

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

**IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF SHOP.CA NETWORK
INC.**, a corporation incorporated pursuant to the laws of
the Canada, with a head office in the City of Toronto, in
the Province of Ontario

**MOTION RECORD
(Motion for Approval of the Bid Process and Administration Order and Extension
of Proposal Period)**

(Returnable June 9, 2016)

June 8, 2016

STIKEMAN ELLIOTT LLP
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Lawyers for the Applicant

INDEX

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INDEX

| Tab | Document |
|------------|---|
| 1. | Notice of Motion (Returnable June 9, 2016) |
| 2. | Affidavit of Robert S. Lee, Sworn June 8, 2016 |
| | Confidential Exhibit "A" - Key Employee Retention Agreements |
| | Exhibit "B" - PPSA Search Results as at June 6, 2016 |
| | Exhibit "C" - Audited 2014 Financial Statements |
| | Exhibit "D" - Unaudited 2015 Financial Statements |
| 3. | Draft Bid Process and Administration Order |

TAB 1

**ONTARIO
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**NOTICE OF MOTION
(Motion for Approval of the Bid Process and Administration Order and Extension of
Proposal Period)**

(Returnable June 9, 2016)

SHOP.CA Network Inc. (“SHOP.CA”) will make a motion to a judge presiding over the Commercial List, on Thursday June 9, 2016, at 10:00 a.m. or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An Order (the “**Bid Process and Administration Order**”), substantially in the form of the draft order located at Tab 3 of SHOP.CA’s Motion Record, *inter alia*:
 - (a) Abridging the time for delivery of this Notice of Motion and the Motion Record, if necessary;
 - (b) Approving the a court-supervised sale process in respect of the business and assets of SHOP.CA (the “**Bid Process**”) set out in paragraph 29 – 33 of the First Report (the “**First Report**”) of Richters Advisory Group Inc., in its capacity as proposal trustee of SHOP.CA (the “**Proposal Trustee**”);
 - (c) Ratifying the Key Employee Retention Agreements (the “**KERAs**”) attached as Confidential Exhibit A to the Affidavit of Robert S. Lee sworn on June 8, 2016 (“**Lee Affidavit**”) and authorizing SHOP.CA to pay an amount equal to the incentive payments set out in the KERAs to Stikeman Elliott LLP, as

counsel for SHOP.CA, ("**Company's Counsel**") to be held in trust for the beneficiaries of the KERAs pending satisfaction of the conditions contained in the KERAs as determined by the Proposal Trustee or further Order of this Court;

- (d) Sealing the unredacted copies of the KERAs;
- (e) Granting a first ranking charge on all of SHOP.CA's assets, property and undertakings (the "**Property**") up to a maximum amount of \$200,000, in favour of the Proposal Trustee, counsel to the Proposal Trustee and counsel to SHOP.CA (the "**Administration Charge**"); and
- (f) Extending the time for SHOP.CA to file a proposal (the "**Proposal Period**") under the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") until July 15, 2016.

2. Such other relief as the Court may deem just and appropriate.

THE GROUNDS FOR THE MOTION ARE:

BACKGROUND

1. SHOP.CA is an e-commerce marketplace providing Canadian retailers with a platform to sell their products online directly to consumers.
2. SHOP.CA has been exploring strategic alternatives, including the possibility of a sale of substantially all its assets or share capital, since August, 2015.
3. After an extended informal sales process SHOP.CA has been unable to execute a suitable transaction for the benefit SHOP.CA's stakeholders and is currently suffering from severe liquidity constraints.
4. On June 7, 2016 SHOP.CA filed a Notice of Intention to Make a Proposal (the "**NOI**") under the BIA and commenced these proposal proceedings.

APPROVAL OF THE BID PROCESS

5. Recently, in the informal sales process SHOP.CA received three non-binding letters of intent indicating an interest in purchasing SHOP.CA's share capital or assets.
6. After a period of exclusive negotiations with one potential purchaser the parties were unable to develop an actionable transaction.
7. With SHOP.CA's current liquidity situation it will be unable to meet its obligations as they become due and SHOP.CA cannot afford to continue exploring potential sale transactions outside of an insolvency proceeding.
8. It is believed that the conduct of the Bid Process in the context of these proposal proceedings constitutes the best option for the realization of its assets and the maximization of their value for the benefit of SHOP.CA's stakeholders.

APPROVAL OF THE KERAS

9. Throughout these proceedings, SHOP.CA will require the continued services of certain key employees in order to enhance the chances of successfully completing a transaction resulting from the Bid Process.
10. The KERAs offer an incentive payment for meeting certain milestones set out therein and will incentivize the key employees to stay with SHOP.CA and assist the Proposal Trustee by soliciting offers from potential purchasers, negotiating with potential purchasers and assisting with other issues that will arise during the Bid Process.
11. Absent the approval of the KERAs there is concern that the key employees would leave prior to the completion of the Bid Process which would be of significant negative effect on the business of SHOP.CA and the conduct of the Bid Process.
12. In order to ensure there is sufficient funds to pay the incentive payments contemplated by the KERAs after completion of the Bid Process, SHOP.CA is seeking to pay an amount equal to the incentive payments to Company's Counsel to be held in trust for the beneficiaries of the KERAs.

SEALING ORDER

13. The information contained in the KERAs is commercially sensitive and involves private personal information which if disclosed would be detrimental to the beneficiaries of the KERAs.

14. The sealing order will not prejudice SHOP.CA's stakeholders.

THE ADMINISTRATION CHARGE

15. SHOP.CA is seeking a first-ranking Administration Charge on the Property in the maximum amount of \$200,000 to secure the reasonable fees and disbursement of the Proposal Trustee, counsel to the Proposal Trustee and Company's Counsel incurred in connection with services rendered to the SHOP.CA both before and after the filing of the NOI.

16. SHOP.CA will require the participation of the Proposal Trustee, the Proposal Trustee's legal counsel and Company's Counsel to assist in with the Bid Process and close any transaction resulting therefrom.

17. SHOP.CA does not have any secured creditors who may have been prejudiced by the Administration Charge.

EXTENSION OF THE PROPOSAL PERIOD

18. The Bid Process is anticipated to proceed through June 30, 2016, with proposed timelines extending into July in order to facilitate a transaction.

19. SHOP.CA requires that the Proposal Period resulting from the filing of the NOI to be extended until July 15, 2016 in order to allow (i) SHOP.CA to carry out the Bid Process; (ii) negotiate any transaction resulting from the Bid Process; and (iii) contemplate the terms of a proposal to be submitted to SHOP.CA's creditors.

20. The extension of the Proposal Period will assist SHOP.CA in maximizing the value of its assets for the benefit of its stakeholders.

21. SHOP.CA has been acting and continues to act in good faith and with due diligence during these proceedings.

22. No creditor of SHOP.CA will be materially prejudiced by extending the Proposal Period as SHOP.CA has sufficient liquidity to continue operating during the proposed extension of the Proposal Period.

23. It is just and convenient and in the interest of SHOP.CA and its stakeholders that the Proposal Period be extended to July 15, 2016.

GENERAL

24. Sections 50.4(9), 64.2, 65.13, 183 of the BIA and the other provisions of the BIA;

25. Rules 1.04, 1.05, 2.03, 3.02 and 37 of the *Rules of Civil Procedure*, R.R.O. 1990 Reg. 194, as amended;

26. Section 137(2) of the *Courts of Justice Act*, R.S.O. 1990, c C. 43; and

27. Such further grounds as counsel may advise and this Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. The Lee Affidavit and the exhibits thereto;

2. The First Report of the Proposal Trustee; and

3. Such further and other material as counsel may advise and this Court may permit.

June 8, 2016

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Lawyers for the Applicant

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF SHOP.CA NETWORK INC., a corporation incorporated pursuant to the laws of
the Canada, with a head office in the City of Toronto, in the Province of Ontario

Estate/Court File No. 31-2131992

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

Proceeding commenced at Toronto

**NOTICE OF MOTION
(Motion for Approval of the Bid Process and
Administration Order and Extension of Proposal
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(Returnable on June 9, 2016)

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Lawyers for the Applicant

TAB 2

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IN THE MATTER OF THE NOTICE OF INTENTION TO
MAKE A PROPOSAL OF SHOP.CA NETWORK INC., a
corporation incorporated pursuant to the laws of the Canada,
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AFFIDAVIT OF ROBERT S. LEE
(Sworn June 8, 2016 re Approval of the Bid Process and Administration Order and
Extension of Proposal Period)

I, Robert S. Lee, of the City of Ottawa, in the Province of Ontario, **MAKE OATH AND
SAY:**

1. I am the Chief Financial Officer of SHOP.CA Network Inc. ("**SHOP.CA**" or the
"**Company**") and as such have knowledge of the matters to which I hereinafter depose, except
where otherwise stated. I have also reviewed the records and filings of the Company and have
spoken with certain of the officers and/or employees of the Company, as necessary, and where
I have relied upon such information, I verily believe such information to be true.

2. This affidavit is sworn in support of the motion brought by SHOP.CA seeking an Order
(the "**Bid Process and Administration Order**"), substantially in the form of the draft order
located at Tab 3 of SHOP.CA's Motion Record, *inter alia*:

- (a) Approving the court-supervised sale process for SHOP.CA (the "**Bid Process**")
set out in paragraphs 29 - 33 of the First Report (the "**First Report**") of Richter
Advisory Group Inc., in its capacity as proposal trustee of SHOP.CA (the
"**Proposal Trustee**");

- (b) Ratifying the Key Employee Retention Agreements (the “KERAs” and individually, a “KERA”) attached hereto as Confidential Exhibit “A” and authorizing SHOP.CA to pay an amount equal to the Incentive Payments (as defined below) set out in the KERAs to Stikeman Elliott LLP, as counsel for SHOP.CA (“Company’s Counsel”), to be held in trust for the beneficiaries of the KERAs pending satisfaction of the conditions contained in the KERAs as determined by the Proposal Trustee or further Order of this Court;
- (c) Sealing the unredacted copies of the KERAs;
- (d) Granting a first ranking charge on all of SHOP.CA’s assets, property and undertakings (the “Property”) up to a maximum amount of \$200,000, in favour of the Proposal Trustee, counsel to the Proposal Trustee and Company’s Counsel (the “Administration Charge”); and
- (e) Extending the time for SHOP.CA to file a proposal (the “Proposal Period”) under the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “BIA”) until July 15, 2016.

THE BUSINESS OF SHOP.CA

Overview

3. SHOP.CA is an e-commerce marketplace providing Canadian retailers with a platform to sell their products online directly to consumers. SHOP.CA was incorporated in September, 2009, and currently has a network of 450 merchants offering over 250,000 products on SHOP.CA’s platform. The Company’s head office is located at 70 Peter Street, Toronto, Ontario.

4. SHOP.CA has experienced rapid growth since its founding, generating 133% annual growth in membership and 190% annual growth in number of visits to its website, www.shop.ca (the "Website"). However, due to competitive factors and significant expenses associated with the growth, SHOP.CA has experienced financial difficulties and has been operating at a loss since its founding.

5. SHOP.CA's business is to act as a multi-merchant, virtual marketplace offering Canadian consumers a one-stop online shopping experience for products from premium and recognizable brands. SHOP.CA currently focuses on four product categories: home products, electronics, fashion and baby and children products. It also carries supporting products to ensure it is a one-stop shopping destination. SHOP.CA's platform is capable of expanding its product offerings based on its current merchant partners' supply and consumer demand.

6. SHOP.CA does not currently maintain an inventory position of the products that are bought and sold on the Website. Rather, retailers list their products on the Website and SHOP.CA purchases the inventory from the merchant only after receiving an order from a customer. The inventory is purchased at a previously agreed upon cost with each merchant. Each merchant is responsible for shipping and fulfillment of orders; however, each retailer's fulfillment technology is connected with SHOP.CA's platform to ensure the consumer has a smooth shopping experience. From the consumer's perspective, their only interaction with respect to their purchases is with SHOP.CA including, communication regarding their order placement, delivery and any returns or refunds that are required.

NOI Proceedings

7. As further described herein, due to current liquidity constraints, SHOP.CA filed a Notice of Intention to Make a Proposal (the "NOI") under the BIA and commenced these proposal proceedings on June 7, 2016.

8. The Company has been attempting to find further financing and/or sell the business as a going concern since August 2015. These efforts have not been successful to date, including a recent attempt to sell the Company to an established Canadian retailer. SHOP.CA wishes to pursue a final attempt to sell the Company as a going concern and believes it is only able to do so with the Court protection provided by the NOI and these proposal proceedings.

Corporate Governance

9. Trevor Newell, Drew Green and Tony Chvala are the only remaining directors of SHOP.CA. Over the last eight weeks, six other directors have resigned from the board of SHOP.CA (the "Board").

10. The requisite shareholder and director approvals have been obtained to authorize the filing of the NOI.

Employees

11. SHOP.CA currently has 40 employees and one person, the Chief Executive Officer, working under a consulting arrangement. The majority of SHOP.CA's employees are full time salaried employees. In October 2015, in order to reduce labour expenses, the Company laid off approximately 28 employees. The Company has also reduced its workforce through attrition. In 2016, 10 employees have left SHOP.CA and the Company has only hired an additional 5 employees.

