the costs of occupation are paid – these have been paid and will continue to be paid.

4.0 Conclusion and Recommendation

1. Based on the foregoing, the Receiver respectfully recommends that this Honourable Court make an order 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 RECEIVER OF
XCHANGE TECHNOLOGY GROUP LLC, IT EXCHANGE INC.,
IT XCHANGE CORP., BLUERANGE TECHNOLOGY CORP.,
BLUERANGE TECHNOLOGY INC., IT XCHANGE FINANCIAL SERVICES LLC AND
PARTSTOCK COMPUTER LLC
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

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DATED AT TORONTO THIS 29th DAY OF OCT 20 13
FAIT À TORONTO LE 29th JOUR DE OCT 20 13

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**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Court File No. CV-13-10310-00CL

**THE HONOURABLE MR.
JUSTICE MORAWETZ**

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**TUESDAY, THE 29th DAY
OF OCTOBER, 2013**

BETWEEN:

CALLIDUS CAPITAL CORPORATION

Applicant

- and -

**XCHANGE TECHNOLOGY GROUP LLC, IT XCHANGE FINANCIAL
SERVICES LLC, IT XCHANGE CORP., BLUERANGE TECHNOLOGY CORP.,
BLUERANGE TECHNOLOGY INC., PARTSTOCK COMPUTER LLC and
IT XCHANGE INC.**

Respondents

ORDER

THIS APPLICATION, made by the Applicant for an Order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "BIA") and section 101 of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended (the "CJA") appointing Duff & Phelps Canada Restructuring Inc. as receiver (the "Receiver") without security, of all of the assets, undertakings and properties of Xchange Technology Group LLC, It Xchange Financial Services LLC, It Xchange Corp., Bluerange Technology Corp., Bluerange Technology Inc., Partstock Computer LLC and It Xchange Inc. (the "Debtors") acquired for, or used in relation to businesses carried on by the Debtors, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Affidavit of Craig Boyer sworn October 25, 2013 and the Report of Duff & Phelps Canada Restructuring Inc. dated October 25, 2013 (the "Report") and on hearing

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DATED AT TORONTO THIS 21 DAY OF JULY 2013
FAIT À TORONTO LE 21 JOUR DE JUILLET 2013

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the submissions of counsel for Callidus Capital Corporation ("Callidus"), counsel for Duff & Phelps Canada Restructuring Inc., the proposed receiver, and counsel for the Debtors, and on reading the consent of Duff & Phelps Canada Restructuring Inc. to act as the Receiver,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application is hereby abridged and validated so that this application is properly returnable today and hereby dispenses with further service thereof.

APPOINTMENT

2. THIS COURT ORDERS that pursuant to section 243(1) of the BIA and section 101 of the CJA, Duff & Phelps Canada Restructuring Inc. is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtors acquired for, or used in relation to businesses carried on by the Debtors, including all proceeds thereof (the "Property").

RECEIVER'S POWERS

3. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

- a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
- b) to receive, preserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;
- c) to manage, operate, and carry on the businesses of the Debtors, including the powers to enter into any agreements, incur any obligations in the ordinary course of business, cease

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DATED AT TORONTO THIS 27th DAY OF OCTOBER 2008
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- to carry on all or any part of the businesses, or cease to perform any contracts of the
- d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;
 - e) to purchase or lease such equipment, inventories, supplies, premises or other assets to continue the businesses of the Debtors or any part or parts thereof;
 - f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtors and to exercise all remedies of the Debtors in collecting such monies, including, without limitation, to enforce any security held by the Debtors;
 - g) to settle, extend or compromise any indebtedness owing to the Debtors;
 - h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtors, for any purpose pursuant to this Order;
 - i) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtors, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;
 - j) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business with Court approval and in each such case notice under subsection 63(4) of the Ontario *Personal Property Security Act* shall not be required, and in each case the Ontario *Bulk Sales Act* shall not apply ;

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DATED AT TORONTO THIS 27th DAY OF OCTOBER 2013
FAIT À TORONTO LE 27 OCT 2013

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k) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property;

- l) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;
- m) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtors;
- n) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtors, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtors;
- o) to exercise any shareholder, partnership, joint venture or other rights which the Debtors may have; and
- p) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations,

and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtors, and without interference from any other Person.

THE STALKING HORSE OFFER

4. THIS COURT ORDERS that the Receiver shall be authorized and directed to accept the Asset Purchase Agreement dated October 25, 2013 (the "**Stalking Horse Offer**") signed by 2393134 Ontario Inc. (the "**Purchaser**") pursuant to which the Purchaser has agreed to purchase all of the right, title and interest of the Debtors in and to the assets specified in the Stalking Horse Offer (the "**Purchased Assets**"). If the Receiver does not receive and accept at or before the Bid

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DATED AT TORONTO THIS 29th DAY OF OCT 2013

Deadline (as defined below) a Superior Bid (as defined below) in accordance with the Sale Process, the Receiver is entitled to take all actions or steps necessary to complete the transaction thereunder in accordance with its terms, without further approval of this Court, however the Receiver shall apply for the appropriate Vesting Orders. If the Receiver does receive a Superior Bid at or before the Bid Deadline in accordance with the Sale Process, the Receiver shall apply to the Court for approval of the Superior Bid. A **"Superior Bid"** shall be an offer to purchase the Purchased Assets which the Receiver, acting in its sole discretion, considers at least equivalent to the Stalking Horse Offer, provided that no offer shall qualify as a Superior Bid unless it meets the following minimum criteria:

- a) the offer must be an irrevocable offer;
- b) the offer must be accompanied by a cash deposit which is at least equal to 15% of the aggregate purchase price payable under the offer;
- c) the offer must be for a purchase price at least equal to the Purchase Price, payable in cash on Closing, and otherwise on terms no less favourable and no more burdensome or conditional than the Stalking Horse Offer;
- d) the offer must not contain any contingency relating to due diligence or financing or any other material conditions precedent to the offeror's obligation to complete the transaction that are not otherwise contained in the Stalking Horse Offer;
- e) the offer must be made by an offeror which can demonstrate the financial ability to complete the transaction; and
- f) the offer must contemplate a closing date of no later than December 31, 2013.

