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COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

**IN THE MATTER OF THE *COMPANIES'*
CREDITORS ARRANGEMENT ACT, R.S.C. 1985,
c. C-36, as amended**

**AND IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF KORITE
INTERNATIONAL INC.**

DOCUMENT

**FIRST REPORT OF BDO CANADA LIMITED, IN
ITS CAPACITY AS THE MONITOR OF KORITE
INTERNATIONAL INC.**

JULY 8, 2020

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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**FIRST REPORT OF THE MONITOR
BDO CANADA LIMITED
JULY 8, 2020**

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INTRODUCTION

1. On June 30, 2020, Korite International Inc. (“**Korite**” or the “**Company**”) made an application (the “**Initial Application**”) to the Court of Queen’s Bench of Alberta (the “**Court**”) for an order granting an initial stay of proceedings in respect of the Company pursuant to the *Companies Creditors Arrangement Act*, RSC 1985 c. C-36, as amended (the “**CCAA**”).
2. On June 26, 2020, BDO Canada Limited (“**BDO**”), in the capacity as the Proposed Monitor, filed a report (the “**Pre-Filing Report**”) with the Court in contemplation of the Initial Application.
3. On June 30, 2020 (the “**Filing Date**”), a *CCAA Initial Order* (the “**Initial Order**”) was granted by the Honourable Madam Justice K. M. Horner of the Court providing initial relief including but not limited to:
 - a. The imposition of an initial stay of proceedings (the “**Stay**”) in favour of the Company and its assets through to July 10, 2020;
 - b. The appointment of BDO as monitor (the “**Monitor**”) in the CCAA proceedings (the “**Proceedings**”);
 - c. The granting of an administration charge in respect of the professional fees and disbursements of Korite’s legal counsel, the Monitor and legal counsel to the Monitor, in an aggregate amount not to exceed \$100,000 (the “**Administration Charge**”);
 - d. The approval of an interim lending agreement and the granting of a charge to a maximum of \$126,000 in relation to borrowings thereunder (the “**Interim Lender’s Charge**”); and
 - e. The granting of a charge in favour of the directors and officers in an amount not to exceed \$50,000 (the “**Directors’ Charge**”).

PURPOSE

4. The purpose of this report (the “**First Report**”) is to provide information to this Honourable Court in advance of the Company’s upcoming Court application (the “**Comeback Application**”) with respect to:
 - a. The steps undertaken by the Monitor since the Filing Date;
 - b. Korite’s upcoming application for an Amended and Restated Initial Order seeking to:
 - Increase the quantum of the Interim Lender’s Charge to a maximum of \$702,000;
 - Further establish and clarify the priority standing of the Administration Charge, the Directors’ Charge and the Interim Lender’s Charge (collectively referred to as the “**Court Ordered Charges**”); and
 - Extend the Stay through to September 23, 2020.
 - c. The Company’s restructuring activities since the Filing Date; and
 - d. The Monitor’s conclusions and recommendations in respect of the above, as applicable.

TERMS OF REFERENCE

5. In preparing this First Report, the Monitor has been provided with, and has relied upon audited and unaudited financial information, certain books and records of the Company and discussions with Korite’s management (“**Management**”) and its legal counsel (collectively referred to as the “**Information**”).
6. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided; however, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information in such a manner that would wholly or partially comply with standards as set out in the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such Information

7. Some of the Information referenced in this First Report relates to weekly cash flow forecasts, projections and related assumptions. An examination or review of cash flow forecasts, projections and related assumptions as outlined in the CPA Handbook has not been performed.