12. SHOP.CA does not have a union and does not sponsor any pension plans.

Assets

13. SHOP.CA's assets, as reflected in its unaudited quarterly financial statements as at April 30, 2016, had a net book value of approximately \$4.055 million and consisted of the following:

| As at April, 2016 | |
|---------------------------|----------|
| Assets | (\$000s) |
| <u>Current Assets</u> | |
| Cash and cash equivalents | 2,253 |
| Accounts receivable | 213 |
| Inventory | 38 |
| Taxes Receivable | 78 |
| Prepaid Expenses | |
| Marketing | 32 |
| Technology | 141 |
| Rent | 21 |
| Insurance/Other | 14 |
| | <hr/> |
| | 2,789 |
| <u>Non-current Assets</u> | |
| Property and equipment | 217 |
| Intangible assets | 1,050 |
| | <hr/> |
| | \$4,055 |

14. SHOP.CA most significant asset at the end of the quarter was cash and cash equivalents. The cash on hand was the result of series of equity financings completed between 2011 and 2015 which raised over \$70 million for the Company. Most recently in May 2015, SHOP.CA raised approximately \$13 million by issuing Series C common shares to existing investors in a private placement.

15. SHOP.CA has been funding its losses from the cash remaining from the equity capital raises. As at June 5, 2016, the Company had approximately \$1.5 million in cash remaining, down from \$2.3 million on April 30, 2016. With the current projected cash expenses, SHOP.CA is forecasted to deplete all its cash reserves by August, 2016.

16. SHOP.CA's intangible assets consist of its goodwill, domain name, technology and intellectual property associated with the development of its unique platform.

Liabilities

17. As at April 30, 2016, SHOP.CA had total liabilities of approximately \$1.99 million consisting of the following:

| As at April, 2016 Liabilities | (\$000s) |
|--|----------------|
| <u>Current Liabilities</u> | |
| Trade payables and accrued liabilities | \$1,478 |
| Taxes Payable | 78 |
| Customer Payments (Order to Ship) | 250 |
| Returns & Rewards Liability | 181 |
| | <u>\$1,988</u> |

18. SHOP.CA's trade payables typically have terms of "net 15" meaning SHOP.CA pays its merchants within 15 days of purchasing the inventory after receiving an order from a customer. As at April 30, 2016, SHOP.CA's trade payables and accruals totalled approximately \$1.5 million and as at June 2, 2016, SHOP.CA was current on all trade payables owed to merchants.

19. SHOP.CA accrual liabilities reflected on the balance sheet consist of a provision for returns by customers and accrued vacation for employees.

20. SHOP.CA has contingent liabilities that are not reflected on the balance sheet consisting of potential termination and severance obligations owed to employees and contractual termination liabilities. These contingent liabilities are estimated to total up to \$2 million. If all current, future and contingent liabilities were to crystallize during the upcoming days, the Company would be unable to meet its financial obligations as they become due. The Company is effectively in the vicinity of insolvency and without the stabilization and breathing space provided by the NOI, the Company will continue to deplete all its cash resources preventing any going-concern solution or even an orderly wind-up or dissolution.

21. SHOP.CA does not have any long term liabilities or secured debt. Attached hereto as Exhibit "B" is a *Personal Property Security Act* (Ontario) search result for SHOP.CA as at June 5, 2016. The only registration showing was made by the Toronto-Dominion Bank ("TD Bank"). I am not aware of any indebtedness owed to TD Bank other than in respect the Company's credit card facility. TD Bank provided a letter of credit on behalf of SHOP.CA but the letter of credit was cancelled in the fall of 2015.

Key Contracts and Suppliers

22. A significant source of customer acquisition for SHOP.CA has been its exclusive strategic partnership with AIMIA Canada Inc. ("Aeroplan"). Aeroplan runs a loyalty program allowing consumers to accumulate "Aeroplan Miles" on certain purchases with a variety of retail partners. In 2014, Aeroplan and SHOP.CA developed an agreement whereby customers are able to receive Aeroplan Miles for purchases on the Website and SHOP.CA pays Aeroplan a specific rate for each Aeroplan Mile distributed to consumers. The relationship is important for SHOP.CA as Aeroplan has a developed relation with over 9 million consumers in Canada and a percentage of consumers referred to the Website by Aeroplan are converted into repeat customers of SHOP.CA.

23. As mentioned, SHOP.CA maintains its head office at 70 Peter Street, Toronto Ontario. SHOP.CA leases the premises from Allied Property Management GP Limited (the "Landlord") under a Lease Renewal and Amending Agreement dated August 18, 2015 (the "Lease"). The term under the Lease expires on March 31, 2019 and monthly rent payable to the Landlord under the Lease is \$18,557 plus applicable taxes. The Company is current with its obligations under the Lease.

Financial Difficulties

24. Despite significant revenue growth since founding, SHOP.CA has not been able to generate positive cash flow to sustain the business on a long term basis. SHOP.CA has been financed by a series of equity capital raises which have been funding the Company's losses since inception. Copies of SHOP.CA's audited financial statements for 2014 and unaudited financial statements for 2015 are attached hereto as Exhibits "C" and "D", respectively.

25. In 2014 and 2015, SHOP.CA generated net operating losses of \$21.9 million and \$19.9 million, respectively. Cumulative losses since SHOP.CA's founding are over \$72 million. The losses and Company's inability to raise additional financing have severely constrained SHOP.CA's liquidity recently.

26. In order to stabilize cash flows and implement a final attempt to complete a transaction to maintain the Company as a going-concern, SHOP.CA filed the NOI.

SALES PROCESS

27. In August 2015, due to competitive factors and its financial difficulties, SHOP.CA started exploring strategic alternatives, including the possibility of a sale of substantially all its assets or share capital (the "Sales Process"). SHOP.CA engaged Scotia Capital Inc. ("Scotia") and Canaccord Genuity Corp. ("Canaccord") to assist SHOP.CA in its strategic review and approach potential purchasers and investors for SHOP.CA's business. Though Scotia was initially engaged, its role did not continue as the banker mandated with the engagement resigned from Scotia.

28. Canaccord approached approximately 25 potential purchasers over the duration of the Sales Process. Canaccord also explored the possibility of obtaining additional financing.

29. Numerous parties expressed an interest in acquiring the Company and in April, 2016, SHOP.CA received two non-binding letters of intent to purchase the common shares of the Company. Despite attempts, SHOP.CA and the potential purchasers were unable to develop an actionable transaction. After a transaction failed to materialize with those potential purchasers Canaccord resigned from its role in the Sales Process.

30. Starting May 2016, Tony Chvala, the Chief Executive Officer of SHOP.CA, approached 17 potential purchasers in an effort to develop an actionable transaction outside an insolvency proceeding. Some of the potential purchasers had been approached by Canaccord in the earlier marketing initiative, while others were approached for the first time. I also understand that the Chief Executive Officer canvassed existing investors regarding the possibility of providing additional financing to SHOP.CA. The Proposal Trustee acted as financial advisor to the Company during this initiative in the Sales Process but was not actively involved in soliciting offers or negotiations with potential purchasers.

31. After initial solicitations by management, SHOP.CA did not receive any indications of interest in respect of providing financing to SHOP.CA but did receive three non-binding letters of intent indicating an interest in purchasing SHOP.CA's share capital or assets. Each letter of intent required a period of exclusive negotiations with the potential purchasers. The Board, with input from the Company's legal and financial advisors, evaluated the proposals and subsequently entered into an 11-day exclusivity period with the purchaser offering the highest value and minimal closing conditions relative to the other bids. Again, despite efforts, a transaction failed to materialize.

32. With the Company's current liquidity situation, SHOP.CA cannot afford to continue the current Sales Process of exploring potential sale transactions outside of an insolvency

proceeding. The Bid Process contemplated to be completed in the context of these proposal proceedings is outlined at paragraphs 29 to 33 of the First Report.

33. The Bid Process has the following key features:

- (a) The Proposal Trustee will distribute a teaser letter and a form of non-disclosure agreement to a list of potential purchasers developed in conjunction with the Company.
- (b) Interested bidders wishing to participate in the Bid Process will be given access to an electronic data-room after signing the non-disclosure agreement.
- (c) Interested bidders are required to submit final binding offers on a "as is, where is" basis to the Proposal Trustee by June 30, 2016 at 12pm (the "Bid Deadline") and in addition, interested bidders will be required to pay a 10% deposit to the Proposal Trustee.
- (d) Acceptability of each offer will be determined by the Proposal Trustee, in consultation of the Company.
- (e) The Proposal Trustee will provide its recommendation to the Board with respect to selecting an offer to consummate a transaction.
- (f) If a bid is accepted by the Board and the Proposal Trustee, it will be brought before the Court for approval and closing will occur as soon as practical thereafter.

34. The proposed Bid Process offers the maximum amount of time to consummate a transaction given the Company's current liquidity situation and current inability to access bridge financing because of its lack of tangible assets to offer as security.

35. In the circumstances, the Board and SHOP.CA's management believe the Bid Process in the context of these proposal proceedings constitutes the best option for the realization of the Company's assets and the maximization of their value for the benefit of SHOP.CA's stakeholders.

KEY EMPLOYEE RETENTION AGREEMENTS

36. After the resignation of Canaccord, management was left in charge of the Sales Process significantly increasing their day to day responsibilities. Further, with the Company's current liquidity situation, the Board believed additional incentives were needed to ensure management's continued willingness to assist in the Sales Process.

37. On May 6, 2016, SHOP.CA entered into the KERAs with the Chief Executive Officer, Chief Technology Officer and I. Redacted copies of the KERAs, which contain commercially sensitive and private personal information, are attached hereto as Confidential Exhibit "A".

38. An independent director (who has since resigned), with oversight of the Proposal Trustee, developed the KERAs. All of the KERAs contemplate incentive payments (the "Incentive Payments") of between 3 and 6 months of salary. The aggregate of the Incentive Payments payable under the KERAs is approximately \$210,000, after converting US dollar amounts to Canadian dollars. On my and the Chief Technology Officer's KERAs, the Incentive Payments are payable upon the completion of the earliest of the following events: (a) completion of a Change of Control (as defined in the KERAs) or a liquidation of all or substantially all of the assets of SHOP.CA; or (b) implementation of a proposal under the BIA, approved as required and sanctioned by the Court. Under the Chief Executive Officer's KERA,

the Incentive Payment becomes due upon completion of review and analysis of bids submitted in the Bid Process. The Chief Executive Officer has agreed to remain as a director throughout the proposal proceedings. The amendment was granted in exchange for the Chief Executive Officer's agreement to reduce the quantum of the Incentive Payment and forego any payment on account services rendered for acting as an officer or director of the Company after June 30, 2016 in order to assist the Company's liquidity.

39. In order for the beneficiaries of the KERAs to receive the Incentive Payments, the employee cannot have: (a) disclosed the terms of the KERA (other than to his or her personal representative, legal advisors or as required by law); or (b) at any time on or before the date any portion the Incentive Payments are due and payable as contemplated under the KERA (i) resigned; (ii) been terminated for cause; or (iii) failed to perform his/her duties diligently, faithfully and honestly.

40. The KERAs also contemplated a success payment if a transaction could be completed outside of an insolvency proceeding. Upon the filing of the NOI, the success payments contemplated by the KERAs are no longer applicable.

41. In order to secure the Incentive Payments contemplated by the KERAs, SHOP.CA is seeking to pay funds adequate to satisfy the Incentive Payments (minus deferred amounts) to Company's Counsel to be held in trust for the beneficiaries of the KERAs. Without the Incentive Payments being secured in this manner there is concern that the beneficiaries of the KERAs would leave prior to the completion of the Bid Process which would have a significant negative effect to SHOP.CA and its stakeholders. If the conditions in the KERAs are not satisfied after 10 days subsequent to the Proposal Period, Company's Counsel will remit the funds held in trust to the Proposal Trustee for the benefit of SHOP.CA's general creditors.

ADMINISTRATION CHARGE

42. SHOP.CA is seeking a first ranking charge on the Property of SHOP.CA in the maximum amount of \$200,000 to secure the fees and disbursements of the Proposal Trustee, counsel for the Proposal Trustee and Company's Counsel incurred in connection with the services rendered to SHOP.CA both before and after the filing of the NOI.

43. I believe that the Administration Charge is necessary in order to complete the Bid Process and close any transaction resulting therefrom.

44. SHOP.CA has worked with the Proposal Trustee to estimate the proposed quantum of the Administration Charge and believes it to be reasonable and appropriate in view of the services to be provided by the beneficiaries of the Administration Charge.

EXTENSION OF THE PROPOSAL PROCEEDINGS

45. The Bid Deadline set out in the Bid Process is currently contemplated to be June 30, 2016 with each bid remaining open for acceptance 10 days after the Bid Deadline. SHOP.CA will require further time after the acceptance of any bid in order to close the transaction.