SALES PROCESS

5. The Receiver shall undertake the marketing and sale of the Property, including soliciting offers, and negotiating the terms and conditions of sale, in accordance with the Sales Process and timetable outlined in paragraph 7.2 of the Duff & Phelps Report (the **"Sale Process"**)

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

6. THIS COURT ORDERS that (i) the Debtors, (ii) all of their current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons

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DATED AT TORONTO THIS 29 DAY OF OCT 2013
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acting on their instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "Persons" and each being a "Person") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

7. THIS COURT ORDERS that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtors, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "Records") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this paragraph 7 or in paragraph 8 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

8. THIS COURT ORDERS that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and

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providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

DATED AT TORONTO THIS 29 DAY OF OCT 20 13
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NO PROCEEDINGS AGAINST THE RECEIVER

9. THIS COURT ORDERS that no proceeding or enforcement process in any court or tribunal (each, a "Proceeding"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTORS OR THE PROPERTY

10. THIS COURT ORDERS that no Proceeding against or in respect of the Debtors or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtors or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

11. THIS COURT ORDERS that all rights and remedies against the Debtors, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of right of Callidus pursuant to paragraph 23 of this Order or in respect of any "eligible financial contract" as defined in the BIA, and further provided that nothing in this paragraph shall (i) empower the Receiver or the Debtors to carry on any business which the Debtors is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtors from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

12. THIS COURT ORDERS that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Debtors, without written consent of the Receiver or leave of this Court.

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DATE AT TORONTO THIS 27 JANUARY 2013

13. **CONTINUATION OF SERVICES**

13. **THIS COURT ORDERS** that all Persons having oral or written agreements with the Debtors or statutory or regulatory mandates for the supply of goods and/or services, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Debtors are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtors' current telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver in accordance with normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

RECEIVER TO HOLD FUNDS

14. **THIS COURT ORDERS** that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from the sale of all or any of the Property, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "Post Receivership Accounts") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

EMPLOYEES

15. **THIS COURT ORDERS** that all employees of the Debtors shall remain the employees of the Debtors until such time as the Receiver, on the Debtors' behalf, may terminate the employment of such employees. The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in

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respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner*

16. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to prospective purchasers or bidders for the Property and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "Sale"). Each prospective purchaser or bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtors, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

17. THIS COURT ORDERS that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in

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DATED AT TORONTO THIS 29 DAY OF OCT 2013

pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

LIMITATION ON THE RECEIVER'S LIABILITY

18. THIS COURT ORDERS that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*. Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA or by any other applicable legislation.

RECEIVER'S ACCOUNTS

19. THIS COURT ORDERS that the Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, and that the Receiver and counsel to the Receiver shall be entitled to and are hereby granted a charge (the "Receiver's Charge") on the Property, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings, and that the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

20. THIS COURT ORDERS that the Receiver and its legal counsel shall pass its accounts from time to time, and for this purpose the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

21. THIS COURT ORDERS that prior to the passing of its accounts, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against their remuneration and disbursements when and as approved by this Court.

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- 11 -

FUNDING OF THE RECEIVERSHIP

22. THIS COURT ORDERS that the Debtors or the Receiver on behalf of the Debtors and not in its personal capacity is hereby authorized and empowered to continue to obtain and borrow, repay and re-borrow, additional monies under an Amended and Restated Loan Agreement dated October 11, 2012 among the Debtors and Callidus (as later amended from time to time, the "Loan Agreement"), subject to and in accordance with blocked account agreements between the Debtors, Callidus, Bank of Montreal and any other financial institution used by the Debtors in their cash management system (the "Blocked Account Agreements"), in order to finance the Debtors' operating expenses and the reasonable fees and disbursements of the Receiver and its legal counsel, all on the terms and subject to the conditions set forth in the Loan Agreement and the Blocked Account Agreements or such other terms and conditions as Callidus shall agree.

23. THIS COURT ORDERS that the Debtors or the Receiver on behalf of the Debtors and not in its personal capacity is hereby authorized and directed to pay all of its indebtedness, interest, fees, liabilities and obligations to Callidus under and pursuant to the Loan Agreement and in accordance with the Blocked Account Agreements when the same become due notwithstanding any other provision of this Order, provided that Callidus shall reimburse the Receiver any monies received by Callidus which it may not have been entitled to pursuant to any liens, charges, security interests or other claims having priority over Callidus' security.

24. THIS COURT ORDERS that, in addition to advances in accordance with availability under the Loan Agreement, the Receiver on behalf of the Debtors be at liberty and it is hereby empowered to borrow monies from Callidus in excess of availability under the Loan Agreement (hereafter "Overadvances") on the terms and at the rate of interest set out in the Loan Agreement for such period or periods of time as the Receiver may arrange with Callidus, for the purpose of payment of the Debtors operating expenses and the reasonable fees and disbursements of the Receiver and its legal counsel.

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GENERAL

DATED AT TORONTO THIS 29 DAY OF OCT 20 13
FAIT À TORONTO LE 29 JOUR DE OCT 20 13

25. THIS COURT ORDERS that the Receiver may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

26. THIS COURT ORDERS that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtors.

27. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

28. THIS COURT ORDERS that the Receiver be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Receiver is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

29. THIS COURT ORDERS that the Applicant shall have its costs of this application, up to and including entry and service of this Order, provided for by the terms of the Applicant's security or, if not so provided by the Applicant's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtors' estates with such priority and at such time as this Court may determine.

30. THIS COURT ORDERS that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Receiver and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

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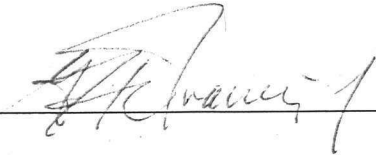
31st 29th ^{OCT 2013} THIS COURT ORDERS that confidential appendices 1, 2, 3 and 5 to the Report be and are hereby sealed pending further Order of this Court.

REGISTRAR

GREFFIER

ENTERED AT / INSCRIT À TORONTO
CN / POCHÉ NO
LE / DANS LE REGISTRE NO

OCT 29 2013



CALLIDUS CAPITAL CORPORATION
Applicant

-and- XCHANGE TECHNOLOGY GROUP LLC
Respondents

Court File No. CV-13-10310-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
PROCEEDING COMMENCED AT
TORONTO

ORDER

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Lawyers for the applicant

Appendix “B”

**First Report of
Duff & Phelps Canada Restructuring Inc.
as Receiver of
Xchange Technology Group LLC,
IT Xchange Inc., IT Xchange Corp.,
BlueRange Technology Corp.,
BlueRange Technology Inc.,
IT Xchange Financial Services LLC and
Partstock Computer LLC**

November 19, 2013

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COURT FILE NO: CV-13-10310-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

CALLIDUS CAPITAL CORPORATION

APPLICANT

- AND -

**XCHANGE TECHNOLOGY GROUP LLC, IT XCHANGE INC.,
IT XCHANGE CORP., BLUERANGE TECHNOLOGY CORP.,
BLUERANGE TECHNOLOGY INC., IT XCHANGE FINANCIAL SERVICES LLC AND
PARTSTOCK COMPUTER LLC**

