Raymond Chabot Inc.

An affiliate of
Raymond Chabot Grant Thornton LLP

CANADA
DISTRICT OF QUÉBEC

SUPERIOR COURT
Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*, R.S.C., c. C-36, as amended)

DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-053313-173
OFFICE NO.: 334612-001

IN THE MATTER OF THE PLAN OF ARRANGEMENT OR COMPROMISE OF:

JAVA-U GROUP INC., JAVA-U FOOD SERVICES INC., CAFÉ JAVA-U INC., JAVA-U RTA INC.

Legal persons incorporated under the laws of Canada, having their principal executive offices at 400-4098 Ste-Catherine Street West, in the city of Westmount, in the province of Québec, H3Z 1P2.

Hereinafter referred to as "Java-U", the "Debtors" or the "Company"

-and-

RAYMOND CHABOT INC.,
Jean Gagnon, CPA, CA, CIRP, LIT

Hereinafter referred to as the "Monitor"

REPORT OF THE MONITOR ON JAVA-U's BUSINESS AND FINANCIAL AFFAIRS

PREAMBLE

Following the issuance of the Initial Order dated October 6, 2017 (the "**Initial Order**"), the undersigned respectfully submits to this Court its report on the state of affairs and finances of the Debtors. This report is made in the context of the third extension of the Stay Period, to allow for, *inter alia,* the filing of a plan of compromise and arrangement by the Debtors (the "**Application**").

Signed in Montreal on February 22, 2018

RAYMOND CHABOT INC.
Monitor

Jean Gagnon, CPA, CA, CIRP, LIT

1. INTRODUCTION

All capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Initial Order.

Raymond Chabot, in its capacity as monitor to the Debtors, hereby submits its report to the Court regarding the business and financial affairs of the Debtors (this "**Report**").

This Report addresses the following topics:

- Context (Section 2);
- Solicitation Process (Section 3);
- Claims Received (Section 4);
- Analysis of the Statement of Cashflow (Section 5);
- Projected Cashflow (Section 6);
- Extension Sought (Section 7);
- Conclusion (Section 8).

2. CONTEXT

The Debtor Companies

Java-U is a Montreal-based coffee chain, serving coffee and light meals and offering catering services through franchised restaurants in Canada, the UK and the Middle East. It also operates a coffee and food distribution and food processing center located in Montreal, Quebec through its wholly owned subsidiary, which prepares the food served in the various Canadian restaurants forming part of the chain.

The first Java-U coffee shop was opened in 1996 in Montreal, at the corner of Guy and de Maisonneuve streets (at the time, it operated under another corporate entity). Given its success, two additional locations were opened under the same corporate entity in the following years. In 2002, the current shareholders purchased a majority interest in Java-U and continued to develop the coffee chain. Starting in 2007, Java-U began the process of converting its business model into that of a franchise company, as it is today.

At the date hereof, the Java-U chain includes the following locations:

- Ten (10) coffee shops in the greater Montreal area, which are operated by franchisees;
- One (1) coffee shop in Vancouver, which is operated by a franchisee;
- One (1) coffee shop in London, United Kingdom, which is operated by a franchisee;
- Nineteen (19) coffee shops in the Middle East, which are operated by franchisees.

Java-U revenues are mainly derived from franchise royalties and the sale of coffee and food to each of the Canadian franchisees.