INITIAL ACTIVITIES OF THE MONITOR

8. Since the commencement of the Proceedings, the Monitor has:
 - a. Established a website at the following URL <https://www.bdo.ca/en-ca/extranets/korite/> (the “**Website**”) and uploaded the Initial Order and the documents filed in the Proceedings to the Website;
 - b. Issued notice of the Proceedings (the “**Creditor Notice**”) to all known creditors as represented by Korite. In the Creditor Notice, creditors are directed to the Website to obtain copies of the Initial Order and a listing of the known creditors and amounts due to creditors as estimated by Management. The Creditor Notice encourages creditors to refer back to the Website regularly for updates as to the status of the Proceedings. A copy of the Creditor Notice is attached as **Appendix “A”**;
 - c. Caused a notice of the Proceedings (the “**Publication**”) to be published in *The Globe and Mail* (National edition) on July 7, 2020, in accordance with paragraph 45 of the Initial Order. A copy of the form of the Publication is attached as **Appendix “B”**;
 - d. Filed the statutory *Forms 1 and 2* containing certain prescribed information regarding the Proceedings with the Office of the Superintendent of Bankruptcy;
 - e. Reviewed the terms of the Initial Order with Management as they relate to the administration of pre-filing and post-filing payment obligations;
 - f. Reviewed the background information in respect of the Company’s resiliation of two leases;

- g. Participated in a conference call with Management and employees;
- h. Held discussions with potential candidates in regard to serving as the Company's advisor ("**Sales Agent**") to administer a Sale and Investment Solicitation Process ("**SISP**");
- i. Participated in communications with the Company's principal secured lender, Canadian Imperial Bank of Commerce ("**CIBC**"), and its legal counsel in relation to various aspects of the Proceedings; and
- j. Participated in a discussion with the legal representative of certain of the Company's secondary secured creditors who are the holders of a promissory note (the "**Vendor Creditors**").

INTERIM FINANCING AGREEMENT

- 9. At the time of the filing of the Pre-Filing Report, Korite did not anticipate seeking the approval of an interim financing agreement until the Comeback Application; however, subsequent to the issuance of the Pre-Filing Report, Korite determined it necessary to seek approval of some form of interim financing and the Interim Lender's Charge at the Initial Application.
- 10. In advance of the Initial Application, Korite negotiated and entered into an interim financing term sheet (the "**Term Sheet**") with 5024639 Ontario Inc. (the "**Interim Lender**"), an entity controlled, directly or indirectly, by Tim Bowman, the sole director of Korite, conditional on the issuance of the Initial Order.
- 11. At the Initial Application, the Court approved the Term Sheet and the Interim Lender's Charge, at which time Korite had advised it anticipated seeking an increase in the Interim Lender's Charge from a maximum of \$530,000 as was anticipated to be the funding required through to September 19, 2020 as set out in the Company's initial cash flow forecast, a copy of which was included as Appendix "A" to the Pre-Filing Report, to a maximum of \$702,000 as set out in the cash flow forecast subsequently attached as an Exhibit to the Affidavit No. 2 of Mr. Bowman dated June 29, 2020 the ("**Revised Forecast**").

12. The Term Sheet contemplated borrowings of up to \$530,000. In light of the requirements reflected by the Revised Forecast, Korite and the Interim Lender have agreed to amend and restate the Term Sheet, by revising the maximum amount thereunder from \$530,000 to \$702,000. A copy of the *Amended and Restated Interim Financing Term Sheet* dated July 3, 2020, is attached as Exhibit "1" to the July 3, 2020 Affidavit of Tim Bowman filed in these Proceedings, the salient terms of which are:
 - a. a maximum credit amount of up to \$702,000;
 - b. an interest rate, prior to default, equal to Prime (as defined in the Term Sheet) plus 3.5%; and
 - c. a six-month term.
13. The Monitor is of the view that the terms of the *Amended and Restated Interim Financing Term Sheet* are commercially reasonable in the circumstances and that the requested amendment of the Interim Lender's Charge is appropriate in light of the anticipated funding requirement reflected in the Revised Forecast.

COURT ORDERED CHARGES

14. As set out earlier in this First Report, the Initial Order provided for the establishment of the Court Ordered Charges.
15. In addition to seeking an increase in the maximum amount of the Interim Lender's Charge, Korite will also be making application seeking to clarify and amend the priority afforded to the Court Ordered Charges.
16. The Initial Order provided that the Court Ordered Charges be granted a priority on the Company's assets in priority to all secured creditors who had been given notice of the Initial Application, but subordinate to all other security interests, trusts, liens, charges and encumbrances, and claims of secured creditors, statutory or otherwise of any person that has not been served with notice of the Initial Application.