46. Extending the Proposal Period to July 15, 2016 will allow SHOP.CA to (a) complete the Bid Process; (b) negotiate any transaction resulting from the Bid Process and seek Court-approval of the transaction; and (c) contemplate, in consultation with the Proposal Trustee, the terms of a proposal to be submitted to SHOP.CA's creditors. The extension will also prevent additional motions before the Court, reducing professional fees incurred by SHOP.CA.

47. I am not aware of any creditors who would be materially prejudice by the extension of the Proposal Period to July 15, 2016. The cash flow forecast attached as Appendix "D" to the First Report reflects that the Company has sufficient liquidity to continue operating throughout the proposed extension of the Proposal Period.

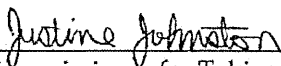
48. I understand that the Proposal Trustee is supportive of the request to extend the Proposal Period.

CONCLUSION

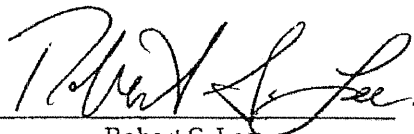
49. SHOP.CA has been operating at a loss since its inception and been unable to develop positive cash flow to supports its business long-term. With the Company's current liquidity situation, SHOP.CA is seeking a final attempt to preserve the business as a going-concern by exploring sale opportunities within the context of these proposal proceedings. With the relief granted in the Bid Process and Administration Order, SHOP.CA will be able to conduct the Bid Process in order to maximize the value of its business and assets for the benefit of its stakeholders.

50. This affidavit is sworn in support of a motion for the Bid Process and Administration Order and for no other or improper purpose.

SWORN BEFORE ME at the City of
Toronto, Province of Ontario, on June
8, 2016.



Commissioner for Taking Affidavits



Robert S. Lee

TAB A

This is Exhibit "A"
to the affidavit of Robert S. Lee,
sworn before me on the 8th day
of June, 2016

Justine Johnston
Commissioner for Taking Affidavits



70 Peter Street, Suite 200
Toronto, ON, M5V 2G5

STRICTLY PRIVATE AND CONFIDENTIAL May 6, 2016

[REDACTED]
[REDACTED]

RE: Incentive Payment

As SHOP.CA Networks Inc. ("SHOP.CA") moves ahead with its sales efforts, I would like to assure you that your contributions continue to be highly valued. We truly appreciate your continued hard work and importance to SHOP.CA as [REDACTED], particularly at this critical time.

In consideration of your ongoing loyalty to SHOP.CA, SHOP.CA is offering you an incentive payment in the amount of [REDACTED] (the "Incentive Payment"). The Incentive Payment will be payable upon the earliest of the following events (the "Payment Date"): (a) completion of a Change of Control (as defined below) or the liquidation of all or substantially all of the assets of SHOP.CA; and (b) completion of the implementation of a proposal or plan of compromise or arrangement under the *Companies' Creditors Arrangement Act*, the *Canada Business Corporations Act* or the *Bankruptcy and Insolvency Act (Canada)*, approved as required and sanctioned by the Court (each a "Court Proceeding").

In addition, in the event of a Change of Control, should SHOP.CA not require recourse to any Court Proceeding, SHOP.CA shall pay you a success fee calculated at [REDACTED] of the Transaction Value in cash, provided that there are sufficient proceeds remaining to satisfy all creditors (other than those who are entitled to transaction fees under retention arrangements similar to yours). Should there not be sufficient proceeds to pay all Transaction Fees payable to you hereunder and to other recipients of transaction fees under similar retention arrangements, the recipients of such transaction fees (including you) shall be entitled to their pro rata share of all remaining proceeds after payment of the other priority and unsecured creditors. For the purpose of this agreement, "Change of Control" means, whether effected in one transaction or a series of transactions: (a) any merger, amalgamation, consolidation, reorganization or other business combination pursuant to which the business of SHOP.CA is combined with that of a purchaser, or (b) the acquisition, directly or indirectly, by a purchaser of all or a majority of the capital stock of SHOP.CA or the acquisition of all or substantially all of the assets of SHOP.CA by way of a negotiated purchase or otherwise; and "Transaction Value" means the aggregate cash consideration paid or payable to SHOP.CA or to its security holders and the aggregate fair market

[REDACTED]

value of any securities or other non-cash consideration paid or payable to SHOP.CA or to its security holders (including, any joint venture interest delivered to, or retained by, SHOP.CA) in connection with a Change of Control.

Amounts outlined above will be included in cashflows provided to Richter Advisory Group Inc. Should SHOP.CA commence any Court Proceedings in connection with a potential transaction, liquidation or winding up of its business, it will seek approval of the Incentive Payment and a related charge on SHOP.CA' assets on the commencement of such Court Proceedings.

All amounts being paid will be subject to all applicable statutory deductions.

In order to receive the amount described above: (a) you must not have disclosed these arrangements to any person other than your personal representatives and legal advisors (other than any disclosure required by law); (b) on the Payment Date, you must not have (i) resigned or notified SHOP.CA of your resignation; (ii) been terminated or notified of termination, for any reason, with cause; or (iii) at any times between now and closing of the Payment Date, failed to perform your duties and responsibilities diligently, faithfully and honestly; and (c) you must have, at all times between now and the Payment Date, performed your duties as an employee of SHOP.CA in a manner (to the extent under your reasonable control) that facilitates the closing of any Change of Control or the liquidation of all or substantially all of the assets of SHOP.CA and maximizes the proceeds to SHOP.CA or its shareholders. For clarity, no period of notice that was given or ought to have been given pursuant to contract or at common law shall be used to extend any rights to you under this letter. For greater certainty, if you are terminated without cause, you will be entitled to receive the amount described above provided all of the other conditions for payments have otherwise been met.

If any one or more of the conditions described above are not satisfied, then the portion of the Incentive Payment corresponding to any unsatisfied condition will not be paid.

For greater certainty, the decision to enter into a Change of Control shall be made by the board of SHOP.CA (the "Board") taking into account all relevant factors, including the purchase price offered by any such potential purchaser. The Board may but is under no obligation to complete a Change of Control. The Board's decision with respect to a Change of Control shall be final and binding and you shall have no claim against the Board or SHOP.CA in respect of such decision.

Thank you again for your assistance

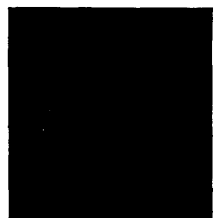
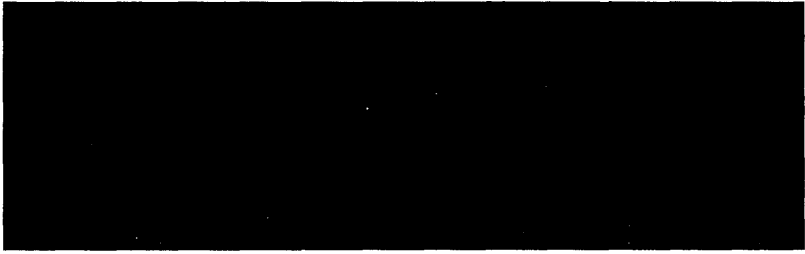
Yours truly,



Trevor J. Newell, president

cc Elizabeth Pilon and Martin Langlois, *Stikeman Elliott LLP*
Paul van Eyk, *Richter Advisory Group Inc.*







70 Peter Street, Suite 200
Toronto, ON, M5V 2G5

STRICTLY PRIVATE AND CONFIDENTIAL May 6, 2016

[REDACTED]
[REDACTED]

RE: Incentive Payment

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[REDACTED]

consideration paid or payable to SHOP.CA or to its security holders and the aggregate fair market value of any securities or other non-cash consideration paid or payable to SHOP.CA or to its security holders (including, any joint venture interest delivered to, or retained by, SHOP.CA) in connection with a Change of Control.

Amounts outlined above will be included in cashflows provided to Richter Advisory Group Inc. Should SHOP.CA commence any Court Proceedings in connection with a potential transaction, liquidation or winding up of its business, it will seek approval of the Incentive Payment and a related charge on SHOP.CA' assets on the commencement of such Court Proceedings.

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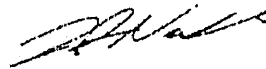
In order to receive the amount described above: (a) you must not have disclosed these arrangements to any person other than your personal representatives and legal advisors (other than any disclosure required by law); (b) on the Payment Date, you must not have (i) resigned or notified SHOP.CA of your resignation; (ii) been terminated or notified of termination, for any reason, with cause; or (iii) at any times between now and closing of the Payment Date, failed to perform your duties and responsibilities diligently, faithfully and honestly; and (c) you must have, at all times between now and the Payment Date, performed your duties as an employee of SHOP.CA in a manner (to the extent under your reasonable control) that facilitates the closing of any Change of Control or the liquidation of all or substantially all of the assets of SHOP.CA and maximizes the proceeds to SHOP.CA or its shareholders. For clarity, no period of notice that was given or ought to have been given pursuant to contract or at common law shall be used to extend any rights to you under this letter. For greater certainty, if you are terminated without cause, you will be entitled to receive the amount described above provided all of the other conditions for payments have otherwise been met.

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Thank you again for your assistance.

Yours truly,



Trevor J. Newell, president

cc: Elizabeth Pillon and Martin Langlois, *Stikeman Elliott LLP*
Paul van Eyk, *Richter Advisory Group Inc.*





70 Peter Street, Suite 200
Toronto, ON, M5V 2G5

STRICTLY PRIVATE AND CONFIDENTIAL May 6, 2016

[REDACTED]
[REDACTED]

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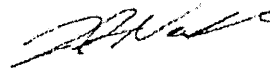
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Thank you again for your assistance.

Yours truly,



Trevor J. Newell, president

cc: Elizabeth Pillon and Martin Langlois, *Stikeman Elliott LLP*
Paul van Eyk, *Richter Advisory Group Inc.*

TAB B

This is Exhibit "B"
to the affidavit of Robert S. Lee,
sworn before me on the 8th day
of June, 2016

Justine Johnston
Commissioner for Taking Affidavits

RUN NUMBER : 158
RUN DATE : 2016/06/06
ID : 20160606152926.68

PROVINCE OF ONTARIO
MINISTRY OF GOVERNMENT SERVICES
PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
ENQUIRY RESPONSE
CERTIFICATE

REPORT : PSSR060
PAGE : 1
(10997)

THIS IS TO CERTIFY THAT A SEARCH HAS BEEN MADE IN THE RECORDS OF THE CENTRAL OFFICE
OF THE PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM IN RESPECT OF THE FOLLOWING:

TYPE OF SEARCH : BUSINESS DEBTOR

SEARCH CONDUCTED ON : SHOP.CA NETWORK INC.

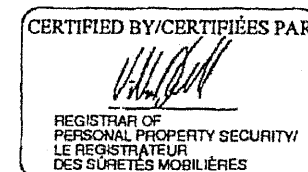
FILE CURRENCY : 05JUN 2016

ENQUIRY NUMBER 20160606152926.68 CONTAINS 4 PAGE(S), 2 FAMILY(IES).

THE SEARCH RESULTS MAY INDICATE THAT THERE ARE SOME REGISTRATIONS WHICH SET OUT A BUSINESS DEBTOR NAME
WHICH IS SIMILAR TO THE NAME IN WHICH YOUR ENQUIRY WAS MADE. IF YOU DETERMINE THAT THERE ARE OTHER
SIMILAR BUSINESS DEBTOR NAMES, YOU MAY REQUEST THAT ADDITIONAL ENQUIRIES BE MADE AGAINST THOSE NAMES.