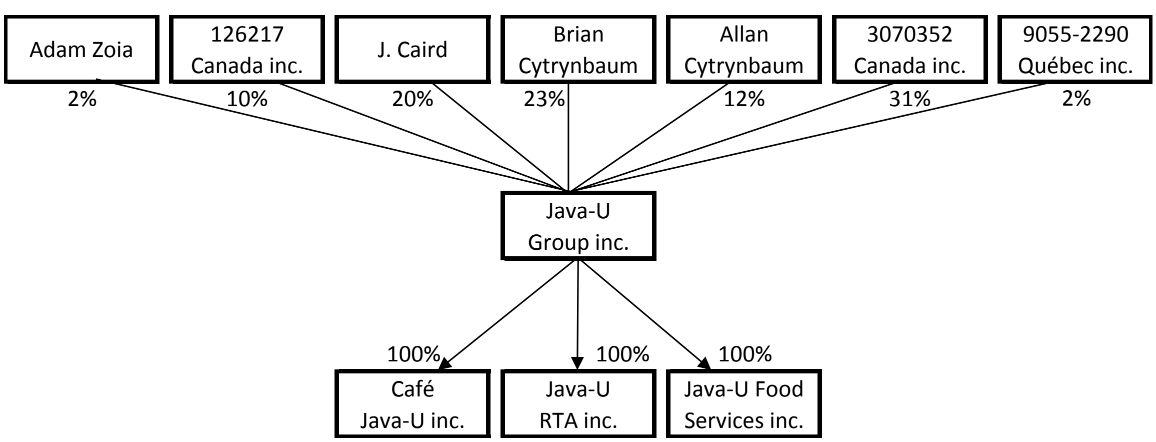
As of the date of this Report, the Company employs approximately 30 employees. According to Management, all salaries, deductions at source and employee remittances are up to date.

Below is a description of the currently active entities forming part of the Java-U group:

- Java-U Group inc. ("**Java-U Group**") is a holding company, which holds 100% of the shares of Java-U Food Services inc. ("**Java-U Services**"), Café Java-U inc. and Java-U RTA Inc. It also acts as franchisor, lessee and sub-lessor under various franchise agreements, lease agreements and sub-lease agreements for some of the chain's locations. It was incorporated on April 16, 2004 under the *Canada Business Corporations Act* ("**CBCA**").
- Java-U Services is wholly owned by Java-U Group, and acts as franchisor, lessee and sub-lessor under various franchise agreements, lease agreements and sub-lease agreements for some of the chain's locations. It owns the equipment of the food distribution and processing facility. It was incorporated on September 30, 2004 under the CBCA.
- Café Java-U inc. is wholly owned by Java-U Group inc., and acts as lessee and sub-lessor under various lease agreements and sub-lease agreements for some of the chain's locations. It is the entity that employs the employees working in the food processing facility and Java-U offices. It was incorporated on July 22, 1996 under provincial legislation.
- Java-U RTA inc. is wholly owned by Java-U Group and acts as lessee under a lease agreement for the location in Toronto, which recently closed. It was incorporated on February 23, 2016 under the CBCA.

Java-U Group also holds the shares in various numbered companies, all of which are inactive at this time and are thus excluded from the table below.

The Debtors' shareholders and the group's active entities are the following:



Franchisees

As at the date hereof, the following are relevant considerations with respect to Java-U's franchisees:

- There are eleven (11) franchised locations in Canada, most of them being run by independent entrepreneurs.
- For seven (7) of these locations, the applicable leases have been entered into between the landlords and the Debtors. Consequently, in the event of a bankruptcy, the landlords could terminate these leases, which would be highly prejudicial to the franchisees.
- It is estimated by Java-U's management ("**Management**") that the Canadian franchisees employ a total of between 150 and 200 employees, being between eight (8) and twenty-five (25) employees per location.

Causes of financial difficulties

Management attributes Java-U's financial difficulties namely to the following:

- Significant increase in competition in the retail coffee-market;
- Significant increase in costs, namely in light of the rise in the value of the US dollar in comparison with the Canadian dollar;
- Failed attempts to diversify its product offering; and
- The purchase by the group of underperforming franchises, for which substantial financial resources were deployed in order to restore operations.

As a result of the above, the Company has incurred significant losses over the past few years. In particular, between 2013 and 2015, Java-U's audited consolidated financial statements show a total net loss of $1.8 million. The 2016 audited consolidated financial statements also show a net loss of $1.6 million.

In an attempt to restore Java-U's profitability, Management has attempted to diversify its product offering by partnering with certain well-known companies such as Natrel, and to minimize its costs by down-sizing and rationalizing its business operations, including reducing the number of corporate-owned locations and its workforce.