RESPONDENTS

**FIRST REPORT OF
DUFF & PHELPS CANADA RESTRUCTURING INC.
AS RECEIVER**

NOVEMBER 19, 2013

1.0 Introduction

1. This report ("Report") is filed by Duff & Phelps Canada Restructuring Inc. ("D&P") in its capacity as receiver ("Receiver") of the property, assets and undertaking of Xchange Technology Group LLC, IT Xchange Inc., IT Xchange Corp., BlueRange Technology Corp., BlueRange Technology Inc., IT Xchange Financial Services LLC and Partstock Computer LLC (collectively, the "XTG Debtors").
2. The XTG Debtors have numerous foreign affiliates that are not subject to these proceedings. They are: IT Xchange Limited (UK); IT Xchange Japan LLC (Japan); Hire Information Technology Ltd. (UK); Xchange Technology Rentals Ltd. (UK); IT Xchange Macao Commercial Offshore Ltd. (Macao); IT Xchange Pty Ltd. (Australia); and Xchange Technology GmbH (Germany) (collectively, the "Foreign Affiliates" and together with the XTG Debtors, referred to as the "XTG Group"). A corporate organizational chart is provided in Section 2 below.
3. Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "Court") made on October 29, 2013 (the "Receivership Order"), D&P was appointed Receiver. A copy of the Receivership Order and the Endorsement of the Honourable Justice Morawetz is attached as Appendix "A".

-
4. On October 30, 2013, the Receiver, as Foreign Representative, commenced proceedings in the United States Bankruptcy Court for the District of Delaware (“US Court”) seeking recognition of the Canadian receivership proceeding as a foreign non-main proceeding under Chapter 15 of the *US Bankruptcy Code*. On October 30, 2013, the US Court entered an order granting provisional relief in aid of the Canadian proceeding, a copy of which is attached as Appendix “B”.
 5. The purpose of these proceedings is to complete a sale transaction for substantially all of the XTG Debtors’ business and assets through a Court supervised sale process (“Sale Process”).

1.1 Purposes of this Report

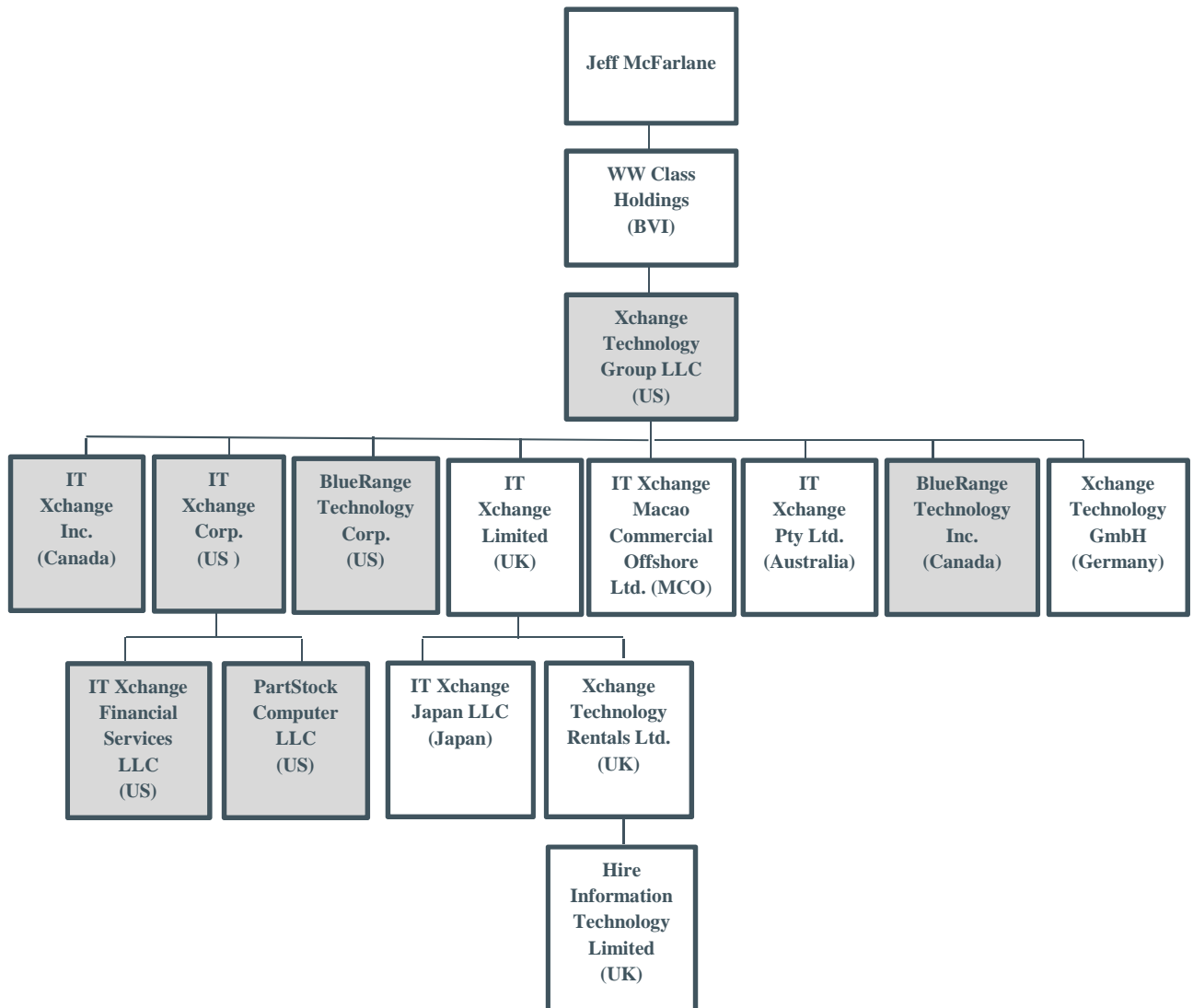
1. The purposes of this report are to:
 - a) Provide background information about the XTG Group;
 - b) Summarize the results of the Sale Process carried out by the Receiver in accordance with the Receivership Order;
 - c) Summarize a transaction (the “Transaction”) between the Receiver and 2393134 Ontario Inc. (the “Purchaser”), an entity incorporated by Callidus Capital Corporation (“Callidus”), the senior secured creditor of the XTG Debtors and the “stalking horse” bidder in the Sale Process, which contemplates the sale to the Purchaser or its nominee(s) of substantially all of the XTG Debtors’ business and assets (the “Purchased Assets”) pursuant to an Asset Purchase Agreement dated October 25, 2013 between the Receiver and the Purchaser (the “Stalking Horse Agreement”);
 - d) Summarize an issue involving Devang Shah (“Shah”), a former Account Executive in the “Partstock” division of the XTG Debtors, in connection with a Non-Disclosure and Non-Solicitation Agreement dated May 1, 2009 between the XTG Debtors and Shah (the “NDSA”);
 - e) Provide an overview of the Receiver’s activities since the commencement of these proceedings; and
 - f) Recommend that this Honourable Court issue an Order vesting title in and to the Purchased Assets in the Purchaser or its nominee(s) free and clear of all liens, claims and encumbrances (the “Vesting Order”).

