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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

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

OCTOBER 28, 2020

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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**FOURTH REPORT OF THE MONITOR
BDO CANADA LIMITED
OCTOBER 28, 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:
 - 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 granting of a charge in favour of Korite’s directors and officers in an amount not to exceed \$50,000 (the “**Directors’ Charge**”); and
 - e. the approval of an interim lending agreement (the “**Interim Facility**”) and the granting of a charge to a maximum of \$126,000 in relation to borrowings thereunder (the “**Interim Lender’s Charge**”).

4. On July 8, 2020, the Monitor filed a report (the “**First Report**”) with the Court in contemplation of the Company’s July 14, 2020 Court application (the “**Comeback Application**”).
5. At the Comeback Application, the Court granted an *Amended and Restated Initial Order* (the “**ARIO**”) providing the following relief:
 - a. extending the Stay through to September 23, 2020;
 - b. increasing the quantum of the Interim Lender’s Charge to a maximum of \$702,000; and
 - c. approving a super-priority to the Administration Charge, the Directors’ Charge and the Interim Lender’s Charge (collectively referred to as the “**Court Ordered Charges**”) as against the property, assets and undertakings of Korite (the “**Assets**”) 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.
6. On July 17, 2020, the Monitor filed a report (the “**Second Report**”) in advance of the Company’s application seeking approval of a proposed sale and investment solicitation process in relation to the assets and/or business operations of Korite (the “**SISP**”).
7. On July 21, 2020, the Court granted an Order:
 - a. approving the SISP;
 - b. approving the engagement of Assurgo Enterprises Inc. (“**Assurgo**”) as the sales agent to administer the SISP (the “**Sales Agent**”);

- c. granting a fourth-ranking charge (the "**Sales Agent Charge**") against the Assets, in favour of the Sales Agent to secure the compensation of the Sales Agent for the final success fees (the "**Completion Fees**") provided for in the Engagement Letter, and the further amendment of the ARIO to include the Sales Agent Charge; and
 - d. approving a sealing order over Confidential Exhibit "3" to Affidavit No. 4 of Tim A. Bowman sworn in support of the application.
8. On September 15, 2020, the Monitor filed a report (the "**Third Report**") in advance of the Company's application (the "**September Application**") seeking approval of charge against the Assets in favour of certain key employees with respect to vacation pay owed to them and a further extension of the Stay.
9. On September 23, 2020, the Court granted an Order:
 - a. extending the Stay to November 6, 2020;
 - b. authorizing a fifth-ranking charge (the "**Vacation Pay Charge**") against the Assets, to a maximum of \$105,255.41 in favour of certain key employees in relation to their accrued vacation pay; and
 - c. approving a sealing order over Confidential Exhibit "3" to Affidavit No. 5 of Tim A. Bowman ("**Bowman Affidavit No. 5**") sworn in support of the application for the Vacation Pay Charge.

PURPOSE

10. The purpose of this report (the "**Fourth Report**") is to provide information to this Honourable Court with respect to:
 - a. an update as to the status of the SISP;
 - b. the Company's financial performance since the date of the Third Report;
 - c. Korite's updated cash flow forecast;

- d. Korite's request for a further extension of the Stay through to December 11, 2020; and
- e. the Monitor's conclusions and recommendations in respect of the above, as applicable.

TERMS OF REFERENCE

- 11. In preparing this Fourth 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**").
- 12. 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.
- 13. Some of the Information referenced in this Fourth 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.

SALE AND INVESTMENT SOLICITATION PROCESS UPDATE

- 14. As set out in the Third Report, the SISP provided for a Final Bid Deadline (as defined in the SISP) and a Final Agreement Deadline (as defined in the SISP) of October 9, 2020 and October 16, 2020 respectively. On the recommendation of Assurgo, and with the support of the principal secured creditor, Canadian Imperial Bank of Commerce ("**CIBC**"), and the second secured creditors (the "**Vendor Creditors**"), the deadlines were extended to October 19, 2020 (the "**Extended Final Bid Deadline**") and October 30, 2020 (the "**Extended Final Agreement Deadline**") respectively, by Korite with the support of the Monitor.

15. Multiple competitive bids to acquire the Assets on a going concern basis (the “**Going Concern Bids**”) were received by the Extended Final Bid Deadline. Since that date, Assurgo has facilitated the ongoing analysis and clarification of the Going Concern Bids and discussions with the bidders, CIBC, the Vendor Creditors, Korite and the Monitor.
16. Korite, Assurgo, the Monitor, CIBC and the Vendor Creditors are in agreement that the Extended Final Agreement Deadline should be further extended to November 26, 2020 to allow sufficient time to settle on and negotiate a Final Agreement(s) (as defined in the SISP) with a Winning Bid (as defined in the SISP) and a Backup Bid (as defined in the SISP).
17. In light of the above, Korite will be making application to further extend the Stay to December 11, 2020 to allow sufficient time to arrive at a Final Agreement(s) and seek the Court’s approval of same.