Up until now, the Company's operations have been financed primarily through advances from its shareholders and related parties, including Brian Cytrynbaum and 3070352 Canada inc. ("**307**") (i.e. without any financing from a bank or other third-party lender). Such shareholders and related parties are not prepared to make any further advances, given the Company's present financial situation, unless and until the Joint Plan (as defined below) is approved by Java-U's creditors and the Court.

The Monitor further understands that in addition to the above, Java-U and its directors have been involved in various time consuming and expensive litigation proceedings in recent years, which may have served to shift Management's focus away from Java-U's operations, thus compounding the latter's financial difficulties.

3. SOLICITATION PROCESS

Pursuant to the Initial Order, Java-U was authorized by the Court to conduct the Solicitation Process in order to secure one or several offers to either finance the Business going forward or to purchase all or part of the Property, as a going concern. As part of the Solicitation Process, a bid deadline was established on December 1, 2017, at 10:00AM (the "**Bid Deadline**"). The Solicitation Process and the results thereof are discussed in the Monitor's report of December 18, 2017.

At the Bid Deadline, despite the initial indications of interest made in respect of Java-U or the Property, only one offer was submitted to the Monitor, being an offer by 3070352 Canada Inc. ("**307**"), Bryan Cytrynbaum and Allan Cytrynbaum (collectively, the "**Sponsors**") to sponsor a joint plan of arrangement and compromise in respect of the Company which would allow Java-U to continue its operations as a going concern, for the benefit of its franchisees, its nearly 200 employees and other stakeholders, while providing for certain recovery to its creditors (the "**Sponsors' Offer**").

Two (2) other offers were also submitted after the Bid Deadline (the "**Other Offers**"), by parties dealing at arm's length with Java-U namely:

- 9292-8167 Québec inc, which submitted an offer on December 1, 2017 at 7:57 PM to purchase part of the Property, namely that related to five (5) of the locations operated by the Debtors; and
- an importer of coffee that contacted the Monitor on December 28, 2017 (the "**Third Offeror**"), prompting the Monitor to take the following steps, notwithstanding that the Bid Deadline had expired:
    - On January 12, 2018, a non-disclosure agreement was signed and the process of communicating documents relevant to the Solicitation Process to the Third Offeror was commenced;
    - On January 30, 2018, the Third Offeror met with the Monitor to obtain further information about the sale process and the activities of the Debtors;
    - On February 9, 2018, the Third Offeror submitted a duly signed Letter of Intent to purchase substantially all of the Property.

Despite having received the Other Offers after the Bid Deadline, the Monitor, together with the Debtors, reviewed same and determined that the Sponsors' Offer remained the best available offer for Java-U's creditors and stakeholders in the circumstances. Accordingly, the Joint Plan of Arrangement and Compromise that the Debtors intend to file (the "**Joint Plan**"), upon obtaining authorization of the Court, will be based upon the Sponsors' Offer.

4. CLAIMS RECEIVED

As of the date of this Report, the Monitor has received 44 claims pursuant to the *Claims Procedure Order* dated October 6, 2017 (the "**CPO**"), which can be classified as follows:

	Number of claims	Amount claimed	Accepted claims
Secured creditors	4	8 926 692	3 074 042
Unsecured creditors	22	793 178	483 200
Unsecured creditors - Related parties	3	1 023 025	7 412 823
Litigious claims	8	7 195 191	To be determined
Late claims	7	49 257	-
Total	**44**	**17 987 343**	**10 970 065**

Secured creditors:

The Monitor has received Proofs of Claim (as defined in the CPO) from the following creditors alleging secured claims:

1. 307

   307 filed a secured claim against the Debtors in the approximate amount of $8.7 million (excluding the sums advanced by 307 pursuant to the Interim Facility, which are also claimed) (the "**307 Claim**").