STIKEMAN ELLIOTT LLP - BEATRICE LORUSSO - BEATRICE LORUSSO
5300-COMMERCE COURT WEST, 199 BAY STREET
TORONTO ON M5L 1B9

CONTINUED... 2



(crf) 09/2013



RDN NUMBER : 15B
RDN DATE : 2016/06/06
ID : 20160606152926.68

PROVINCE OF ONTARIO
MINISTRY OF GOVERNMENT SERVICES
PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
ENQUIRY RESPONSE
CERTIFICATE

REPORT : PSSR060
PAGE : 2
(10998)

TYPE OF SEARCH : BUSINESS DEBTOR
SEARCH CONDUCTED ON : SHOP.CA NETWORK INC.
FILE CURRENCY : 05JUN 2016

FORM 101 FINANCING STATEMENT / CLAIM FOR LIEN

00 FILE NUMBER
683554221

01 CAUTION PAGE TOTAL MOTOR VEHICLE REGISTRATION REGISTERED REGISTRATION
FILING NO. OF PAGES SCHEDULE NUMBER UNDER PERIOD
01 001 20121213 1451 1530 1840 P PPSA 5

02 DEBTOR DATE OF BIRTH FIRST GIVEN NAME INITIAL SURNAME

03 NAME BUSINESS NAME SHOP.CA NETWORK INC.

04 ADDRESS 70 PETER ST SUITE 200 TORONTO ONTARIO CORPORATION NO. ON M5V 2G5

05 DEBTOR DATE OF BIRTH FIRST GIVEN NAME INITIAL SURNAME

06 NAME BUSINESS NAME ONTARIO CORPORATION NO.

07 ADDRESS

08 SECURED PARTY / THE TORONTO-DOMINION BANK - 19562

09 LIEN STATEMENT ADDRESS 2 ST. CLAIR AVENUE EAST TORONTO ON M4T 2V4

10 COLLATERAL CLASSIFICATION CONSUMER MOTOR VEHICLE AMOUNT DATE OF NO. FIXED
GOODS INVENTORY EQUIPMENT ACCOUNTS OTHER INCLUDED MATURITY OR MATURITY DATE
X X X X X X X

11 MOTOR YEAR MAKE MODEL V.I.P.N.

12 VEHICLE

13 GENERAL

14 COLLATERAL

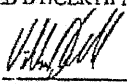
15 DESCRIPTION

16 REGISTERING D+H LIMITED PARTNERSHIP

17 AGENT ADDRESS SUITE 200, 4126 NORLAND AVENUE BURNABY BC V5G 3S8

*** FOR FURTHER INFORMATION, CONTACT THE SECURED PARTY ***

CONTINUED... 3

CERTIFIED BY/CERTIFIÉES PAR

REGISTRAR OF
PERSONAL PROPERTY SECURITY/
LE REGISTRATEUR
DES SÛRETÉS MOBILIÈRES
(crj11s 09/2013)



RUN NUMBER : 158
 RUN DATE : 2016/06/06
 ID : 20160606152926.68

PROVINCE OF ONTARIO
 MINISTRY OF GOVERNMENT SERVICES
 PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
 ENQUIRY RESPONSE
 CERTIFICATE

REPORT : PSSR060
 PAGE : 3
 (10999)

TYPE OF SEARCH : BUSINESS DEBTOR
 SEARCH CONDUCTED ON : SHOP.CA NETWORK INC.
 FILE CURRENCY : 05JUN 2016

FORM IC FINANCING STATEMENT / CLAIM FOR LIEN

FILE NUMBER
 683554239

| CAUTION FILING | PAGE NO | TOTAL OF PAGES | MOTOR VEHICLE SCHEDULE | REGISTRATION NUMBER | REGISTERED UNDER | REGISTRATION PERIOD |
|----------------|---------|----------------|------------------------|-------------------------|------------------|---------------------|
| 01 | 01 | 001 | | 20121213 1451 1530 1841 | P PPSA | 5 |

| DEBTOR NAME | DATE OF BIRTH | FIRST GIVEN NAME | INITIAL | SURNAME | ONTARIO CORPORATION NO. |
|-------------|---------------|------------------|---------|--|-------------------------|
| 02 | | | | | |
| 03 | | BUSINESS NAME | | SHOP.CA NETWORK INC. | |
| 04 | | ADDRESS | | 70 PETER ST SUITE 200 TORONTO ON M5V 2G5 | |

| DEBTOR NAME | DATE OF BIRTH | FIRST GIVEN NAME | INITIAL | SURNAME | ONTARIO CORPORATION NO. |
|-------------|---------------|------------------|---------|---------|-------------------------|
| 05 | | | | | |
| 06 | | BUSINESS NAME | | | |
| 07 | | ADDRESS | | | |

| SECURED PARTY / LIEN CLAIMANT | ADDRESS | THE TORONTO-DOMINION BANK - 19562 | TORONTO | ON | M4T 2V4 |
|-------------------------------|---------|-----------------------------------|---------|--|---------|
| 08 | | | | | |
| 09 | | ADDRESS | | 2 ST. CLAIR AVENUE EAST TORONTO ON M4T 2V4 | |

| COLLATERAL CLASSIFICATION | CONSUMER GOODS | INVENTORY | EQUIPMENT | ACCOUNTS | OTHER | MOTOR VEHICLE INCLUDED | AMOUNT | DATE OF MATURITY OR | NO FIXED MATURITY DATE |
|---------------------------|----------------|-----------|-----------|----------|-------|------------------------|--------|---------------------|------------------------|
| 10 | | | | | | X | | | X |

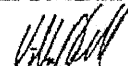
| MOTOR VEHICLE | YEAR MAKE | MODEL | V.I.N. |
|---------------|-----------|-------|--------|
| 11 | | | |
| 12 | | | |

13 GENERAL COLLATERAL DESCRIPTION

| REGISTERING AGENT | ADDRESS | D+H LIMITED PARTNERSHIP | BURNABY | BC | V5G 3S8 |
|-------------------|---------|-------------------------|---------|---|---------|
| 14 | | | | | |
| 15 | | ADDRESS | | SUITE 200, 4126 NORLAND AVENUE BURNABY BC V5G 3S8 | |

*** FOR FURTHER INFORMATION, CONTACT THE SECURED PARTY. ***

CONTINUED... 4

CERTIFIED BY/CERTIFIÉES PAR

 REGISTRAR OF PERSONAL PROPERTY SECURITY / LE REGISTRATEUR DES SÛRETÉS MOBILIÈRES

(c)1/6 09/2013



RUN NUMBER : 158
RUN DATE : 2016/06/06
ID : 20160606152926.68

PROVINCE OF ONTARIO
MINISTRY OF GOVERNMENT SERVICES
PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
ENQUIRY RESPONSE
CERTIFICATE

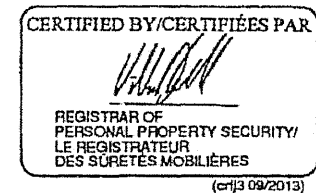
REPORT : PSSR050
PAGE : 4
(11000)

TYPE OF SEARCH : BUSINESS DEBTOR
SEARCH CONDUCTED ON : SHOP.CA NETWORK INC.
FILE CURRENCY : 05JUN 2016

INFORMATION RELATING TO THE REGISTRATIONS LISTED BELOW IS ATTACHED HERETO.

| FILE NUMBER | REGISTRATION NUMBER | REGISTRATION NUMBER | REGISTRATION NUMBER | REGISTRATION NUMBER |
|-------------|-------------------------|---------------------|---------------------|---------------------|
| 683554221 | 20121213 1451 1530 1840 | | | |
| 683554239 | 20121213 1451 1530 1841 | | | |

2 REGISTRATION(S) ARE REPORTED IN THIS ENQUIRY RESPONSE.



TAB C

This is Exhibit "C"
to the affidavit of Robert S. Lee,
sworn before me on the 8th day
of June, 2016

Justine Johnston
Commissioner for Taking Affidavits

Consolidated financial statements of

SHOP.CA Network Inc.

December 31, 2014 and 2013

SHOP.CA Network Inc.

December 31, 2014 and 2013

Table of contents

| | |
|--|------|
| Independent Auditor's Report | 1-2 |
| Consolidated statements of loss and comprehensive loss | 3 |
| Consolidated statements of changes in equity..... | 4 |
| Consolidated statements of financial position..... | 5 |
| Consolidated statements of cash flows | 6 |
| Notes to the consolidated financial statements | 7-27 |



Deloitte LLP
1 City Centre Drive
Suite 500
Mississauga ON L5B 1M2
Canada

Tel: 416-601-6159
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Chairman and Members of
the Audit Committee of SHOP.CA Network Inc.

We have audited the accompanying consolidated financial statements of SHOP.CA Network Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SHOP.CA Networks Inc. as at December 31, 2014 and 2013, its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
June 09, 2015

SIHOP.CA Network Inc.

Consolidated statements of loss and comprehensive loss years ended December 31, 2014 and 2013

(In Canadian dollars)

| | 2014 | 2013 |
|---|--------------|--------------|
| | \$ | \$ |
| Revenue | 27,377,005 | 21,853,943 |
| Cost of sales | 24,785,166 | 20,511,651 |
| | 2,591,839 | 1,342,292 |
| Expenses | | |
| Marketing and sales | 16,903,113 | 13,008,214 |
| Platform | 3,004,223 | 2,514,520 |
| Finance and administration | 3,315,638 | 1,625,093 |
| Service | 1,097,921 | 737,962 |
| | 24,320,895 | 17,885,789 |
| Loss from operating activities before depreciation and amortization | (21,729,056) | (16,543,497) |
| Depreciation of property and equipment (Note 6) | 142,313 | 70,983 |
| Amortization of trademarks (Note 7) | 1,945 | 1,403 |
| | (21,873,314) | (16,615,883) |
| Finance | | |
| Investment income | 207,610 | 77,146 |
| Net loss | (21,665,704) | (16,538,737) |
| Other comprehensive loss | | |
| Unrealized fair value gain/(loss) on investments | 22,136 | (1,684) |
| Comprehensive loss | (21,643,568) | (16,540,421) |

The accompanying notes are an integral part of these consolidated
financial statements

SHOP.CA Network Inc.
Consolidated statements of changes in equity
years ended December 31, 2014 and 2013
(In Canadian dollars)

| | Share capital | Share-based payment reserve | Accumulated other comprehensive (gain) loss | Deficit | Total |
|--|-------------------|-----------------------------------|--|---------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Opening balance as at January 1, 2014 | 29,184,004 | 422,073 | (5,594) | (28,251,625) | 1,348,858 |
| Issuance on Series B Initial Close financing in exchange for cash less issuance costs (Notes 5, 11) | 12,094,550 | - | - | - | 12,094,550 |
| Issuance on Series B Subsequent Close financing for cash less issue costs (Note 11) | 17,351,674 | - | - | - | 17,351,674 |
| Issuance on Series B financing in exchange for cash less issuance costs (Notes 5, 11) | 550,000 | - | - | - | 550,000 |
| Issuance on exercise of options for cash (Note 11) | 4,653 | - | - | - | 4,653 |
| Net loss for the period | - | - | - | (21,665,704) | (21,665,704) |
| Stock-based compensation (Note 11b) | - | 1,232,192 | - | - | 1,232,192 |
| Unrealized fair value gain (loss) on investments | - | - | 22,136 | - | 22,136 |
| Balance as at December 31, 2014 | 59,284,881 | 1,654,265 | 16,542 | (49,917,329) | 11,038,359 |
| Opening balance as at January 1, 2013 | 19,274,497 | 49,856 | (9,910) | (11,712,885) | 7,606,565 |
| Issuance on Series A financing for cash less issue costs (Note 11) | 5,085,000 | - | - | - | 5,085,000 |
| Issuance on Series A1 financing in exchange or for cash less issuance costs (Notes 5, 11) | 1,304,507 | - | - | - | 1,304,507 |
| Issuance on Series A1.5 financing for cash less issue costs (Note 11) | 3,520,000 | - | - | - | 3,520,000 |
| Net loss for the period | - | - | - | (16,538,737) | (16,538,737) |
| Stock-based compensation (Note 11b) | - | 373,207 | - | - | 373,207 |
| Unrealized fair value gain/(loss) on investments | - | - | (1,884) | - | (1,884) |
| Balance as at December 31, 2013 | 29,184,004 | 422,073 | (5,594) | (28,251,625) | 1,348,858 |

The accompanying notes are an integral part of these consolidated
financial statements

SHOP.CA Network Inc.
 Consolidated statements of financial position
 as at December 31, 2014 and 2013
 (In Canadian dollars)

| | 2014 | 2013 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash and cash equivalents | 14,985,839 | 5,520,964 |
| Investments | 600,007 | 342,137 |
| Surplus accounts receivable (Note 4) | 2,307,574 | 2,543,801 |
| Inventory | 215,512 | 184,334 |
| Prepayments (Notes 5) | 848,259 | 500,483 |
| | <u>18,957,191</u> | <u>9,091,739</u> |
| Non-current | | |
| Property and equipment (Note 6) | 298,289 | 137,863 |
| Intangible assets (Note 7) | 1,040,963 | 856,054 |
| | <u>1,339,252</u> | <u>993,717</u> |
| | <u>20,296,443</u> | <u>10,085,456</u> |
| Liabilities | | |
| Current | | |
| Trade payables and accrued liabilities (Note 8) | 8,254,195 | 8,291,359 |
| Deferred revenue (Note 9) | 1,003,889 | 445,239 |
| | <u>9,258,084</u> | <u>8,736,598</u> |
| Shareholders' equity | | |
| Share capital (Note 11) | 59,284,681 | 29,184,004 |
| Share-based payment reserve (Note 11) | 1,654,265 | 422,073 |
| Deficit | (49,917,329) | (28,251,625) |
| Accumulated other comprehensive income (Note 12) | 18,542 | (5,554) |
| | <u>11,038,359</u> | <u>1,348,858</u> |
| Total liabilities and shareholders' equity | <u>20,296,443</u> | <u>10,085,456</u> |

Approved by the Board of Directors

Richard G. ...
 June 09, 2015

Robert J. ...