1.2 Currency

1. All currency references in this Report are to US dollars unless otherwise specified.

2.0 Background Information

1. XTG Group was founded in 1996 in Ontario by Jeff McFarlane (“McFarlane”). XTG Group’s corporate organizational chart is as follows (the XTG Debtors are shaded):



2. XTG Group is a supplier of information technology (“IT”) products with operations in Canada, the United States, the United Kingdom, Germany, Australia, Macao and Japan. XTG Group also provides IT rental assets and programs, including servers, storage devices, laptops and desktop computers.

-
3. XTG Group's Canadian and US head offices are located in Oakville, Ontario and Morrisville, North Carolina, respectively. These facilities are leased, as are the other eight North American facilities from which the XTG Debtors currently operate. These other facilities are located in Richmond Hill, Ontario, Minneapolis, Georgia, Washington, Maine, Illinois, Connecticut and California.
 4. At the commencement of the receivership proceedings, XTG Group employed approximately 260 individuals globally. There are presently approximately 242 employees, including 53 in Canada and 97 in the US.
 5. XTG Group's workforce is not unionized; it does not maintain any employee pension plans.
 6. Further background information about XTG Group is provided in the Report of the Proposed Receiver dated October 25, 2013 ("Report of the Proposed Receiver"), a copy of which is attached as Appendix "C", without appendices.

3.0 Sale Process

3.1 Sale Process Overview

1. The Report of the Proposed Receiver provides details of the XTG Group's pre-filing activities to attempt to refinance its business. This included two extensive refinancing processes: one conducted by Canaccord Genuity Corporation ("Canaccord Genuity") and one by KPMG Corporate Finance Inc. ("KPMG"). The targets contacted during the refinancing processes included certain parties that would have had a strategic interest in XTG Group.
2. Paragraph 4 of the Receivership Order authorized and directed the Receiver to accept the Stalking Horse Agreement subject to a Superior Bid (as defined in the Receivership Order) resulting from the Sale Process submitted on or before the bid deadline of November 19, 2013 (the "Bid Deadline").
3. The Sale Process was expedited for four principal reasons: a) the breadth and duration of the pre-filing marketing efforts to identify a party to refinance the XTG Debtors; b) the inability to generate an offer from the refinancing efforts; c) the distressed state of the business; and d) the need to quickly stabilize the business to prevent erosion in stakeholder confidence.
4. Immediately following the granting of the Receivership Order, the Receiver commenced the Sale Process in accordance with the Receivership Order, as follows:
 - The Receiver distributed an interest solicitation letter detailing the acquisition opportunity ("Teaser"). The Teaser included the Receiver's recommendation that bidders submit their offers substantially in the form of the Stalking Horse Agreement;

-
- The Teaser was circulated to a list of 88 prospective purchasers developed by the Receiver (the “Buyers List”). The Buyers List was comprised of 30 strategic parties and 58 financial parties, including parties that were previously identified and approached by Canaccord Genuity and/or KPMG. (Further details on the Canaccord Genuity and KPMG processes, including the results thereof, are detailed in the Report of the Proposed Receiver.);
 - Attached to the Teaser was a form of confidentiality agreement (“CA”) that interested parties were required to sign in order to obtain a copy of the XTG Debtors’ confidential information memorandum (“CIM”) and to access an online data room established by the Receiver;
 - The data room established by the Receiver contained historical and projected financial information and other information, including employee data, occupancy leases, supplier and customer information and certain contracts and agreements. Copies of the Stalking Horse Agreement and the CIM were also included in the data room; and
 - The Receiver facilitated due diligence requests from interested parties.

3.2 Sale Process Results

1. The results of the Sale Process are summarized as follows:
 - Three parties executed the CA and were provided access to the data room; and
 - No offers were submitted on or prior to the Bid Deadline.
2. On November 19, 2013, the Receiver advised Callidus that it was the “successful bidder” and that the Receiver would promptly file motion materials to apply for the Vesting Order contemplated by Paragraph 4 of the Receivership Order.

4.0 The Transaction

1. The Transaction was detailed in the Report of the Proposed Receiver and is summarized as follows:
 - Purchased Assets: Substantially all of XTG Debtors’ business and assets, including the shares of the Foreign Affiliates. The most significant excluded assets are the real property leases for the leased premises in Minneapolis, Minnesota and Oakville, Ontario. The XTG Debtors intend to exit these facilities.

-
- Purchase Price: To be paid by credit bid and calculated as follows: Callidus debt on closing less \$3 million, plus priority payables. As at the date of this Report, the purchase price would be approximately \$35 million.
 - Assumed Obligations: Purchaser to assume all obligations related to transferred employees, obligations under assumed contracts, priming claims (unless paid in full on or prior to closing) and post-filing obligations incurred from operating the business.
 - Employees: Purchaser intends to offer employment to substantially all of the existing employees, other than the vast majority of the employees of the Partstock business unit, which is in the process of transitioning from Minneapolis to North Carolina, and the BlueRange business unit, which is in the process of being wound down.
 - Representations and warranties: Consistent with insolvency transactions, i.e. to be completed on an “as is, where is” basis without material representations and warranties.
 - Closing: Subject to obtaining the Vesting Order from this Court on November 22, 2013 and the US Court on November 25, 2013, the Receiver expects the Transaction to close in December, 2013.
 - Conditions: Only material condition precedent to closing is approval and issuance of a Vesting Order by this Honourable Court and the US Court. A copy of the Stalking Horse Agreement is attached as Appendix “D”.
 - Transition Services Agreement (“TSA”): To provide for a seamless transition of the XTG Debtors’ business to the Purchaser, the Stalking Horse Agreement contemplates that the Purchaser and the Receiver will enter into a TSA. The TSA will contemplate that, *inter alia*, during the transition period:
 - i. The XTG Debtors will continue to employ those employees who are not hired by the Purchaser at closing until such employees are terminated by the Receiver on behalf of the XTG Debtors in accordance with the Receivership Order;
 - ii. The Receiver will continue to occupy, for use by the Purchaser, the XTG Debtors’ leased premises in Minneapolis and Oakville until such time as those leased premises are no longer required, following which those leases will be disclaimed by the Receiver; and

-
- iii. During the transition period, the Purchaser will reimburse the Receiver for all costs incurred by the XTG Debtors in connection with the TSA, including employee costs and rent. The Purchaser is also to indemnify the Receiver for all expenses and liabilities of the Receiver resulting from the Purchaser's actions and/or omissions during the transition period.