   307 is a shareholder of Java-U Group and is controlled by Bryan Cytrynbaum, the principal of the Debtors. 307 is also one of the Sponsors and the Sponsor's Offer contemplates the release of the majority of the 307 Claim as well as the postponement of any remaining balance, if any.

   The Monitor has obtained an independent opinion from its legal advisors on the nature and validity of the 307 Claim, which concluded that advances made to Java-U by 307 after February 19, 2016 were secured claims within the meaning of the CCAA and the CPO. The Monitor has determined that such advances amount to $3,013,778, inclusive of interest.

   The legal opinion provided by the Monitor's advisors also concluded that the remaining portion of the 307 Claim, amounting to approximately $6,389,798, is an unsecured claim.

2. Ford Credit Canada Company ($60,264)

   Ford Credit Canada Company has filed a secured claim against Java-U Services in the amount of $ 60,264.13 in relation to a financed vehicle used by the Debtors for deliveries.

3. Concordia University ($20,125)[1]

   Concordia University has filed secured claims against each of Café Java-U inc. and Java-U Group in the amount of $ 10,062.35 each in relation to unpaid year-end adjustments and electricity consumption pursuant to a lease.

4. Royal Bank of Canada ($108,545)

   Royal Bank of Canada has filed a secured claim against Java-U Services and Java-U Group in the amount of $108,544.83 relating to certain assets acquired by Java-U from an ex-franchisee, 9317-7517 Québec inc., which were encumbered in favor of the Royal Bank of Canada pursuant to a hypothec granted in its favor by said franchisee.

[1] Although two distinct Proofs of Claim were filed, the claims appear to relate to the same dispute.

Unsecured creditors:

The majority of the unsecured claims filed against the Debtors relate to trade payables. The amounts claimed are, for the most part, consistent with those identified on the Creditors' List (as defined in the CPO) and Management has reviewed, and agrees with such amounts.

Litigious claims:

The Monitor has received eight (8) Proofs of Claim that disclose claims that can be characterised as litigious and/or unliquidated:

1. <u>126217 Canada inc. ($2,500,000)</u>

   This claim is based on an action in oppression brought by 126217 Canada Inc. ("**126**") against Java-U Group, Brian Cytrynbaum and Allan Cytrynbaum seeking the reimbursement of a $ 2.5 million equity investment made by 126 in Java-U Group.

   The Monitor has determined that this claim is an "equity claim" within the meaning of the CCAA and will be issuing 126 a notice to that effect.

2. <u>Montreal International Trading and Mohamed Aidibe ($3,084,869)</u>[2]

   This claim is based on an action in damages brought by 9213-0922 Quebec Inc., also known as Montreal International Trading, ("**MIT**") and Mohamed Aidibe against Java-U Services relating to a franchise dispute.

   The Monitor has obtained an independent legal opinion which concluded that this claim should be revised in the amount of $51,842.61.

   MIT and Mr. Aidibe will be receiving notices to that effect.

3. <u>Nicola Spaccucci and Luciano Rossi ($155,619)</u>[3]

   This claim is based on a counter-claim for damages filed by Nicola Spaccucci and Luciano Rossi against Java-U Services relating to a franchise dispute.

   The Monitor is in the process of reviewing this claim.

4. <u>1092 QSW Inc. ($1,286,007)</u>

   This is a claim for alleged damages arising out of the termination of a lease between 1092 QSW Inc. ("**1092**") and Java-U RTA Inc. for a location operated by the Debtors in Toronto, Ontario. This location was closed during the summer of 2017.

   The Monitor is advised that despite the fact that measures were undertaken by 1092 to re-let the leased premises, such premises remain vacant as at the date hereof.

   The Monitor is currently reviewing this claim.

[2] Although two distinct Proofs of Claim were filed, the claims appear to relate to the same dispute.
[3] Although two distinct Proofs of Claim were filed, the claims appear to relate to the same dispute.

5. 9078-7672 Québec inc. ($85,914 and $82,782)

   This is a claim for alleged damages arising out of the termination of a lease between 9078-7672 Québec inc. ("**9078**") and Java-U Services for a location operated by the Debtors in Montreal Quebec. Java-U Group allegedly guaranteed certain obligations of Java-U Services under the applicable lease.