The accompanying notes are an integral part of these consolidated financial statements

SHOP.CA Network Inc.
Consolidated statements of cash flows
years ended December 31, 2014 and 2013
(In Canadian dollars)

| | 2014 | 2013 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss | (21,665,704) | (16,538,737) |
| Items not affecting cash: | | |
| Stock-based compensation | 1,232,192 | 373,207 |
| Media in kind (Notes 5, 11) | 390,000 | 1,304,507 |
| Depreciation of property and equipment | 142,313 | 70,983 |
| Amortization of trademarks | 1,945 | 1,403 |
| | <u>1,766,450</u> | <u>1,750,100</u> |
| Changes in non-cash operating working capital items | | |
| Other accounts receivable | 236,227 | (1,309,522) |
| Prepayments | (87,776) | 1,154,563 |
| Inventory | (31,178) | (163,797) |
| Trade payables and accrued liabilities | (37,164) | 5,938,022 |
| Deferred revenue | 558,650 | 286,631 |
| Media subscription payable | - | (1,304,507) |
| | <u>638,759</u> | <u>4,601,390</u> |
| | <u>(19,260,495)</u> | <u>(10,187,247)</u> |
| Investing activities | | |
| Acquisition of property and equipment (Note 6) | (302,939) | (35,736) |
| Acquisition of intangible assets (Note 7) | (186,854) | (38,514) |
| Investments | (235,734) | (267,588) |
| | <u>(725,527)</u> | <u>(341,838)</u> |
| Financing activities | | |
| Proceeds from issuance of 'Series B initial close' shares (Note 11) | 12,094,550 | - |
| Proceeds from issuance of 'Series B subsequent close' shares (Note 11) | 17,351,674 | - |
| Proceeds from exercised of options (Note 11) | 4,653 | - |
| Proceeds from issuance of 'Series A1' shares (Note 11) | - | 5,085,000 |
| Proceeds from issuance of 'Series A1.5' shares (Note 11) | - | 3,520,000 |
| | <u>29,450,877</u> | <u>8,605,000</u> |
| Net (decrease) increase in cash and cash equivalents | 9,464,855 | (1,924,085) |
| Cash and cash equivalents, beginning of year | 5,520,984 | 7,445,069 |
| Cash and cash equivalents, end of year | <u>14,985,839</u> | <u>5,520,984</u> |
| Cash and cash equivalents are comprised of the following: | | |
| Cash | 911,214 | 858,111 |
| Cash equivalents | 14,074,625 | 4,662,873 |
| | <u>14,985,839</u> | <u>5,520,984</u> |

The accompanying notes are an integral part of these consolidated financial statements

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

1. Nature of operations

SHOP.CA Network Inc. (the "Company") was incorporated on September 11, 2009 under the provisions of the Canada Business Corporations Act and commenced consumer operations in July 2012. The Company is an online shopping marketplace, providing a Canadian experience that combines a large selection of products, customer service and a social loyalty program that rewards members on purchase. The Company's head office and registered office is located at Toronto, Ontario.

2. Basis of presentation

(a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention, except for certain financial assets and financial liabilities which are measured at fair value, as explained in Note 3 (i) and Note 14 Financial Instruments.

(c) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control is achieved where the Company has the power over the investee, exposed to variable rewards and has the means to direct relevant activities. These consolidated financial statements comprise the results of SHOP.CA Network Inc. and 2334214 Ontario Inc. which is dormant.

(d) Functional currency

The consolidated financial statements are presented in Canadian dollars, the functional currency of the Company.

(e) Accounting judgements and key sources of estimate uncertainty

In the preparation of the consolidated financial statements and the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are limited by the relevance of historical data and uncertainty of future events. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period impacted. If the revision affects both the current and future periods then the revision is reflected in both current and future periods.

Information about assumptions and estimation uncertainties that could have a significant impact on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 3 (c) - Allowance for doubtful accounts
- Note 3 (f) - Prepayments
- Note 3 (g) - Property and equipment valuation and useful life estimates
- Note 3 (h) - Intangible assets and their recoverability
- Note 3 (i) - Revenue Recognition
- Note 3 (n) - Store Credit and Rewards
- Note 5 - Prepayments
- Note 11 - Fair value of stock-based compensation
- Note 12 - Government assistance from investment tax credits
- Note 13 - Income taxes valuation allowance
- Note 14 - Classification of financial instruments

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Foreign currency translations

The financial statements of the Company are presented in Canadian dollars

Transactions in currencies other than the functional currency are translated at the rates of exchange at the date of the transaction. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the period end date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses are recognized as profit or loss in the period in which they arise and are recorded within other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(c) Sundry accounts receivable

Sundry receivables do not carry any interest; therefore, the amortized cost of these assets is equal to the nominal value. See Notes 3(i) and 3 (j) for more information on the recognition and measurement of sundry receivables.

(d) Inventory

Inventory reflects goods in-transit to customers and returned goods available for sale that are recorded at net realizable value. During the year \$24,785,166 (2013 - \$20,511,651) of inventory was recognized as an expense.

(e) Investments

Investments comprise highly liquid investments having original terms to maturity of 3 months or less when acquired.

(f) Prepayments

Prepayments are recorded for prepaid expenditures and are drawn down as used as specified in contracts.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of the assets' cost less residual value is recognized over the estimated useful life of assets, based on the following annual rates:

| | |
|-------------------------|---|
| Computer equipment | Straight-line over the shorter of the estimated life of the asset or 3 years. |
| Furniture and equipment | Straight-line over the shorter of the estimated life of the asset or 3 years. |
| Leasehold improvements | Straight-line over the term of the lease. |

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(g) Property and equipment (continued)

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's judgment; as a result, the resulting depreciation is subject to estimation uncertainty.

Items of property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. Any gain or loss arising from disposal or retirement is determined as the difference between the consideration received and the carrying amount of the asset and is recognized in profit or loss.

(h) Intangible assets

i) SHOP.CA Domain, SHOP.CA Trademarks

Intangible assets stated at cost include the SHOP.CA domains that have an indefinite life and the Canadian and United States registered trademarks. These trademark costs are amortized over 15 years.

(i) Research and development expenses

Research costs are expensed as incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, the development expenditure is recognized in profit or loss in the period in which it is incurred.

There have been no development costs incurred to date.

(j) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized in profit or loss when incurred.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(j) Financial instruments (continued)

i) Classification and subsequent measurement

The Company classifies its financial instruments into one of the following categories at initial recognition based on the nature and purpose of the instrument:

Assets

- Fair value through profit or loss
- Held-to-maturity
- Loans and receivables
- Available for sale

Liabilities

- Fair value through profit or loss
- Other liabilities

Fair value through profit or loss

Financial assets and liabilities are classified as fair value through profit or loss when the financial asset or liability is held for trading or is designated as fair value through profit or loss upon initial recognition.

Financial assets and liabilities classified as fair value through profit or loss are stated at fair value with any gains or losses arising on remeasurement recognized in profit or loss.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified in any of the other asset categories. The Company has designated investments which consist of Canadian equities as available for sale financial assets.

Available for sale financial assets are stated at fair value. Changes in the fair value of monetary available for sale assets resulting from foreign exchange gains and losses, interest income calculated using the effective interest method and dividends are all recognized in profit or loss; all other changes in fair value are recognized in other comprehensive income. When an available for sale asset is derecognized, the cumulative loss in other comprehensive loss is transferred to profit or loss.

Held-to-maturity, loans and receivables, and other liabilities

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the intent and ability to hold to maturity; the Company currently has no held-to-maturity assets. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including cash and cash equivalents, and other accounts receivables. Other financial liabilities include, trade payables and accrued liabilities.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(j) Financial instruments (continued)

i) Classification and subsequent measurement (continued)

Subsequent to initial recognition, these financial instruments are measured at amortized cost using the effective interest method less any impairment. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received, transaction costs and other premiums or discounts that form an integral part of the effective interest rate) through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

The amortized cost of these financial instruments approximates their fair value due to their short-term nature.

ii) Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the assets have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership to another entity.

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in consolidated statement of comprehensive loss.

(k) Impairment

i) Non-financial assets

The Company's plant and equipment and definite life intangibles are reviewed for indicators of potential impairment at the end of each reporting period. Such indicators may include an adverse change in business climate, technology, or regulations that impact the industry. The determination of whether such indicators exist requires significant judgement.

If indication of impairment exists, the asset's recoverable amount is estimated to determine the extent of an impairment loss, if any. For an asset that does not generate largely independent cash inflows or for which it is not possible to estimate the recoverable amount, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount of an asset or CGU is the greater of fair value less costs to sell and value in use. The determination of the recoverable amount in the impairment assessment requires estimates based on quoted market prices, prices of comparable transactions, present value or other valuation techniques or a combination thereof, necessitating management to make subjective judgments and assumptions. When calculating an asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the cash flows have not been adjusted.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(k) Impairment (continued)

i) Non-financial assets (continued)

An impairment loss is recognized when the carrying amount of an asset, or CGU, exceeds its recoverable amount. Impairment losses are recognized in profit or loss for the period. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, if any, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. The Company has no goodwill balance for any of the reporting periods presented.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The reversal of an impairment loss is recognized immediately in profit or loss.

ii) Financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected. The determination of whether such indicators exist requires significant judgement.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty
- Default or delinquency in interest or principal payments
- It has become probable that the borrower will enter bankruptcy or financial reorganization
- The disappearance of an active market for the security, or
- Significant or prolonged decline in the fair value of an available for sale equity instruments below its cost

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is directly reduced by the impairment loss with the exception of other receivables. The carrying amount of other receivables is reduced through the use of an allowance account. When an other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Impairment losses on available for sale assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses in equity, to profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized. Impairment losses recognized in profit or loss on available for sale equity instruments cannot be reversed.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(l) Revenue recognition

Revenue represents the amounts receivable for goods and services provided in the normal course of business, net of discounts.

- i) Revenue is recognized from product sales or services rendered when the following four criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectability is reasonably assured.

The Company evaluates whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when the Company is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at the gross sales price.

Revenue represents the sale of products and digital content. Product sales and shipping revenues, net of promotional discounts, rebates, and return allowances, are recorded when the products are delivered to customers.

Return allowances, which reduce revenue, are estimated using historical experience. Revenue from product sales and services rendered is recorded net of sales and commodity taxes.

The Company periodically provides incentive offers to its customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off current purchases, inducement offers, like offers for future discounts subject to a minimum value purchase, and other similar offers. Current discount offers, when accepted by the customers, are treated as a reduction to the purchase price of the related transaction, while inducement offers, when accepted by the customers, are treated as a reduction to purchase price based on estimated future redemption rates. Redemption rates are estimated using the Company's historical experience for similar inducement offers. Current discount offers and inducement offers are presented as a net amount in "Revenue."

- ii) Display revenue is recorded as earned.
- iii) Investment income is recorded as earned consistent with 3 (i) Financial Instruments.

(m) Cost of sales

Cost of sales includes the cost of goods and cost of shipping services sold. More specifically, this includes the purchase price of merchandise sold, along with freight and handling costs incurred in preparing and delivering the related item.

(n) Store Credit and Rewards

SHOP.CA store credit is issued for returns on qualifying products returned after 30 days. For various marketing and customer service activities, members can also be granted store credit by SHOP.CA for future use. A provision for this store credit has been recorded as deferred revenue (See Note 9 (b)). These store credits are available for future use on SHOP.CA purchases and have no expiry date.

SHOP.CA store credit is recognized when used.

Prior to April 1, 2014, new SHOP.CA members received sign-up bonus credits (rewards). Specifically, new members received \$25 SHOP.CA credits (rewards) that could be used on an order of \$100 or more. Effective January 7th, 2014, new members received \$15 credits (rewards) to spend on an order of \$99 or more. The spend limit is post discount and promo codes. All sign-up bonus credits (rewards) expired as of April 30, 2014.

Prior to May 1, 2014, SHOP.CA administered a rewards program and members could be granted and earn rewards in a number of ways.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(n) *SHOP.CA Store Credit and Rewards(continued)*

Rewards earned on purchases are recorded at fair value and presented net of revenue. The estimated fair value is determined based on expected future redemptions. The trends in redemption rates are reviewed on an ongoing basis and the estimated fair value is adjusted based upon expected future activity.

Rewards issued as part of member acquisition and specifically the new member sign up bonus is recognized when used. In 2013, new members received either \$15 or \$25 to be used against their first purchase of \$100 or more. The bonus had no cash value and the minimum purchase criteria had to be fulfilled. These rewards were available until expired on April 30, 2014.

For various marketing and customer service activities, members can also be granted rewards by SHOP.CA for future use. A provision for these rewards has been recorded as deferred revenue (See Note 9 (b)).

(o) *Share-based compensation plan*

i) *Share options - grants to employees*

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of options granted to employees at the grant date. The Board of Directors sets the exercise price of all options.

IFRS 2 *Share-based Payments*, requires that when share options granted vest pro-rata over the vesting period, that each tranche with graded vesting features is treated as a separate share option grant. The fair value, determined at the grant date, of each share option granted, is expensed on a straight-line basis over the vesting period, taking into consideration the Company's estimate of options that will eventually vest, with a corresponding increase in equity. Forfeitures are estimated on the grant date and revised if the actual forfeitures differ from previous estimates.

The inputs to the Black-Scholes model and the determination of the forfeiture rate are subject to management judgment.