4.1 Recommendation

1. The basis for the Receiver's support of the Transaction was set out in the Report of the Proposed Receiver. The Receiver recommends that the Court issue the Vesting Order for similar reasons, including:
 - In the Receiver's view, the Sale Process was commercially reasonable in the circumstances. It was carried out in accordance with the Court-approved Sale Process;
 - Further marketing efforts are unlikely to result in a superior transaction and any delay could jeopardize the ongoing operations of the XTG Debtors;
 - Absent the closing of the Transaction, there would not be funding available to continue the XTG Debtors' operations. A transaction must be completed promptly in order for the business to continue to operate on a going-concern basis. The Transaction also eliminates the uncertainty regarding the status of the business, operations and viability of the XTG Debtors;
 - The Transaction contemplates the continuation of the XTG Debtors' operations and preserves employment for approximately 230 employees of the XTG Group; and
 - The Transaction provides for the greatest recovery available in the circumstances – no other offers were submitted under the Sale Process and the value of the Transaction significantly exceeds the liquidation value of the XTG Debtors' assets. Accordingly, the Receiver believes the Transaction is in the best interests of all relevant stakeholders.
2. The proposed form of Vesting Order contemplates that a Receiver's Certificate will be delivered to the Purchaser on the closing of the Transaction and subsequently filed with the Court, which will, *inter alia*, confirm the names of the entities in which the Purchased Assets have vested. The Receiver believes this provision is required as the organizational structure has not yet been finalized.
3. Based on the foregoing, the Receiver respectfully recommends that this Court grant the proposed Vesting Order.

5.0 Non-Disclosure and Non-Solicitation Agreement

1. The XTG Debtors' restructuring plan contemplates transitioning the Partstock business from its location in Minneapolis to its location in North Carolina. This transition resulted in the XTG Debtors terminating the employment of five members of Partstock's senior management on October 28, 2013.
2. On May 1, 2009, Shah entered into the NDSA, pursuant to which he is prohibited from, *inter alia*, direct and indirect customer solicitation for a period of 12 months following his last day of employment with the XTG Debtors. Until his termination on October 28, 2013, Shah was an Account Executive with frequent contact with customers of the Partstock business unit.
3. The Receiver understands that Shah violated the NDSA prior to his termination by actively soliciting Partstock customers and sending them to a competitor by the name of FireFly Computers LLC, which is non-arm's length to him. In addition, since October 28, 2013, XTG Debtors' Management has advised the Receiver that Shah has continued to violate the NDSA and certain terms of the Receivership Order by continuing to solicit customers of the XTG Debtors.
4. Shah claims, among other things, that the NDSA is unenforceable and that an amendment to the NDSA was entered into on August 3, 2013 (the "Amendment"), pursuant to which the term of the NDSA was reduced from 12 months to two months.
5. The Receiver notes that the Amendment was executed by McFarlane, on behalf of the XTG Debtors, at a time when he did not have authority to bind the XTG Debtors, which the Receiver is advised by management of the XTG Debtors was known or ought to have been known to Shah at that time. McFarlane and Callidus entered into a Withdrawal Agreement dated June 6, 2013 requiring McFarlane to relinquish his management and executive authority (the "Withdrawal Agreement"). Pursuant to the Withdrawal Agreement, the executive and management authority over XTG Group was delegated at that time to Alan Rupp, XTG Group's Chief Financial Officer.
6. In respect of this dispute, the Receiver's counsel and Shah exchanged correspondence dated November 4, 2013, November 7, 2013, November 11, 2013 and November 14, 2013. Copies of this correspondence are attached as Appendix "E".
7. As noted in the correspondence, the Receiver has advised Shah that if he continues to violate the NDSA and/or the Receivership Order, the Receiver intends to seek injunctive or other relief against him.

6.0 Overview of the Receiver's Activities

1. An overview of the Receiver's activities since the date of its appointment is as follows:
 - Carrying out the Receiver's duties and responsibilities in accordance with the Receivership Order;
 - Attending daily at the XTG Debtors' premises in Morrisville, North Carolina and Oakville, Ontario;
 - Attending at the XTG Debtors' premises in Minneapolis, Minnesota on October 29 and 30, 2013 in order to assist the XTG Debtors to implement its transition plan;
 - Corresponding extensively with legal counsel concerning issues with respect to the directorships of the Foreign Affiliates and executing shareholders resolutions in respect thereof;
 - Corresponding with HSBC Bank Canada ("HSBC") in order to remove a "block" on certain bank accounts of the XTG Debtors that was implemented by HSBC prior to the commencement of the receivership proceedings;
 - Assisting the XTG Debtors to prepare a communication strategy that was implemented at the commencement of these proceedings;
 - Reviewing on a daily basis all transactions from the XTG Debtors' bank accounts;
 - Reviewing the XTG Debtors' funding requests submitted to Callidus;
 - Reviewing the XTG Debtors' post-filing purchase orders;
 - Reviewing post-filing disbursements;
 - Assisting the XTG Debtors to compile certain information required for the filing, including creditor listings and schedules to the Stalking Horse Agreement;
 - Attending and participating, either in person or by conference call, at each employee meeting convened on October 29, 2013 and October 30, 2013 for the purpose of explaining the implications of the receivership proceedings to the XTG Group's worldwide employee base;
 - Carrying out the Receiver's statutory obligations, including drafting and filing the Receiver's notice and statement in accordance with subsections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act*;

-
- Carrying out the Sale Process;
 - Drafting Sale Process materials, including the Teaser, CA and Buyers List;
 - Corresponding with prospective purchasers over the course of the Sale Process, including following up with the parties on the Buyers List in order to confirm their interest, if any;
 - Providing prospective purchasers with access to the data room and facilitating diligence, as required;
 - Assisting the XTG Debtors to prepare financial projections under various scenarios for the period ending December 31, 2014;
 - Corresponding with certain suppliers of the XTG Debtors regarding the supply of goods and services during the receivership proceedings and arranging for continuity of supply with certain suppliers who discontinued service at the outset, including Tech Data Canada Corp. and Federal Express;
 - Corresponding with certain of the XTG Debtors' customers, as required;
 - Dealing with legal counsel in connection with the NDSA breaches detailed in this Report;
 - Corresponding extensively with the Receiver's Canadian and US legal counsel and legal counsel to Callidus;
 - Drafting this Report; and
 - Other matters pertaining to the administration of this mandate.