   The Monitor is currently reviewing this claim.

Late claims:

Name of creditor	Date received	Reason for late filing of claim	Amount claimed
Andrew Small	November 15, 2017 6:26 PM	Did not file on time	10 740
B.E. Baron Avocats Inc	November 15, 2017 5:12 PM	Did not file on time	8 655
Euler Hermes North America Insurance Company	January 26, 2018	Not on creditors list	20 049
Marketing Buzz	November 15, 2017 7:42 PM	Did not file on time	3 211
Toronto Hydro	December 13, 2017	Did not file on time	103
Rebox Corp	January 25, 2018	Did not file on time	3 843
Orbo Récompenses	January 22, 2018	Not on creditors list	2 656
Total			**49 257**

The Monitor has received 7 Proofs of Claim that were filed after the Claims Bar Date (as defined in the CPO) (the "**Late Claims**"), which was November 15, 2017 at 5:00 PM.

5. ANALYSIS OF THE STATEMENT OF CASHFLOW

In accordance with the Initial Order, we exercised oversight over the business and financial affairs of the Debtors and obtained all the necessary collaboration.

Below is a comparison of actual and projected changes in cash for the period of December 11, 2017 to February 18, 2018.

Our analysis essentially consisted of enquiry, analytical procedures and discussion related to information supplied by Management. This work does not constitute an audit or review of the financial statements in accordance with generally accepted auditing standards established by CPA Canada or by the American Institute of Certified Public Accountants (AICPA). No audit work has been carried out by us and, consequently, we do not express an opinion on these financial statements.

The analysis of the differences allows us to identify the following findings:

- Sales were slightly higher than projected.
- As a consequence of the higher sales, cash requirements were less than anticipated, and accordingly there was less of a need for the Interim Facility than projected.
- Food purchases were lower than projected due to measures implemented to reduce costs.
- General and administrative expenses were higher than projected and are related to marketing and promotion expenses.

- Restructuring fees were higher than previously estimated, and result from additional work performed by the Monitor and the legal professionals due to the complexity of certain aspects of the file.
- The other differences, including with respect to salaries, are temporary and expected to reverse over time.

DECEMBER 11TH, 2017 TO FEBRUARY 18TH, 2018

Unaudited	Actual	Projected	Variation
Inflows			
Net sales	482 301	448 739	33 562
Temporary financing (DIP)	219 000	270 000	(51 000)
Balance of sale of a franchise	1 716	858	858
	703 017	719 597	(16 580)
Outflows			
Food purchases	216 833	242 658	25 825
Salaries	208 602	166 400	(42 202)
Operating expenses			
Selling	27 205	29 601	2 396
General and administrative	41 273	26 858	(14 415)
Occupation fees			
Rent	18 804	27 900	9 096
Utilities	6 739	7 708	969
Maintenance	7 277	3 462	(3 815)
Sales tax	-	10 000	10 000
Consultant fees / Accounting fees	-	18 000	18 000
Restructuring fees	130 952	115 000	(15 952)
Financial fees	577	6 508	5 930
	658 262	654 095	(4 167)
Cash - Beginning of period	**(45 256)**	**(45 256)**	**-**
Inflows (outflows) for the period	44 755	65 502	(20 747)
Cash - End of period	**(501)**	**20 246**	**(20 747)**

6. PROJECTED CASHFLOW

Management prepared a projected cashflow statement for the 5-week period ending March 18, 2018, which is attached in Appendix I.

These projections have been prepared based on assumptions which reflect the general direction that Management intends to adopt given the financial and economic conditions which, in the opinion of Management, are the most probable. Our compilation was limited to presenting, in the form of a projected cashflow, information provided by Management and evaluating the support for the assumptions or other information underlying the forecast.

Given that this financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variances may be material.