FINANCIAL PERFORMANCE

18. In contemplation of the September Application, Management had prepared an updated 13-week cash flow forecast (the “**September Forecast**”), a copy of which was appended as Schedule “B” of Exhibit “4” to Bowman Affidavit No. 5.
19. A variance analysis of the Company’s actual receipts and disbursements from the September 13, 2020 through to October 24, 2020 (the “**Reporting Period**”) versus the corresponding period in the September Forecast is set out in the following table:

September 13 - October 24, 2020				
	Actual	Forecast	Variance	Notes
Receipts				
Accounts receivable	185,790	191,124	(5,334)	
Interim financing	-	115,000	(115,000)	a)
Miscellaneous	36,977	51,129	(14,152)	
	<u>222,767</u>	<u>357,253</u>	<u>(134,486)</u>	
Disbursements				
Employees	158,098	161,758	3,660	
Contracts / Leases	34,578	46,475	11,897	
Production	4,412	11,926	7,514	
Purchases	2,438	10,000	7,562	
General and administrative	52,878	54,804	1,926	
Professional fees	5,484	5,250	(234)	
Secured Lender	64,099	61,091	(3,008)	
Restructuring	104,032	214,807	110,775	b)
	<u>426,019</u>	<u>566,111</u>	<u>140,092</u>	
Net cash flow for period	(203,252)	(208,858)	5,606	
Cash/Operating Line - beginning	(2,604,370)	(2,604,370)	-	
Cash/Operating Line - closing	<u>(2,807,622)</u>	<u>(2,813,228)</u>	<u>5,606</u>	

20. The Company experienced negative cash flow of approximately \$203,000 over the Forecast Period, which resulted in a slight positive overall variance of approximately \$5,600 in comparison to the September Forecast. The Monitor offers the following comments in respect of certain of the above noted significant individual line item variances:

- a. the September Forecast provided for the Company to have drawn \$115,000 on the Interim Facility over the Forecast Period, however; the Company has yet to draw on the Interim Facility. The amount anticipated to be drawn was principally intended to have been utilized to pay restructuring expenses; and
- b. the positive variance of approximately \$111,000 in respect of restructuring expenses arises from the Company deferring payment of such expenses and is consistent with the above noted variance.

UPDATED CASH FLOW FORECAST

21. Management has prepared a further updated forecast for the period October 25, 2020 to January 23, 2021 (the “**October Forecast**”) a copy of which is attached as Exhibit “1” of the October 26, 2020 Affidavit No. 6 of Tim A. Bowman sworn and filed in the Proceedings. The October Forecast can be summarized as follows:

October 25, 2020 - January 23, 2021	
Receipts	
Accounts receivable	595,591
Interim financing	560,000
Miscellaneous	111,000
	1,266,591
Disbursements	
Employees	416,850
Contracts / leases	98,483
Production	48,139
Purchases	89,103
General and administrative	99,833
Professional fees	19,316
Secured lender	183,272
Restructuring	355,448
	1,310,445
Net cash flow for period	(43,854)
Operating line - beginning	(2,807,620)
Operating line - closing	(2,851,474)

22. The Monitor has reviewed the reasonableness of the October Forecast in accordance with section 23(1)(b) of the CCAA and wishes to highlight the following significant points:
- a. in light of the uncertainty of the results of the SISP at this time, the October Forecast extends several weeks beyond the anticipated completion of the SISP and has been prepared assuming status quo operations and does not contemplate the results of any potential transaction(s) under the SISP;
 - b. Management has forecast negative cash flow of approximately \$44,000 over the forecast period, notwithstanding anticipating having to draw \$560,000 on the Interim Facility; and

- c. with the use of the Interim Facility, the October Forecast contemplates the Company having sufficient funds available to operate through to the anticipated completion of the SISP.
- 23. Our review consisted of inquiries, analytical procedures and discussions related to information, and assumptions provided to us by Management. Since hypothetical assumptions need not be supported, our analysis thereof was limited to evaluating whether they were consistent with the purpose of the October Forecast. We have also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the October Forecast.
- 24. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:
 - a. the hypothetical assumptions are not consistent with the purpose of the October Forecast;
 - b. as of the date of this Fourth Report, the probable assumptions developed by Management are not suitably supported and consistent with the current plans of the Company or do not provide a reasonable basis for the October Forecast, given the hypothetical assumptions; or
 - c. the October Forecast does not reflect the probable and hypothetical assumptions.
- 25. The Monitor gives no assurance and makes no representations as to whether the October Forecast will be met. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Fourth Report that has been provided by the Company. The October Forecast has been prepared solely for the purpose of demonstrating how Korite intends to fund its operations through to January 23, 2021.

EXTENSION OF STAY OF PROCEEDINGS

26. The Company will be seeking a further extension of the Stay through to December 11, 2020. The Monitor is of the view that the requested length of extension is appropriate to allow sufficient time for the completion of the SISP.

CONCLUSION AND RECOMMENDATIONS

27. Since the date of the Third Report, Management has continued to advance the Proceedings by:

- a. maintaining existing operations;
- b. spending a significant amount of time and effort in conjunction with Assurgo in respect of the administration of the SISP;
- c. communicating with various stakeholder groups and/or their advisors, including CIBC and the Vendor Creditors and their respective counsel; and
- d. cooperating with the Monitor as required.

28. The Monitor remains satisfied that Management has been acting in good faith and with due diligence and recommends an extension of the Stay through to December 11, 2020.

All of which is respectfully submitted this 28th day of October, 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