7.0 Conclusion and Recommendation

1. Based on the foregoing, the Receiver respectfully recommends that this Honourable Court make an order 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 RECEIVER OF XCHANGE TECHNOLOGY GROUP LLC,
IT XCHANGE INC., IT XCHANGE CORP., BLUERANGE TECHNOLOGY CORP.,
BLUERANGE TECHNOLOGY INC., IT XCHANGE FINANCIAL SERVICES LLC AND
PARTSTOCK COMPUTER LLC AND NOT IN ITS PERSONAL CAPACITY**

Appendix “C”

WITH PREJUDICE

November 26, 2013

VIA E-MAIL

Paul D. Guy
Partner
T: 416-947-5045
pguy@weirfoulds.com

File 16158.00001

John Leslie
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Toronto, ON M5L 1G4

Harvey Chaiton
Chaitons LLP
5000 Yonge Street
10th Floor
Toronto, ON M2N 7E9

Dear Counsel:

Re: Callidus Capital Corporation v. Xchange Technology Group LLC et al.

Further to our telephone conversation this morning, I have received instructions regarding your client's continued occupation of Mr. McFarlane's building located at 2590 Sheridan Garden Drive, Oakville, Ontario ("**Premises**").

As discussed, the Premises could be demised into two separate spaces: one that is approximately 51,000 square feet and entirely warehouse space ("**Large Space**"), and the other comprising roughly 8,500 square feet of warehouse space plus approximately 1,500 square feet on a second floor of mezzanine office space ("**Small Space**").

Mr. McFarlane is prepared to proceed on the following basis:

1. Callidus will vacate the Small Space by the end of the month (the warehouse is currently vacant and only some of the office space is being used), leaving all fixtures and leasehold improvements in place and all furniture behind.
2. Callidus will continue to occupy the Large Space, will pay its *pro rata* share of the rent in accordance with the lease made as of January 16, 2008 between Mr. McFarlane and IT Xchange Inc., as amended ("**Lease**"), and will remain subject to the Lease's terms and conditions (to the extent they are not incompatible with the terms of this agreement), including the increased rent due commencing January 2014 pursuant to the First Amendment to the Lease.

3. Mr. McFarlane will pay for the costs of demising the space.
4. Mr. McFarlane, or those permitted by him, may have exclusive use of the Premises' east parking lot.
5. The Small Space only has a drive up loading dock – nothing at truck level. Mr. McFarlane, or those permitted by him, will need occasional, free access to the loading docks for the Large Space to enable him to move material into the Small Space.
6. Callidus will continue to pay all utility costs and property taxes associated with the Premises.
7. Callidus will vacate the Large Space on or before February 15, 2014.
8. The parties agree to negotiate the removal of any fixtures located in the Large Space.

This proposal is a fair compromise: it would enable Callidus to continue to occupy the Large Space for an additional two-and-a-half months, and pay less rent, while at the same time permitting Mr. McFarlane to use the Small Space, which is not and will not be used by Callidus, thus mitigating the damages that Mr. McFarlane would otherwise incur in renting short term space pending Callidus' exit.

Please advise as soon as possible whether these terms are agreeable to your client. I would be pleased to discuss them in more detail at your convenience.

Yours truly,

A handwritten signature in dark ink, appearing to read 'Paul D. Guy', with a stylized flourish at the end.

Paul D. Guy

DELIVERED VIA EMAIL

December 2, 2013

WeirFoulds LLP
4100 – 66 Wellington Street West
Toronto Dominion Centre
Toronto, ON M5K 1B7

Attention: Paul Guy

Dear Mr. Guy:

**Re: IT Xchange Inc. (the “Company”)
2590 Sheridan Garden Drive, Oakville, Ontario (the “Premises”)**

Duff & Phelps Canada Restructuring Inc. (“D&P”) was appointed the Receiver of the Company pursuant to an order issued by the Ontario Superior Court of Justice (“Court”) on October 29, 2013 (“Order”). This letter responds to your letter dated November 26, 2013 regarding the Premises.

Pursuant to the terms of the Order, the Receiver is entitled to occupy the Premises. Rent for the Premises has been paid from October 29, 2013 through December 15, 2013, and all rent and occupancy costs that the Company is required to pay under the lease will be paid until the Premises are vacated.

As you are aware, a sale transaction (“Transaction”) between the Receiver and an entity incorporated by Callidus Capital Corporation (the “Purchaser”) was approved by the Court and the US Bankruptcy Court for the District of Delaware on November 22, 2013 and November 25, 2013, respectively. We are hopeful that the Transaction will close in December, although the closing date is yet to be determined.

The Receiver understands that the Purchaser has commenced a process to look for a new premises. A commercial real estate brokerage firm has been retained to identify a new location. This process is ongoing - management will be in Toronto on December 2, 2013 through December 4, 2013 to tour several potential locations. Given the time of year and the upcoming holidays, it is unclear if a location will be identified prior to the end of December, and if so, whether a lease can be negotiated by that time.

Based on the foregoing, responses to the eight points listed in your November 26th letter are as follows:

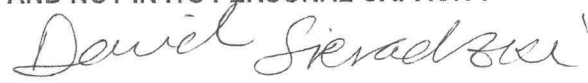
1. The Receiver is willing to work with your client so that he can use the Small Space (as defined in your November 26th letter) as soon as possible.

2. Rent and occupancy costs will continue to be paid in accordance with the existing lease for the Premises, subject to a pro-rata reduction should the Small Space be vacated by the Company.
3. No comment.
4. The Receiver cannot agree to provide Mr. McFarlane with exclusive use of the Premises' east parking lot. Those spaces are presently used by the Company's employees and are required by them. We are confident that an arrangement can be made to accommodate all reasonable parking requirements.
5. Should the Premises be divided, the Receiver is agreeable to providing occasional access to the loading docks at the Large Space (as defined in your November 26th letter) to enable Mr. McFarlane to move material into the Small Space. The Receiver would require reasonable notice for such access (to be discussed) and for this access to be supervised by the Receiver and/or Company personnel during business hours. These activities cannot interfere with the Company's or the Purchaser's operations, as the case may be. The Purchaser is also agreeable to this arrangement.
6. Should the Premises be divided, the Receiver believes that utility costs and property taxes should be apportioned accordingly.
7. The Receiver cannot commit at this time to vacating the Large Space by February 15, 2014; however, all efforts are being made to vacate the space expeditiously and we would be pleased to give you status reports as to our expected vacancy date.
8. The Receiver agrees to negotiate the removal of any fixtures located in the Large Space but believes it is not necessary to do this at this time.