The projections prepared by Management are mainly based on the following assumptions:

- Cash inflows of approximately $255,000 from regular sales and royalties, and from the Interim Facility. Advances under the Interim Facility will be made according to cash requirements;
- Sales and food purchases are based on expected customer traffic, as well as historical revenues and expenses, and consider the recently closed locations;
- There are approximately 30 employees, to be paid on a bi-weekly basis;
- Operating expenses as well as occupation fees are based on historical figures and the existing agreements/contracts;
- Professional fees include restructuring fees as well as legal fees for continuing litigations.

The main risks associated with the projected cashflows include:

- The Debtors' capacity to maintain relationships with the franchisees and suppliers;
- Disbursements are limited to known costs and projections. Additional disbursements will be required depending on the restructuring process. It is understood that such costs, if necessary, will require additional funding.

7. EXTENSION SOUGHT

The third extension of the Stay Period until March 16, 2018 will be beneficial to the Debtors as well as to all stakeholders as it will permit:

- the Debtors, in consultation with the Monitor, to finalize the Joint Plan to be presented to the Debtors' creditors;
- the Monitor, in consultation with the Debtors and its legal counsel, to finalize the review of the claims received, more precisely regarding the Litigious claims; and
- the Debtors, to continue their operations, which is necessary to preserve the value of the Business and the Property and to maintain the viability of the Debtors' franchisees.

8. CONCLUSION

For the reasons set out in this report, it is the recommendation of the Monitor that the Court grants the relief requested in the *Application for the Issuance of an Order Extending the Stay of Proceedings* dated February 21, 2018 and extend the Stay Period to March 16, 2018.

The whole, respectfully submitted by Raymond Chabot Inc., in his capacity as Monitor of the Debtors business and financial affairs.

APPENDIX I

PROJECTED CASHFLOW

Raymond Chabot inc.

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SUPERIOR COURT
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IN THE MATTER OF THE PLAN OF ARRANGEMENT OR COMPROMISE OF:

JAVA-U GROUP INC.
JAVA-U FOOD SERVICES INC.
CAFÉ JAVA-U INC.
JAVA-U RTA INC.

Insolvent Persons

REPORT ON CASH FLOW STATEMENT BY THE PERSON APPLYING FOR AN EXTENSION OF THE STAY PERIOD UNDER THE CCAA

The management of Java-U Group inc., Java-U Food Services inc., Café Java-U inc. and Java-U RTA inc. (hereafter "Java-U" or the "Insolvent Persons") has developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, from February 19th to March 18th , 2018.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the Insolvent Persons and provide a reasonable basis for the projection. All such assumptions are disclosed in Note 3.

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

The projections have been prepared solely for the purpose described in Note 1, using a set of probable and hypothetical assumptions set out in Notes 3. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal this 22nd day of February 2018.

JAVA-U GROUP INC.
JAVA-U FOOD SERVICES INC.
CAFÉ JAVA-U INC.
JAVA-U RTA INC.

Louis Varoutsos
President

JAVA-U GROUP INC.
JAVA-U FOOD SERVICES INC.
CAFÉ JAVA-U INC.
JAVA-U RTA INC.

PROJECTED CASH FLOW

FOR THE PERIOD OF FEBRUARY 19TH TO MARCH 18TH, 2018

JAVA-U GROUP INC.
JAVA-U FOOD SERVICES INC.
CAFÉ JAVA-U INC.
JAVA-U RTA INC.
CASH FLOW STATEMENT
FOR THE PERIOD OF FEBRUARY 19TH TO MARCH 18TH, 2018
(Unaudited)