(p) *Leases - the company as a lessee*

Operating lease payments are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

(q) *Provisions and contingencies*

i) *Provisions*

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

3. Significant accounting policies (continued)

(q) Provisions and contingencies (continued)

ii) Contingencies

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. As contingencies will only be resolved when one or more future events occur or fail to occur, the assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

iii) Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic benefits on current sales.

iv) Store Credit (Rewards)

Provisions for future store credit (reward redemptions) are made based on the expected future outflow of economic benefits on marketing and sales. There is no expiry of these store credits and members are able to use these store credits on future purchases at their discretion. All sign-up bonus rewards expired as of April 30, 2014.

(r) Income taxes

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantially enacted at the reporting date and any adjustment to tax payable from previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to unused tax loss carry forwards, unused tax credits and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(s) Segment reporting

The Company has a single operating segment with all assets located and revenues generated from services provided in Canada.

(t) Government assistance

Government assistance is composed of refundable tax credits and is recognized at the expected future value.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

4. Sundry accounts receivable

| | 2014 | 2013 |
|--|------------------|------------------|
| | \$ | \$ |
| Tax credits receivable (PST, GST, HST, SRED) | 1,598,147 | 2,329,574 |
| Other accounts receivable | 734,427 | 239,227 |
| Allowance for doubtful accounts | (25,000) | (25,000) |
| | <u>2,307,574</u> | <u>2,543,801</u> |

Allowance for doubtful accounts reflects the estimated chargebacks. Nil was drawn down.

5. Prepayments

| | 2014 | 2013 |
|-------------------|----------------|----------------|
| | \$ | \$ |
| Prepaid media | 260,000 | - |
| Other prepayments | 588,259 | 500,483 |
| | <u>848,259</u> | <u>500,483</u> |

A component of the Company's series A financing (see Note 11) was an agreement to exchange Class A common shares of the Company for radio airtime, print and digital media advertising services.

During the year, \$650,000 of shares were issued and the corresponding expense of \$390,000 was recognized to reflect media advertising services rendered (2013 - \$1,304,507). At year end, \$260,000 remains as prepaid media.

Other prepayments include future operating expenses of the business such as rent, technology and insurance.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

6. Property and equipment

| | Computer equipment | Furniture and equipment | Leasehold improvements | Total |
|-----------------------------------|-----------------------|----------------------------|---------------------------|----------------|
| | \$ | \$ | \$ | \$ |
| Cost | | | | |
| Balance, January 1, 2013 | 113,573 | 41,833 | 57,793 | 213,199 |
| Additions | 35,736 | - | - | 35,736 |
| Balance, December 31, 2013 | 149,309 | 41,833 | 57,793 | 248,935 |
| Additions | 296,118 | 6,821 | - | 302,939 |
| Balance, December 31, 2014 | 445,427 | 48,654 | 57,793 | 551,874 |
| Accumulated depreciation | | | | |
| Balance, January 1, 2013 | 28,894 | 5,783 | 5,612 | 40,289 |
| Depreciation expense | 40,805 | 13,943 | 16,235 | 70,963 |
| Balance, December 31, 2013 | 69,699 | 19,726 | 21,847 | 111,272 |
| Depreciation expense | 111,458 | 16,235 | 14,620 | 142,313 |
| Balance, December 31, 2014 | 181,157 | 35,961 | 36,467 | 253,585 |
| Carrying amount | | | | |
| December 31, 2013 | 79,610 | 22,107 | 35,946 | 137,663 |
| December 31, 2014 | 264,270 | 12,693 | 21,326 | 298,289 |

There were no impairment write-downs or any reversals of previous write-downs during the years presented.

7. Intangible assets

| | Domains | Trademarks | Total |
|--|------------------|---------------|------------------|
| | \$ | \$ | \$ |
| Cost | | | |
| Balance, January 1, 2013 | 804,011 | 14,932 | 818,943 |
| Additions | 26,280 | 12,234 | 38,514 |
| Balance, December 31, 2013 | 830,291 | 27,166 | 857,457 |
| Additions | 182,839 | 4,015 | 186,854 |
| Balance, December 31, 2014 | 1,013,130 | 31,181 | 1,044,311 |
| Accumulated amortization and impairment | | | |
| Balance, January 1, 2013 | - | - | - |
| Amortization | - | 1,403 | 1,403 |
| Balance, December 31, 2013 | - | 1,403 | 1,403 |
| Amortization | - | 1,945 | 1,945 |
| Balance, December 31, 2014 | - | 3,348 | 3,348 |
| Carrying amount | | | |
| December 31, 2013 | 830,291 | 25,763 | 856,054 |
| December 31, 2014 | 1,013,130 | 27,833 | 1,040,963 |

There were no impairment write-downs or any reversals of previous write-downs during the years presented.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

8. Trade payables and accrued liabilities

| | 2014 | 2013 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Trade payables | 4,670,287 | 4,764,686 |
| Tax payable (PST, GST, HST) | 594,722 | 1,980,896 |
| Accrued liabilities | 2,989,186 | 1,545,777 |
| | <u>8,254,195</u> | <u>8,291,359</u> |

9. Deferred revenue

| | 2014 | 2013 |
|------------------------------------|------------------|----------------|
| | \$ | \$ |
| Customer deposits (a) | 868,889 | 177,485 |
| Store credit (Rewards program) (b) | 135,000 | 267,754 |
| | <u>1,003,889</u> | <u>445,239</u> |

The Company's deferred revenue is as follows:

- (a) Customer deposits are recorded when payment is received in advance of delivery of goods to the customer.
- (b) SHOP.CA members have accumulated store credit (rewards prior to May 1, 2014) that are available for future use and these are carried as deferred revenue until utilized.

10. Leases

(a) Finance leases

There are no finance leases outstanding.

(b) Operating leases

The remaining terms of the operating lease are from one to three years plus renewal options. Future minimum lease payments under these operating leases are as follows

| | Total | Less than 1 year | 1 to 5 years | More than 5 years |
|-------------------------------|---------|---------------------|-----------------|----------------------|
| | \$ | \$ | \$ | \$ |
| Future minimum lease payments | 231,641 | 213,822 | 17,819 | - |

Gross operating lease payments of \$213,822 (2013 - \$209,476) were recognized as an expense for the year ended December 31, 2014.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

11. Share capital and reserves

(a) Authorized share capital

The Company has an unlimited number of authorized Class A common shares with no par value.

Issued share capital

| | Class A common shares | Class A common shares |
|--|-----------------------------|-----------------------------|
| | \$ | |
| Balance, January 1, 2013 | 157,361,959 | 19,274,497 |
| Issuance on "Series A" financing | | |
| Issued in exchange for media (i) | 4,457,382 | 1,304,507 |
| Issued for cash less issue costs (ii) | 13,348,125 | 5,085,000 |
| Issued for cash less issue costs (iii) | 7,392,000 | 3,520,000 |
| Balance, December 31, 2013 | 182,559,466 | 29,184,004 |
| Issuance on "Series B" financing | | |
| Issued for cash less issues costs (iv) | 16,707,469 | 12,094,550 |
| Issued for cash less issue costs (v) | 24,055,096 | 17,351,674 |
| Issued in exchange for media (vi) | 812,500 | 650,000 |
| Issued for cash (vii) | 75,278 | 4,653 |
| Balance, December 31, 2014 | 224,209,809 | 59,284,881 |

During the year ended December 31, 2013 the Company issued Class A common shares in the following transactions:

- (i) From January 1, 2013 to March 31, 2013, the Company issued 4,253,452 shares at prices between \$0.24 and \$0.34 per share in consideration for media and advertising services provided by investors in the 'Series A' financing arrangement. This was a non-cash transaction as the Company received media and advertising in lieu of cash.

From January 1, 2013 to March 31, 2013, the Company issued 203,930 shares at a price of \$0.29 per share to a merchant banker in consideration of services received to arrange the 'Series A' financing (\$60,020).

The cost of arranging these media and advertising services has been netted against the share capital raised and was a non-cash transaction. (\$60,020).

- (ii) On August 28, 2013, the Company closed a 'Series A1' financing arrangement and issued 12,712,500 shares at a price of \$0.40 per share for cash. (\$5,085,000).

On August 28, 2013, the Company issued 635,625 shares at a price of \$0.40 per share to a merchant banker in consideration of services received to arrange the 'Series A1' financing (\$254,250).

The cost of this financing has been netted against the share capital raised and was a non-cash transaction. (\$254,250).

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

11. Share capital and reserves (continued)

(a) Authorized share capital (continued)

- (iii) On December 10, 2013, the Company closed a 'Series A1.5' financing arrangement and issued 7,040,000 shares at a price of \$0.50 per share for cash (\$3,520,000). The offering included a provision to issue subscribers additional shares corresponding to 20% of the number of common shares issued to a subscriber if additional capital was not raised by April 30, 2014.

On December 10, 2013, the Company issued 352,000 shares at a price of \$0.50 per share to a merchant banker in consideration of services received to arrange the 'Series A1.5' financing (\$176,000).

The cost of this financing has been netted against the share capital raised and was a non-cash transaction. (\$176,000).

During the year ended December 31, 2014, the Company issued Class A common shares in the following transactions:

- (iv) On March 28, 2014, the Company closed a 'Series B Initial Close' financing arrangement and issued 15,911,675 shares at a price of \$0.80 per share for cash (\$12,729,500).

On March 28, 2014, the Company issued 795,594 shares at a price of \$0.80 per share to a merchant banker in consideration of services received to arrange the 'Series B' financing (\$636,475).

The cost of this financing has been netted against the share capital raised and was a non-cash transaction. (\$636,475).

- (v) On April 30, 2014, the Company closed a 'Series B Subsequent Close' financing arrangement and issued 22,870,925 shares at a price of \$0.80 per share for cash (\$18,296,740).

On April 30, 2014, the Company issued 1,184,171 shares at a price of \$0.80 per share to a merchant banker in consideration of services received to arrange the 'Series B' financing (\$947,337).

The cost of this financing has been netted against the share capital raised and was a non-cash transaction. (\$947,337).

- (vi) On April 30, 2014, the Company issued 612,500 shares at a price of \$0.80 per share in consideration for media and advertising services provided by investors in the 'Series B' financing arrangement. This is a non-cash transaction as the Company received media and advertising in lieu of cash.

- (vii) During the year ended December 31, 2014, vested options were exercised for the issuance of 75,278 shares for cash, (\$4,653).

(b) Share-based payment expense and reserve

On January 1, 2011, the Company established the founders stock option plan. On June 15, 2012, the Company established the stock option plan 2 followed by stock option plan 3 on April 1, 2014 (together referred to as the "Plans"). These Plans are intended to attract, retain and motivate employees, officers and directors. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Plans and the term, vesting periods, and the exercise price of options granted under the Plans. The total number of shares which may be issued under the Plans shall not exceed 25,000,000 Class A common shares. This amount is allocated between the plans as 10,000,000 Class A common shares for the founders' stock option plan and 5,000,000 Class A common shares as established June 15, 2012 in stock option plan 2 and 10,000,000 Class A common shares in stock option plan 3.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

11. Share capital and reserves (continued)

(b) Share-based payment expense and reserve (continued)

Options granted under the Plans have a maximum term of ten years. The options begin to vest 24 months after grant date and vest at a rate of 1/36 per month from that time (unless otherwise determined by the Board of Directors) and have an exercise price per share of no less than the fair market value of the "underlying shares" on the date of the option grant less any applicable discount, as determined by the Board of Directors or duly authorized committee at the time of the grant.