We would be pleased to schedule a meeting or call to discuss an arrangement that meets the objectives of the parties involved. Please advise as to your availability for a discussion.

Yours very truly,

**DUFF & PHELPS CANADA RESTRUCTURING INC.
IN ITS CAPACITY AS COURT-APPOINTED RECEIVER OF
IT XCHANGE INC.
AND NOT IN ITS PERSONAL CAPACITY**


Per: David Sieradzki */RK*

DS:rk

c.c. Alan Rupp (I.T. Xchange Inc.)
Harvey Chaiton (Chaitons LLP)
John Leslie (Dickinson Wright LLP)

WITH PREJUDICE

December 3, 2013

Paul D. Guy
Partner
T: 416-947-5045
pguy@weirfoulds.com

File 16158.00001

VIA E-MAIL

John Leslie
Dickinson Wright LLP
199 Bay Street, Suite 2200
P.O. Box 447 Commerce Court Postal Station
Toronto, ON M5L 1G4

Harvey Chaiton
Chaitons LLP
5000 Yonge Street
10th Floor
Toronto, ON M2N 7E9

Dear Counsel:

**Re: Callidus Capital Corporation v. Xchange Technology Group LLC et al.
2590 Sheridan Garden Drive, Oakville, Ontario ("Premises")**

I write in response to the letter of Duff & Phelps Canada Restructuring Inc. ("**Receiver**") dated December 2, 2013 and further to my letter of November 26, 2013.

Given the respective positions outlined in these letters, my client believes that an agreement can be reached on the following terms (following the 8-point format followed in both of our respective letters):

1. The Receiver and Callidus¹ will vacate the Small Space (as that term is defined in my letter of November 26, 2013) as soon as possible, but by no later than December 9, 2013, leaving all fixture and leasehold improvements in place and all furniture behind.
2. The Receiver and/or Callidus will continue to occupy the Large Space, will pay its *pro rata* share of the rent in accordance with the lease made as of January 16, 2008 between Mr. McFarlane and IT Xchange Inc., as amended ("**Lease**"), and will remain subject to the Lease's terms and conditions (to the extent they are not incompatible with the terms of this agreement), including the increased rent due commencing January 2014 pursuant to the First Amendment to the Lease.

¹ References to "Callidus" include both Callidus Capital Corporation and the entity incorporated by Callidus Capital Corporation to purchase the debtors' assets.

3. Mr. McFarlane will pay for the costs of demising the space.
4. The parties will accommodate each other's reasonable parking requirements. For greater clarity, at least ten parking spaces at the Premises will be available to Mr. McFarlane (and/or those permitted by Mr. McFarlane to use them).
5. Should the Premises be divided, the Receiver/Callidus will provide occasional access to the loading docks at the Large Space (as that term is defined in my letter of November 26, 2013) to enable Mr. McFarlane, or those permitted by him, to move material into or out of the Small Space. This access will be on reasonable notice, during business hours, and may be supervised by Receiver and/or Callidus personnel, if desired.
6. Mr. McFarlane's use of the Small Space will be minimal during the first few months. It is believed that the utility usage by all parties will be minimal. The Receiver will continue to pay all utility costs and property taxes associated with the Premises.
7. Rent from December 16, 2013 to February 15, 2013 will be paid by the Receiver to Mr. McFarlane on December 16, 2013. The Receiver/Callidus shall thereafter have the right to occupy the Large Space on a month-to-month basis with the option to terminate its occupancy on 30 days' notice at the end of a rental period.
8. The parties agree to negotiate the removal of any fixtures located in the Large Space at a later date.

A small number of miscellaneous points:

- A. All rent payments shall be remitted to an account of Mr. McFarlane's designation going forward, and not to BDC directly.
- B. Mr. McFarlane will need access to the point at which utilities enter the Premises in order to implement a second internet connection and run wiring to the Small Space.
- C. The Small Space will be designated "Unit 2" for the purpose of inbound mail and parcels.

- D. Mr. McFarlane is still awaiting confirmation from the Receiver that the necessary CRA Remittances have been made and NR6 form has been filed in connection with his status as a non-resident landlord.

Please advise as soon as possible whether the above is agreeable. If it is, my client will require a signed agreement by both the Receiver and Callidus so that this agreement can be incorporated into an order of Justice Morawetz.

Yours truly,



Paul D. Guy

c: David Sieradzki (Duff & Phelps Canada Restructuring Inc.)

WITH PREJUDICE

December 6, 2013

Paul D. Guy
Partner
T: 416-947-5045
pguy@weirfoulds.com

File 16158.00001

VIA E-MAIL

John Leslie
Dickinson Wright LLP
199 Bay Street, Suite 2200
P.O. Box 447 Commerce Court Postal Station
Toronto, ON M5L 1G4

Harvey Chaiton
Chaitons LLP
5000 Yonge Street
10th Floor
Toronto, ON M2N 7E9

Dear Counsel:

**Re: Callidus Capital Corporation v. Xchange Technology Group LLC et al.
2590 Sheridan Garden Drive, Oakville, Ontario ("Premises")**

My client is agreeable to settling the issue of the Receiver/Callidus' continued occupation of the Premises on the following terms:

1. The Receiver and Callidus¹ will vacate the Small Space (as represented in the floor plan attached to this letter as Schedule "A") no later than December 15, 2013. The Parties agree that before that date, Mr. McFarlane will conduct a walkthrough of the Premises with the Receiver to identify fixtures, chattels and leasehold improvements and discuss how the parties will address these moving forward (both with respect to the Large Space and the Small Space). Any disputes that cannot be resolved between the parties will be brought before Justice Morawetz for adjudication.
2. The Receiver and/or Callidus will continue to occupy the Large Space (as represented in the floor plan attached as Schedule "A" to this letter), will pay its *pro rata* share (83.6%) of the rent in accordance with the lease made as of January 16, 2008 between Mr. McFarlane and IT Xchange Inc., as amended ("**Lease**"), and will remain subject to the Lease's terms and conditions (to the extent they are not incompatible with the terms of this agreement), including the

¹ References to "Callidus" include both Callidus Capital Corporation and the entity incorporated by Callidus Capital Corporation to purchase the debtors' assets.

increased rent due commencing January 2014 pursuant to the First Amendment to the Lease.