17. The Monitor understands that Korite will now be seeking approval for the Court Ordered Charges to rank ahead of all security interest in the following order of priority:
 - a. The Administration Charge to a maximum of \$100,000;
 - b. The Directors' Charge to a maximum of \$50,000; and
 - c. The Interim Lender's Charge to a maximum of \$702,000.
18. The Monitor understands that all known creditors who may be entitled to a form of security and likely to be affected by the Court Ordered Charges have been served notice of the Comeback Application by Korite.
19. The Monitor is of the view that the aforementioned relief being sought by the Company is reasonable and appropriate in the circumstances.

RESILIATION OF LEASES

20. With a view to attempting to reduce expenses, on July 6, 2020, pursuant to Section 32 of the CCAA, and with the approval of the Monitor, Korite issued notices to disclaim or resiliate (the "**Disclaimer Notices**") to Brandt Tractor Ltd. ("**Brandt**"), in relation to the lease of an excavator, and to GM Financial - Okotoks Chevrolet Buick GMC Limited Partnership ("**Okotoks GM**"), in respect of two leased GMC Sierra trucks.
21. The relevant details associated with respect to the leases are as follows:

Brandt

- a. Expiration – November 1, 2021;
- b. Current monthly rent – approximately \$10,000;
- c. Current arrears – approximately \$10,000; and
- d. Estimated remaining rent payable over remaining term – approximately \$148,000.

GMC Okotoks

- a. Expiration – September 21, 2020;
 - b. Current monthly rent – approximately \$1,000;
 - c. Current arrears – nil; and
 - d. Estimated remaining rent payable over remaining term – approximately \$2,000.
22. The Monitor is satisfied that the three leases represent unnecessary expenses and that the issuance of the Disclaimer Notices is appropriate in the circumstances.

INITIAL RESTRUCTURING ACTIVITIES

23. Since the Filing Date, Management has:
- a. Participated in ongoing meetings and communications with the Monitor and cooperated with the Monitor as necessary;
 - b. Facilitated an information dissemination conference call with employees and the Monitor;
 - c. Communicated and cooperated with CIBC's financial advisors;
 - d. Held discussions with the Monitor, CIBC and certain of the Vendor Creditors regarding the implementation of a SISP and the engagement of a Sales Agent to facilitate the SISP;
 - e. Attended to the elimination of certain redundant expenses by way of issuing the Disclaimer Notices; and
 - f. Assisted as required in preparation for the upcoming Comeback Application.

SALE AND INVESTMENT SOLICITATION PROCESS

24. Korite, in consultation with the Monitor, CIBC and the Vendor Creditors, and each of their respective legal counsel, have been in discussions surrounding the engagement of a Sales Agent and the terms of a SISP. Korite anticipates being in position to make a further application shortly after the Comeback Application to seek the Court's approval of a SISP and the engagement of a Sales Advisor to administer a SISP.

EXTENSION OF STAY OF PROCEEDINGS

25. At the Comeback Application, Korite will be seeking a further extension of the Stay through to September 23, 2020. As mentioned above, the Company intends on seeking the Court's approval to administer a SISP, which the Monitor anticipates will run over the summer months and into the early fall.
26. Assuming the Company is able to meet its cash flow expectations as set out in the Revised Forecast, the Monitor does not believe that there is any merit to parties incurring the costs to prepare for further applications to extend the Stay in the interim period. Consequently, the Monitor is of the view that an extension of the Stay through to September 23, 2020 is appropriate in the circumstances.
27. The Monitor is not aware that any party would be unduly prejudiced by the requested length of the extension of the Stay.