All options granted under the Plans that have not been exercised on or before their tenth anniversary of the date of grant will expire on that date subject to earlier termination upon the option holder ceasing to be a director, officer, employee or consultant of the Company. The following table presents information concerning stock options granted to the Company's directors, officers, and employees

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(in Canadian dollars)

11. Share capital and reserves (continued)

(b) Share-based payment expense and reserve (continued)

| 2014 | Granted | Exercised | Expired | Forfeited | Outstanding December 31, 2014 | Number vested | Expiry date | Exercise price \$ |
|-----------------|------------|-----------|-----------|-------------|-------------------------------------|------------------|----------------|-------------------------|
| Jan 1, 2014 | 14,003,000 | - | (250,000) | (625,000) | 13,128,000 | 2,900,711 | Dec 2023 | 0.01 - 0.50 |
| Jan 1 - Mar 31 | 1,600,000 | - | - | (302,500) | 1,297,500 | 836,107 | Mar 2024 | 0.80 |
| Apr 1 - Jun 30 | 5,187,500 | - | (50,000) | - | 5,137,500 | 920,975 | Jun 2024 | 0.80 |
| Jul 1 - Sept 30 | 295,500 | (26,667) | - | (143,333) | 126,500 | 919,364 | Sept 2024 | 0.80 |
| Oct 1 - Dec 31 | 2,770,000 | (48,611) | (8,678) | (280,211) | 2,432,500 | 1,151,017 | Dec 2024 | 0.68 |
| | 23,857,000 | (75,278) | (308,678) | (1,351,044) | 22,122,000 | 6,728,174 | | |

| 2013 | Granted | Exercised | Expired | Forfeited | Outstanding December 31, 2013 | Number vested | Expiry date | Exercise price \$ |
|-----------------|------------|-----------|-----------|-------------|-------------------------------------|------------------|----------------|-------------------------|
| Jan 1, 2013 | 11,620,000 | - | - | (165,000) | 11,455,000 | 480,592 | Dec 2022 | 0.01 - 0.30 |
| Jan 1 - Mar 31 | 650,000 | - | - | (55,000) | 595,000 | 416,674 | Mar 2023 | 0.30 |
| Apr 1 - Jun 30 | 20,000 | - | - | (342,500) | (322,500) | 429,174 | Jun 2023 | 0.30 |
| Jul 1 - Sept 30 | 828,000 | - | - | (63,000) | 765,000 | 716,659 | Sept 2023 | 0.30 - 0.40 |
| Oct 1 - Dec 31 | 655,000 | - | (250,000) | (2,500) | 632,500 | 648,612 | Dec 2023 | 0.40 - 0.50 |
| | 14,003,000 | - | (250,000) | (1,020,000) | 13,128,000 | 2,900,711 | | |

SIOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

11. Share capital and reserves (continued)

(b) Share-based payment expense and reserve (continued)

The Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the options issued. In all the calculations the expected life was five years and the annual dividend yield was assumed to be \$Nil. All other assumptions are summarized below

| 2014 Grant date | Options granted | Weighted average volatility rate % | Weighted average risk free interest rate % | Weighted average fair value at grant date \$ |
|-------------------------|--------------------|--|---|---|
| January 1 - March 31 | 1,600,000 | 49.572 | 1.956 | 0.5751 |
| April 1 - June 30 | 5,167,500 | 49.509 | 1.970 | 0.4865 |
| July 1 - September 30 | 296,500 | 49.007 | 1.905 | 0.4820 |
| October 1 - December 31 | 2,770,000 | 48.726 | 1.820 | 0.4787 |
| | 9,854,000 | 49.284 | 1.924 | 0.4986 |

| 2013 Grant date | Options granted | Weighted average volatility rate % | Weighted average risk free interest rate % | Weighted average fair value at grant date \$ |
|-------------------------|--------------------|--|---|---|
| January 1 - March 31 | 650,000 | 51.768 | 1.622 | 0.1855 |
| April 1 - June 30 | 20,000 | 51.645 | 1.580 | 0.1854 |
| July 1 - September 30 | 828,000 | 50.921 | 2.260 | 0.2198 |
| October 1 - December 31 | 885,000 | 45.717 | 2.175 | 0.3845 |
| | 2,383,000 | 49.226 | 2.049 | 0.2713 |

| | Share-based payment reserve \$ |
|--|--------------------------------------|
| Balance, January 1, 2013 | 48,866 |
| Employee stock-based compensation recorded in the year | 373,207 |
| Balance, December 31, 2013 | 422,073 |
| Employee stock-based compensation recorded in the year | 1,232,192 |
| Balance, December 31, 2014 | 1,654,265 |

For the year ended December 31, 2014 the Company recognized compensation expense in relation to these options of \$1,232,192 (2013 - \$373,207) in operating costs.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

12. Government assistance

Refundable tax credits relating to scientific research and experimental development ("SRED") of the Company are claimed from the Canadian federal and provincial governments. The net refundable tax credits recorded to operating costs for the year ended December 31, 2014 were \$125,000 (2013 - \$5,000 as a result of a benefit of \$122,137 related to 2013 being offset by an adjustment to the 2012 recovery of (\$127,137)).

13. Income taxes

A reconciliation of income taxes for the years ended December 31, 2014 and 2013 at statutory rates with the reported income taxes as follows

| | 2014 | 2013 |
|---|--------------|--------------|
| | \$ | \$ |
| Loss from continuing operations | (21,873,314) | (16,615,883) |
| Tax benefits at estimated combined statutory tax rate | 3,354,753 | 2,563,504 |
| Items not deductible for income tax | (198,700) | (46,940) |
| Recovery rate before valuation allowance | 3,156,053 | 2,516,564 |
| Change in valuation allowance | (3,156,053) | (2,516,564) |
| Income tax provision | - | - |

As at December 31, 2014, the Company has non-capital tax loss carry-forwards and temporary differences on plant and equipment. The Company does not consider it more probable than not that the tax assets will be realized so it has applied a valuation allowance and therefore no future income tax expense or recovery has been recorded for the year.

| | 2014 | 2013 |
|----------------------------|-------------|-------------|
| | \$ | \$ |
| Future income tax assets | | |
| Tax loss carryforwards | (7,315,694) | (4,199,897) |
| Intangible assets | 85,445 | (5,542) |
| Property and equipment | (39,461) | (17,255) |
| SRED | (22,951) | (6,775) |
| Unamortized financing fees | (230,011) | (51,133) |
| | (7,522,672) | (4,280,602) |
| Valuation allowance | 7,522,672 | 4,280,602 |
| Future income tax assets | - | - |

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

13. Income taxes (continued)

Non-capital losses

The Company has non-capital losses of approximately \$47,198,028 available for carry-forward to reduce future years' income for tax purposes that, if unused, will expire as follows

| | \$ |
|------|------------------|
| 2029 | 61,446 |
| 2030 | 145,682 |
| 2031 | 668,248 |
| 2032 | 9,994,590 |
| 2033 | 16,162,547 |
| 2034 | 20,165,515 |
| | <hr/> 47,198,028 |

14. Financial instruments

The fair values of the Company's financial instruments approximate the carrying values. The Company is exposed to various risks related to its financial instruments as follows

(a) Fair value of financial instruments

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place. The Company uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs which are supported by little or no market activity

The investments consist of Money Market funds and Canadian equity securities. These are held at Level 1

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(In Canadian dollars)

14. Financial instruments (continued)

(b) Risks arising from financial instruments

i) Foreign exchange risk

The Company is exposed to minimal foreign exchange risk. A 10% change in the US exchange rate would change cash and accounts payable by approximately \$108,220 (2013 - \$16,232).

ii) Credit risk

The Company is exposed to credit risk through chargebacks owed to its payment provider. The Company uses an allowance to provide for these losses. There have been minimal chargebacks in 2014 and 2013.

iii) Interest rate risk

The Company is not materially exposed to interest rate risk.

iv) Market risk

The Company is exposed to minimal market risk. A 5% change in investment value will change the net loss by approximately \$30,000 (2013 - \$17,107).

v) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company recognizes the need for further capital and subsequent to yearend has secured additional funding.

The Company manages liquidity risk by continuously monitoring actual and forecast cash flows, managing expenses, leveraging credit facilities and payment terms and seeking additional cash financing.

The following table provides a contractual maturity analysis for financial liabilities:

| | Total | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years |
|---|-----------|---------------------|-----------------|-----------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Trade payables and accrued liabilities (Note 1) | 8,254,195 | 8,254,195 | - | - | - |

Note 1 - accounts payable are generally settled within 30 days

15. Related parties

Related party transactions are in the normal course of business and unless otherwise described, are recorded at the exchange amount.

Due to related parties

Media subscription payable represents the amount of share subscriptions due in shares of the Company. The media subscription was issued quarterly and all came due on March 31, 2013.

SHOP.CA Network Inc.

Notes to the consolidated financial statements

December 31, 2014 and 2013

(in Canadian dollars)

15. Related parties (continued)

Key management remuneration

The remuneration for key management for the year ended December 31, 2014 was:

| | Salary/ fees | Short term benefits | Share-based payment | 2014 Total | 2013 Total |
|----------------|-----------------|------------------------|------------------------|---------------|---------------|
| | \$ | \$ | \$ | \$ | \$ |
| Key management | 992,141 | 6,646 | 2,416,990 | 3,415,777 | 1,105,128 |

Other related party transactions

A wife of a director of the Company received consulting fees totaling \$28,000 during the year ended December 31, 2014 (2013 - \$53,977) as compensation for time spent working on special projects

A director of the Company received merchant banking fees totaling \$1,583,132 during the year ended December 31, 2014 (2013 - \$490,270) as compensation for arranging equity transactions

16. Comparative figures

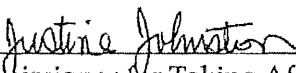
Certain comparative figures have been reclassified to conform to the current year's presentation

17. Subsequent event

The Company completed additional financing on May 12, 2015 for net cash proceeds of \$13,052,623 by selling 17,174,504 Class A Common Shares at \$0.80/share and 8,587,253 one half of one Class A Common Share Purchase Warrants. Each whole Warrant entitles the holder to purchase one additional Class A Common Share (Warrant Share) of the Corporation at an exercise price of \$0.90 per Warrant Share for a period of 48 months following the Closing Date. In total, 3,861,481 shares were issued to a merchant banker in consideration of services received to arrange the financing (\$3,089,185).

TAB D

This is Exhibit "D"
to the affidavit of Robert S. Lee,
sworn before me on the 8th day
of June, 2016



Commissioner for Taking Affidavits

SHOP.CA Network Inc.

Consolidated statements of loss and comprehensive loss
years ended December 31, 2015 and 2014

(In Canadian dollars)

| | 2015 | 2014 |
|---|---------------------|---------------------|
| | \$ | \$ |
| Revenue | 23,260,142 | 27,377,005 |
| Cost of sales | 20,353,197 | 24,785,166 |
| | <u>2,906,945</u> | <u>2,591,839</u> |
| Expenses | | |
| Marketing and sales | 15,362,304 | 16,903,113 |
| Platform | 3,638,174 | 3,004,223 |
| Finance and administration | 1,899,485 | 3,315,638 |
| Service | 1,205,409 | 1,097,921 |
| Service | 484,339 | - |
| | <u>22,589,711</u> | <u>24,320,895</u> |
| Loss from operating activities before depreciation and amortization | (19,682,766) | (21,729,056) |
| Depreciation of property and equipment (Note 6) | 186,979 | 142,313 |
| Amortization of trademarks (Note 7) | 2,456 | 1,945 |
| | <u>(19,872,201)</u> | <u>(21,873,314)</u> |
| Finance | | |
| Investment income | 148,830 | 207,610 |
| Net loss | <u>(19,723,371)</u> | <u>(21,665,704)</u> |
| Other comprehensive loss | | |
| Unrealized fair value (loss)/gain on investments | (97,372) | 22,136 |
| Comprehensive loss | <u>(19,820,743)</u> | <u>(21,643,568)</u> |

The accompanying notes are an integral part of these consolidated
financial statements.

SHOP.CA Network Inc.

Consolidated statements of changes in equity years ended December 31, 2015 and 2014

(In Canadian dollars)

| | Share capital | Share-based payment reserve | Accumulated other comprehensive (gain) loss | Deficit | Total |
|--|-------------------|-----------------------------------|--|---------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Opening balance as at January 1, 2015 | 59,284,881 | 1,654,265 | 16,542 | (49,917,329) | 11,038,359 |
| Issuance on 'Series C financing in exchange for cash less issuance costs (Notes 5, 11) | 12,957,100 | - | - | - | 12,957,100 |
| Issuance on exercise of options for cash (Note 11) | 77,632 | - | - | - | 77,632 |
| Net loss for the period | - | - | - | (19,723,371) | (19,723,371) |
| Stock-based compensation (Note 11b) | - | - | - | - | - |
| Unrealized fair value gain/(loss) on investments | - | - | (97,372) | - | (97,372) |
| Balance as at December 31, 2015 | 72,319,613 | 1,654,265 | (80,830) | (69,640,700) | 4,252,348 |
| Opening balance as at January 1, 2014 | 29,184,004 | 422,073 | (5,594) | (28,251,625) | 1,348,858 |
| Issuance on 'Series B Initial Close' financing in exchange for cash less issuance costs (Notes 5, 11) | 12,094,550 | - | - | - | 12,094,550 |
| Issuance on 'Series B Subsequent Close' financing for cash less issue costs (Note 11) | 17,351,674 | - | - | - | 17,351,674 |
| Issuance on 'Series B' financing in exchange for media less issuance costs (Notes 5, 11) | 650,000 | - | - | - | 650,000 |
| Issuance on exercise of options for cash (Note 11) | 4,653 | - | - | - | 4,653 |
| Net loss for the period | - | - | - | (21,665,704) | (21,665,704) |
| Stock-based compensation (Note 11b) | - | 1,232,192 | - | - | 1,232,192 |
| Unrealized fair value gain/(loss) on investments | - | - | 22,136 | - | 22,136 |
| Balance as at December 31, 2014 | 59,284,881 | 1,654,265 | 16,542 | (49,917,329) | 11,038,359 |

The accompanying notes are an integral part of these consolidated financial statements.