3. Mr. McFarlane will pay for the costs of demising the Premises.
4. The parties will accommodate each other's reasonable parking requirements. For greater clarity, at least ten parking spaces at the Premises will be available to Mr. McFarlane (and/or those permitted by Mr. McFarlane to use them).
5. The Receiver/Callidus will provide occasional access to the loading docks and the Large Space to enable Mr. McFarlane, or those permitted by him, to move material into or out of the Small Space. This access will be on reasonable notice, during business hours, and may be supervised by Receiver and/or Callidus personnel, if desired.
6. Mr. McFarlane will be responsible for his *pro rata* share of the electricity bill based on square footage (16.4 percent representing the Small Space). All other utility costs and property taxes associated with the Premises will continue to be the responsibility of the Receiver. The Receiver will confirm in writing that all property taxes payable to the Town of Oakville for calendar 2013 have been remitted to the Town by December 15, 2013. Using the 2013 property tax bill as a baseline, the Receiver shall pay to the Landlord one and one half month's property tax payment on December 16, 2013 and going forward with every rent payment the Receiver shall pay 1/12 of the annual property tax with the rent.
7. Rent from December 16, 2013 to February 15, 2014 will be paid by the Receiver to Mr. McFarlane on December 16, 2013. The Receiver/Callidus shall thereafter have the right to occupy the Large Space on a month-to-month basis with the option to terminate its occupancy on the 15th day of any month provided it has given Mr. McFarlane a minimum of 30 days' written notice. All rent payments shall be remitted to the following account of Mr. McFarlane's:

HSBC Bank
4550 Hurontario Street
Mississauga, ON L5R 4E4
Routing: 001610052
Account Number: 052-253236-306

8. Mr. McFarlane will be permitted access to the point at which utilities enter the Premises in order to implement a second internet connection, install a network switch and run wiring to the Small Space.
9. The Small Space will be designated "Unit 2" for the purpose of inbound mail and parcels.

Please confirm that the above is agreeable by signing this letter back to me as soon as possible.

Yours truly,



Paul D. Guy

c: David Sieradzki (Duff & Phelps Canada Restructuring Inc.)

CALLIDUS CAPITAL CORPORATION

Date: _____

Per:
Title:
(I have authority to bind the corporation)

**DUFF & PHELPS CANADA
RESTRUCTURING INC.,**
in its capacity as Court-appointed Receiver
over the assets and undertakings of I.T.
Xchange Inc., and not in its personal capacity

Date: _____

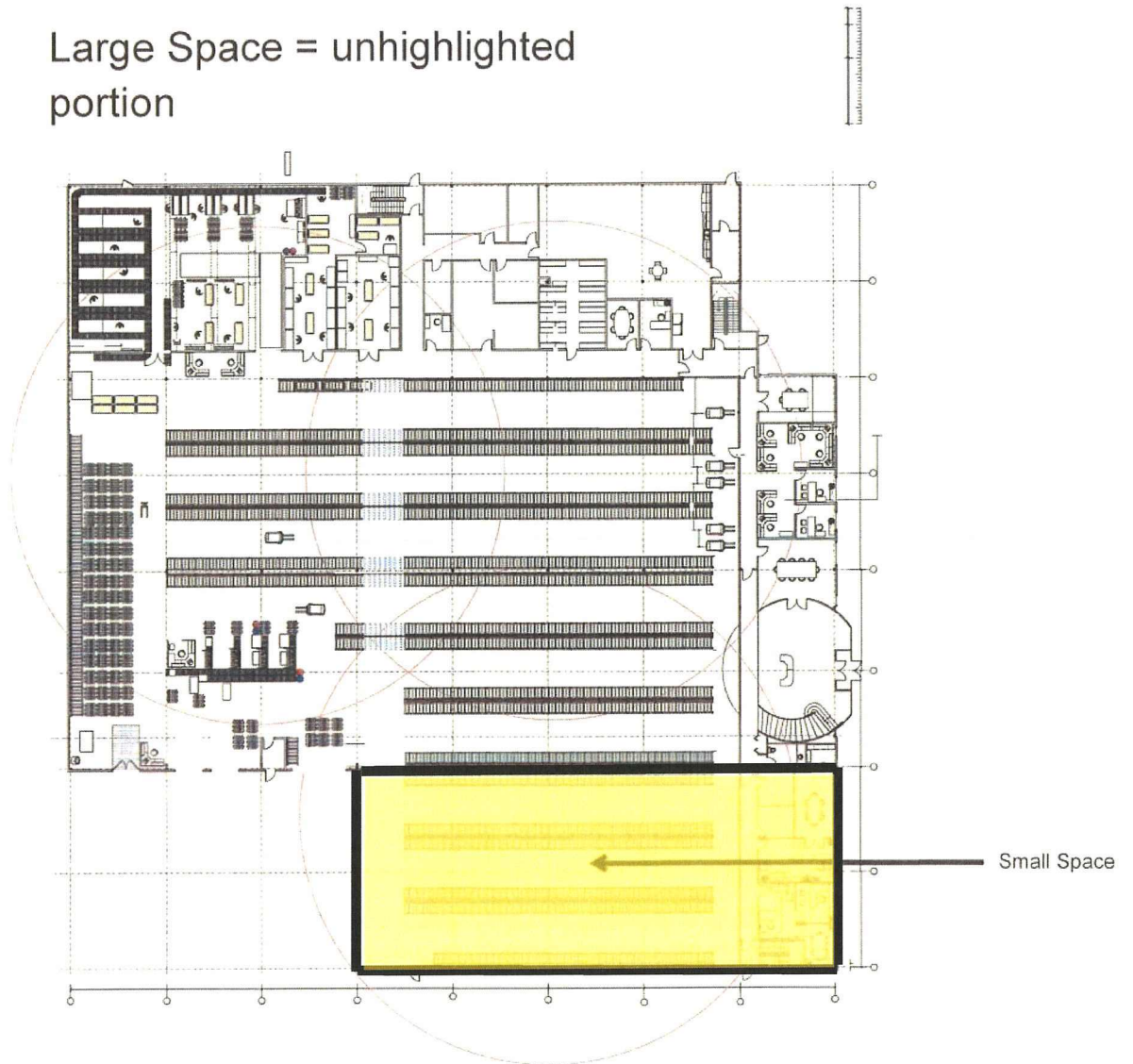
Per:
Title:
(I have authority to bind the corporation)

Schedule "A"

Small Space = highlighted in yellow

Large Space = unhighlighted portion

GROUND FLOOR



Small Space = highlighted in yellow

Large Space = unhighlighted portion

UPPER FLOOR