CONCLUSION AND RECOMMENDATIONS

28. To date, the Monitor is satisfied that Management has been acting in good faith and with due diligence as reflected by:
- a. Providing ongoing cooperation as required by the Monitor;
 - b. Attempting to reduce expenses as evidenced by the issuance of the Disclaimer Notices; and
 - c. Working towards the engagement of a Sales Advisor and the establishment of a SISP.

29. In light of the above and for the reasons set out in this First Report, the Monitor is supportive of and recommends to this Honourable Court approval of the following:
- a. An extension of the Stay through to September 23, 2020;
 - b. Approval of a super-priority afforded to the Court Ordered Charges as against the property, assets and undertakings of Korite in the following amounts and ranking:
 - i. The Administration Charge (\$100,000) – first ranking;
 - ii. The Directors' Charge (\$50,000) – second ranking; and
 - iii. The Interim Lender's Charge (\$702,000) – third ranking.

All of which is respectfully submitted this 8th day of July 2020.

BDO Canada Limited,
in its capacity as the Monitor of Korite International Inc.
and not in its personal or corporate capacity

Per: 

Marc Kelly
Senior Vice President

APPENDIX “A”



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BDO Canada Limited
110, 5800 - 2nd Street SW
Calgary, AB T2H 0H2 Canada

July 7, 2020

To the Creditors of Korite International Inc. ("Korite")

Dear Sirs/Mesdames:

Re: Proceedings under the *Companies' Creditors Arrangement Act*

TAKE NOTICE that on June 30, 2020, an Order (the "CCAA Initial Order") was granted by the Honourable Madam Justice K. M. Horner of the Court of Queen's Bench of Alberta (the "Court") pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA") granting Korite various relief including, but not limited to, the imposition of an initial *Stay of Proceedings* against Korite and its assets through to July 10, 2020. The Court appointed BDO Canada Limited as the monitor of Korite (the "Monitor").

Pursuant to the CCAA Initial Order, Korite is to continue to carry on business in a manner consistent with the commercially reasonable preservation of its business while it considers and pursues restructuring alternatives.

The CCAA Initial Order provides that claims against Korite in relation to obligations arising prior to June 30, 2020, including for goods and services supplied to Korite prior to that date, are suspended, and creditors are prohibited from continuing or taking any actions or exercising any rights against Korite except with leave of the Court. **You are not required to file a proof of claim at this time.**

A copy of the CCAA Initial Order and a list of the names and addresses of Korite's creditors and amounts due to creditors as estimated by the management of Korite can be found on the Monitor's website at <https://www.bdo.ca/en-ca/extranets/korite/> (the "Website") or by contacting the Monitor directly. Additional materials will be posted to the Website from time to time and creditors are encouraged to check the Website regularly for updates as to the status of the proceedings. The next Court application is scheduled for July 9, 2020.

Should you have any questions or concerns, please contact Mr. David Lui, of Korite, at 403-287-2026 or david.lui@korite.com, or Ms. Lorry Fritsche, of the Monitor, at 403-536-8507 or lfritsche@bdo.ca.

Yours truly,

BDO Canada Limited,
in its capacity as Monitor of Korite International Inc.
and not in its personal capacity

Per: Marc Kelly
Senior Vice President

APPENDIX “B”

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE OF CALGARY
IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985,
c. C-36, as amended
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
KORITE INTERNATIONAL INC.**

On June 30, 2020, the Court of Queen's Bench of Alberta granted an order (the "CCAA Initial Order") under the *Companies' Creditors Arrangement Act* in respect of Korite International Inc. providing various relief including, but not limited to, an initial stay of proceedings through to July 10, 2020. BDO Canada Limited was appointed as monitor (the "Monitor"). The CCAA Initial Order can be accessed by referring to the Monitor's website at <https://www.bdo.ca/en-ca/extranets/korite/> (the "Website"). Interested parties are encouraged to check the Website regularly for updates as to the status of the proceedings. For further information, please contact Marc Kelly, of BDO Canada Limited, at 403-536-8510 or by email at makelly@bdo.ca.



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