SHOP.CA Network Inc.
 Consolidated statements of financial position
 as at December 31, 2015 and 2014
 (In Canadian dollars)

| | 2015 | 2014 |
|---|------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash and cash equivalents | 5,134,150 | 14,985,839 |
| Investments | 464,878 | 600,007 |
| Sundry accounts receivable (Note 4) | 2,033,399 | 2,307,574 |
| Inventory | 120,299 | 215,512 |
| Prepayments (Notes 5) | 262,044 | 848,259 |
| | 8,014,770 | 18,957,191 |
| Non-current | | |
| Property and equipment (Note 6) | 275,248 | 298,289 |
| Intangible assets (Note 7) | 1,049,830 | 1,040,963 |
| | 1,325,078 | 1,339,252 |
| | 9,339,848 | 20,296,443 |
| Liabilities | | |
| Current | | |
| Trade payables and accrued liabilities (Note 8) | 4,299,495 | 8,254,195 |
| Deferred revenue (Note 9) | 788,005 | 1,003,889 |
| | 5,087,500 | 9,258,084 |
| Shareholders' equity | | |
| Share capital (Note 11) | 72,319,613 | 59,284,881 |
| Share-based payment reserve (Note 11) | 1,654,265 | 1,654,265 |
| Deficit | (69,640,700) | (49,917,329) |
| Accumulated other comprehensive (gain) / loss | (80,830) | 16,542 |
| | 4,252,348 | 11,038,359 |
| Total liabilities and shareholders' equity | 9,339,848 | 20,296,443 |

Approved by the Board of Directors:

 June 10, 2016

The accompanying notes are an integral part of these consolidated financial statements.

SHOP.CA Network Inc.
Consolidated statements of cash flows
years ended December 31, 2015 and 2014
(In Canadian dollars)

| | 2015 | 2014 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss | (19,723,371) | (21,665,704) |
| Items not affecting cash: | | |
| Stock-based compensation | - | 1,232,192 |
| Media in kind (Notes 5, 11) | - | 390,000 |
| Depreciation of property and equipment | 186,979 | 142,313 |
| Amortization of trademarks | 2,456 | 1,945 |
| | <u>189,435</u> | <u>1,766,450</u> |
| Changes in non-cash operating working capital items: | | |
| Other accounts receivable | 274,175 | 236,227 |
| Prepayments | 586,215 | (87,776) |
| Inventory | 95,213 | (31,178) |
| Trade payables and accrued liabilities | (3,954,700) | (37,164) |
| Deferred revenue | (215,884) | 558,650 |
| | <u>(3,214,981)</u> | <u>638,759</u> |
| | <u>(22,748,917)</u> | <u>(19,260,495)</u> |
| Investing activities | | |
| Acquisition of property and equipment (Note 6) | (163,938) | (302,939) |
| Acquisition of intangible assets (Note 7) | (11,323) | (186,854) |
| Investments | 37,757 | (235,734) |
| | <u>(137,504)</u> | <u>(725,527)</u> |
| Financing activities | | |
| Proceeds from issuance of 'Series C shares (Note 11) | 12,957,100 | - |
| Proceeds from issuance of 'Series B initial close' shares (Note 11) | - | 12,094,550 |
| Proceeds from issuance of 'Series B subsequent close' shares (Note 11) | - | 17,351,674 |
| Proceeds from exercised of options (Note 11) | 77,632 | 4,653 |
| Proceeds from issuance of 'Series A1' shares (Note 11) | - | - |
| Proceeds from issuance of 'Series A1.5' shares (Note 11) | - | - |
| | <u>13,034,732</u> | <u>29,450,877</u> |
| Net (decrease) increase in cash and cash equivalents | (9,851,689) | 9,464,855 |
| Cash and cash equivalents, beginning of year | 14,985,839 | 5,520,984 |
| Cash and cash equivalents, end of year | 5,134,150 | 14,985,839 |
| Cash and cash equivalents are comprised of the following: | | |
| Cash | 991,014 | 911,214 |
| Cash equivalents | 4,143,136 | 14,074,625 |
| | <u>5,134,150</u> | <u>14,985,839</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
SHOP.CA NETWORK INC.**, a corporation incorporated pursuant to the laws of the Canada,
with a head office in the City of Toronto, in the Province of Ontario

Estate/Court File No. 31-2131992

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

Proceedings commenced at Toronto

**AFFIDAVIT OF ROBERT S. LEE
(SWORN ON JUNE 8, 2016)**

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Lawyers for the Applicant

TAB 3

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

THE HONOURABLE) THURSDAY, THE 9th
)
JUSTICE) DAY OF JUNE, 2016
)

**IN THE MATTER OF THE NOTICE OF INTENTION TO
MAKE A PROPOSAL OF SHOP.CA NETWORK INC.**, a
corporation incorporated pursuant to the laws of the Canada,
with a head office in the City of Toronto, in the Province of
Ontario

BID PROCESS AND ADMINISTRATION ORDER

THIS MOTION, made by SHOP.CA Network Inc. ("**SHOP.CA**") the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") for an order, among other things, (a) extending the time for SHOP.CA to file a proposal to July 15, 2016; (b) approving the sale process (the "**Bid Process**"); (c) approving the Key Employee Retention Agreements (the "**KERAs**") and payment arrangements; and (d) granting the Administration Charge (as defined below), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Robert S. Lee sworn June 8, 2016 (the "**Lee Affidavit**") and the exhibits thereto and the First Report dated June 8, 2016 (the "**First Report**") of the Richters Advisory Group Inc., in its capacity as proposal trustee of SHOP.CA (the "**Proposal Trustee**") and on hearing the submissions of counsel for SHOP.CA, counsel for the Proposal Trustee and all other counsel appearing on the counsel slip.

SERVICE

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

APPROVAL OF THE BID PROCESS

2. **THIS COURT ORDERS** that the Bid Process in respect of SHOP.CA's assets, business and property, as set out in paragraphs 29 - 33 of the First Report, is hereby approved and that the Proposal Trustee is hereby authorized and empowered to take such steps as are necessary or desirable to carry out the Bid Process, provided that any definitive agreement to be executed by SHOP.CA in respect of any transaction resulting therefrom shall require further approval of this Court.

STAY EXTENSION

3. **THIS COURT ORDERS** that the time for SHOP.CA's filing a proposal (the "Proposal Period"), and the stay of proceedings herein, is hereby extended in accordance with subsection 50.4(9) of the *Bankruptcy and Insolvency Act* R.S.C. 1985 c. B-3, as amended (the "BIA"), to and including July 15, 2016.

APPROVAL OF THE KERAS

4. **THIS COURT ORDERS** that the Key Employee Retention Agreements (the "KERAs") attached as Confidential Exhibit "A" of the Lee Affidavit are hereby ratified and that SHOP.CA is hereby authorized and empowered to perform its obligation thereunder and to make the payments in accordance with the terms set out the KERAs.

5. **THIS COURT ORDERS** that the funds adequate to satisfy the Incentive Payments (as that term is defined in the KERAs) minus any deferred amounts shall be paid by

SHOP.CA to Stikeman Elliott LLP, as counsel to SHOP.CA ("**Company's Counsel**"), to be held in trust for the beneficiaries of the KERAs. The amounts owing under the KERAs shall be paid by Company's Counsel to the beneficiaries of the KERAs upon satisfaction of the conditions contained in the KERAs as determined by the Proposal Trustee or upon further Order of this Court.

6. **THIS COURT ORDERS** if after 10 business days of the expiry of the Proposal Period (i) the conditions contained in the KERAs are not satisfied; and (ii) the funds held by Company's Counsel on account of the Incentive Payments have not otherwise been paid to the beneficiaries of the KERAs, the funds held by Company's Counsel on account of the Incentive Payments shall be paid to the Proposal Trustee.

CONFIDENTIALITY

7. **THIS COURT ORDERS** that the unredacted versions of the KERAs filed with the Court shall not form part of the public record and shall be kept confidential and under seal until further Order of this Court.

ADMINISTRATION CHARGE

8. **THIS COURT ORDERS** that the Proposal Trustee, counsel to the Proposal Trustee and Company's Counsel shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by SHOP.CA as part of the costs of these proceedings. SHOP.CA is hereby authorized and directed to pay the accounts of the Proposal Trustee, counsel for the Proposal Trustee and Company's Counsel on a weekly basis or as such accounts are otherwise rendered.

9. **THIS COURT ORDERS** that the Proposal Trustee and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Proposal Trustee

and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

10. **THIS COURT ORDERS** that the Proposal Trustee, counsel to the Proposal Trustee and Company's Counsel shall be entitled to the benefit of and are hereby granted a first ranking charge (the "**Administration Charge**") on SHOP.CA's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"), which charge shall not exceed \$200,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Proposal Trustee, counsel to the Proposal Trustee and Company's Counsel, both before and after SHOP.CA filing its Notice of Intention to Make a Proposal under the BIA.

11. **THIS COURT ORDERS** that the Administration Charge shall constitute a charge on the Property and such charge shall rank ahead in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any person, except for the Encumbrances in favour of those that have not been served with notice of this Motion. SHOP.CA and the beneficiaries of the Administration Charge shall be entitled, if necessary, to seek priority ahead of any Encumbrances in favour of any person that have not been served with notice of this Motion and that are likely to be affected by such priority.

12. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge shall not be required, and that the Administration Charge shall be valid and enforceable for all purposes, including as against any right, title or interest filed,

registered, recorded or perfected subsequent to the Administration Charge coming into existence, notwithstanding any such failure to file, register, record or perfect.

13. **THIS COURT ORDERS** that the Administration Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Administration Charge thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency (expressly or impliedly) made herein; (b) any motion(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such motion(s); (c) any assignments for the general benefit of creditors made or deemed to have been made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an **“Agreement”**) which binds SHOP.CA, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Administration Charge nor the payments made in accordance with the KERAs shall create or be deemed to constitute a breach by SHOP.CA of any Agreement to which it is a party;
- (b) none of the employees who are parties to the KERAs or chargees entitled to the benefit of the Administration Charge shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from SHOP.CA making payments in accordance with the KERAs, the creation of the Administration Charge or the execution, delivery or performance of any related documents; and

- (c) the payments made by SHOP.CA pursuant to this Order, and the granting of the Administration Charge, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

SERVICE AND NOTICE

14. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the “Protocol”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*. Subject to Rule 3.01(d) of the *Rules of Civil Procedure* and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL ‘<http://www.richter.ca/en/folder/insolvency-cases/s/shop-ca-network-inc>’.

15. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Proposal Trustee is at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to SHOP.CA’s creditors or other interested parties at their respective addresses as last shown on the records of SHOP.CA and that any such service or distribution by courier, personal delivery or facsimile transmission shall be

deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

16. **THIS COURT ORDERS** that the Proposal Trustee, SHOP.CA and their respective counsel, are at liberty to service or distribute this Order, any materials and orders as may be reasonably required in these proceedings including any notices, or other correspondence, by forwarding true copies thereof by electronic message to SHOP.CA's creditors or other interested parties and their advisors. For greater certainty, any such distribution or service shall be deemed to be in satisfaction of a legal or juridical obligation, and notice requirements within the meaning of clause 3(c) of the Electronic Commerce Protection Regulations, Reg. 81000-2-175 (SOR/DORS).

GENERAL

17. **THIS COURT ORDERS** that the Proposal Trustee shall not take possession of the Property and shall take no part whatsoever in management or supervision of the management of the business of SHOP.CA and shall not, in carrying out the Bid Process, otherwise fulfilling its obligations hereunder or under the BIA, be deemed to have taken possession or control of the business of SHOP.CA or the Property, or any part thereof.

18. **THIS COURT ORDERS** that that the Proposal Trustee shall provide any creditor of SHOP.CA with information provided by SHOP.CA in response to reasonable requests for information made in writing by such creditor addressed to the Proposal Trustee. The Proposal Trustee shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Proposal has been advised by SHOP.CA or Company's Counsel is confidential, the Proposal Trustee

shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Proposal Trustee and the SHOP.CA may agree.

19. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Proposal Trustee under the BIA or as an officer of this Court, the Proposal Trustee shall incur no liability or obligation as a result of its appointment, carrying out of the Bid Process, in respect of any determination regarding release of payments under the KERAs or carrying out any provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Proposal Trustee by the BIA or any applicable legislation.

20. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, to give effect to this Order and to assist SHOP.CA and the Proposal Trustee and their respective 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 SHOP.CA and the Proposal Trustee, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist SHOP.CA, the Proposal Trustee and their respective agents in carrying out the terms of this Order.

21. **THIS COURT ORDERS** that any interested party (including SHOP.CA and the Proposal Trustee) may apply to this court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF SHOP.CA NETWORK INC., a corporation incorporated pursuant to the laws of
the Canada, with a head office in the City of Toronto, in the Province of Ontario

Estate/Court File No. 31-2131992

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

Proceeding commenced at Toronto

BID PROCESS AND ADMINISTRATION ORDER

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Lawyers for the Applicant

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF SHOP.CA NETWORK INC., a corporation incorporated pursuant to the laws of
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Estate/Court File No. 31-2131992

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

Proceeding commenced at Toronto

**MOTION RECORD
(Motion for Approval of the Bid Process and
Administration Order and Extension of Proposal
Period)**

(Returnable on June 9, 2016)

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