Week number	1	2	3	4	5	
For the week ending	18-Feb-18	25-Feb-18	4-Mar-18	11-Mar-18	18-Mar-18	Total
Inflows						
Net Sales	29 810	29 810	75 307	29 810	29 810	**194 547**
Temporary financing (DIP)	25 000	-	35 000	-	-	**60 000**
Balance of sale of a franchise	-	-	-	-	858	**858**
	54 810	29 810	110 307	29 810	30 668	**255 405**
Outflows						
Food purchases	19 545	20 719	20 830	23 945	19 545	**104 584**
Salaries	33 835	-	33 835	-	33 835	**101 505**
Operating expenses						
Selling	-	-	6 018	-	-	**6 018**
General and administrative	-	-	6 445	-	-	**6 445**
Occupation fees						
Rent	-	-	9 400	-	-	**9 400**
Utilities	-	-	2 366	-	-	**2 366**
Maintenance	19	19	909	19	19	**985**
Sales tax	-	-	-	-	-	**-**
Consultant fees / Accounting fees	-	-	-	-	-	**-**
Restructuring fees	-	5 000	45 000	5 000	5 000	**60 000**
Financial fees	-	-	5 000	-	-	**5 000**
	53 399	25 738	129 803	28 964	58 399	**296 303**
Cash - Beginning of period	**(501)**	**910**	**4 982**	**(14 514)**	**(13 668)**	**(501)**
Inflows (outflows) for the period	1 411	4 072	(19 496)	846	(27 731)	**(40 898)**
Cash - End of period	**910**	**4 982**	**(14 514)**	**(13 668)**	**(41 399)**	**(41 399)**

JAVA-U GROUP INC.
JAVA-U FOOD SERVICES INC.
CAFÉ JAVA-U INC.
JAVA-U RTA INC.

Louis Varoutsos
President

JAVA-U GROUP INC.
JAVA-U FOOD SERVICES INC.
CAFÉ JAVA-U INC.
JAVA-U RTA INC.
NOTES TO THE PROJECTED CASH FLOW STATEMENT
FOR THE PERIOD OF FEBRUARY 19TH TO MARCH 18TH, 2018

(Unaudited)

1. Purpose of the Projected Cash flow Statement

The Insolvent Persons' management prepared the cash flow statement on February 20, 2018 from pertinent information.

The purpose of this projected cash flow statement is to present relevant prospective financial information within the scope of the filing of a Plan of Arrangement. This financial information may not be relevant for other purposes.

These projections have been prepared based on assumptions which reflect the general direction that the Insolvent Persons' management shall be adopting given the financial and economic conditions which in the opinion of the Insolvent Persons' management is the most probable.

Since this projected cash flow statement is based on assumptions regarding future events, actual results for the period covered will vary from the information presented, and the variations may be material.

2. Continuation of Operations

The projections are based on the fact that the company continues its operations in the normal course of business. The projections do not reflect any adjustments that should be required if some assets were sold outside the normal course of affairs.

3. Hypothetical and probable assumptions

The projected cash flow statement is mostly based on hypothetical assumptions listed below:

3.1. Inflows

Sales

Management has estimated the expected royalties, food and coffee sales to the franchisees. These are based on the restaurants that management expects to keep open, and takes into consideration the restaurants that were closed as part of the restructuring process.

DIP

The Debtor-in-possession advances will be made based on the cash requirements of the Insolvent Persons.

3.2. Outflows

Food purchases

Food purchases are based on management's best estimates, based on the coffee shops it expects to keep open through the restructuring process and the anticipated customer traffic.

Salaries

Salaries are based on the staff assessment required by management and are paid on a bi-weekly basis.

Operating expenses

The operating expenses are based on the recent history and the existing agreements and/or contracts. They will be paid upon reception of the invoice.

Occupation fees

The operating expenses are based on the recent history and the existing lease agreements and/or contracts. They will be paid upon reception of the invoice or per the terms of the agreements.

Sales tax

Sales taxes are estimated based on the volume of taxable sales and purchases for the period.

Professional fees

Professional fees include restructuring fees as well as legal fees for continuing litigations and accounting fees. They are estimated based on experience and payable upon receipt of the invoice.

4. RISK RELATED TO THE ACHIEVEMENT OF THE PROJECTIONS

- The capacity to maintain relationships with the franchisees and suppliers;

- The disbursements are limited to known costs and projections. Additional disbursements will be required depending on the restructuring process. It is understood that such costs, if necessary, will require additional funding.