

COURT FILE NUMBER 2001 – 07942

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

JULY 17, 2020

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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**SECOND REPORT OF THE MONITOR
BDO CANADA LIMITED
JULY 17, 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 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.

PURPOSE

6. The purpose of this report (the “**Second Report**”) is to provide information to this Honourable Court in advance of the Company’s upcoming Court application seeking:
- a. Approval of a proposed sale and investment solicitation process in relation to the assets and/or business operations of Korite (the “**SISP**”);
 - b. Approval of Assurgo Enterprises Inc. (“**Assurgo**”) as the sales agent to carry out the SISP (the “**Sales Agent**”) and approval of the engagement letter between Korite and Assurgo in relation thereto;
 - c. The granting of a 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. Approval of a sealing order over Confidential Exhibit “3” to Affidavit No. 4 of Tim A. Bowman sworn in support of the application (“**Affidavit No. 4**”).

SALE AND INVESTMENT SOLICITATION PROCESS

7. In the First Report, the Monitor advised that:
 - a. Korite had been in consultation with the Monitor, the Company’s principal secured lender, Canadian Imperial Bank of Commerce (“**CIBC**”), the Company’s secondary secured creditors who are the holders of a promissory note (the “**Vendor Creditors**”) and each of their respective legal counsel, surrounding the engagement of a Sales Agent and the terms of a SISP; and
 - b. Korite anticipated 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 agent to administer a SISP.
8. Korite has finalized the terms of the SISP, which are agreeable to the Monitor, CIBC, the Vendor Creditors and the proposed Sales Agent. A copy of the SISP is attached as Exhibit “1” to Affidavit No. 4. The significant milestone dates provided for by the SISP are, *inter alia* (capitalized terms not otherwise defined have the meaning set forth in the SISP):
 - a. By no later than July 31, 2020, the Sales Agent shall:
 - i. create a list of Known Potential Bidders;
 - ii. distribute Teaser Letters and Confidentiality Agreements to Known Potential Bidders; and
 - iii. cause notice of the SISP to be published in a publication or publications deemed by the Sales Agent to be reasonable and appropriate.

- b. By no later than August 12, 2020, prepare and have available a confidential information memorandum and Data Room;
 - c. Non-binding letters of interest (“**LOI**”) must be received by September 14, 2020;
 - d. The deadline for final bids is October 9, 2020; and
 - e. The deadline to complete negotiations and execute a final and definitive agreement with the successful bidder(s) is October 16, 2020.
9. The Monitor wishes to highlight certain of the important operational mechanics of the SISP:
- a. In order for an LOI to be classified as a “Qualified Bid”, thereby making the bidder eligible to submit a final bid (a “**Qualified Bidder**”), it must comply with established criteria and include certain information including but not limited to the nature of the proposed transaction, the price, the source of capital, direct and indirect ownership and proposed treatment of Korite employees. Korite with the approval of the Monitor, and in consultation with CIBC and a representative of the Vendor Creditors (the “**Vendor Creditors’ Representative**”) may waive strict compliance with the established criteria;
 - b. Qualified Bidders will have the opportunity to undertake further due diligence;
 - c. In order for the final bid from a Qualified Bidder to be considered a “Qualified Final Bid”, it must comply with certain criteria including but not limited to being irrevocable, being unconditional, and provide for a 10% deposit. Korite, with the approval of the Monitor, and in consultation with CIBC and the Vendor Creditors’ Representative may waive strict compliance with the established criteria;

- d. Korite shall review all Qualified Final Bids in consultation with the Monitor, the Sales Agent, CIBC, and the Vendor Creditors' Representative, and may select a winning bid (the “**Winning Bid**”) and a backup bid and enter into a definitive agreement or agreements in connection therewith;
- e. The Winning Bid is subject to Court approval; and
- f. Until such time as any director, officer, employee or representative of Korite participating in the SISP (the “**Insider Bidder**”) has: (a) irrevocably declared his or her intention not to submit a bid; (b) his or her bid has been irrevocably disqualified under the SISP; or (c) his or her bid has been irrevocably determined not to be the Winning Bid, such Insider Bidder:
 - i. shall only receive information regarding the SISP in keeping with his or her capacity as a Potential Bidder;
 - ii. shall not participate in the SISP as a representative of Korite unless the Monitor, in its sole discretion, determines that information or participation from the Insider Bidder is required for the facilitation of the SISP, with such participation being under the supervision of the Monitor; and
 - iii. shall receive no information whatsoever regarding other bids in the SISP.

SALES AGENT

- 10. As noted earlier in this Second Report, Korite has, subject to Court approval, entered into an engagement agreement (the “**Engagement Agreement**”) with Assurgo, a copy of which is attached as Exhibit "2" of Affidavit No. 4.
- 11. Confidential Exhibit “3” of Affidavit No. 4 provides additional information regarding the background and qualifications of Assurgo; however, it also contains commercially sensitive information regarding the execution strategies of Assurgo. Consequently, at Assurgo’s request, Korite will be seeking to have Confidential Exhibit “3” sealed on the Court file and not form part of the public record subject

to further order of the Court. The Monitor is satisfied that it is appropriate in the circumstances for Confidential Exhibit “3” to be sealed.

12. A summary of the remuneration provided for in the Engagement Agreement is as follows:
 - a. An initial work fee of \$30,000 covering the period to September 10, 2020, followed by subsequent monthly work fees of \$5,000 per month (collectively referred to as the “**Work Fees**”); and
 - b. Completion Fees of:
 - i. 5% calculated on the first \$4 million of transaction proceeds less the quantum of the Court Ordered Charges (the “**Fee Calculation Base**”); and
 - ii. 2.5% on the value of the Fee Calculation Base in excess of \$4 Million.
13. The Monitor is of the view that the remuneration contemplated in the Engagement Agreement are reasonable in the circumstances for the following reasons:
 - a. Assuming the SISP runs as planned through October, the Work Fees of \$40,000 are very reasonable in comparison to other engagements known to the Monitor;
 - b. The rates in respect of the Completion Fees and the expected potential values of the Completion Fees are reasonable for running the contemplated SISP in comparison to other engagements known to the Monitor; and
 - c. Completion Fees are calculated net of the repayment of the Court Ordered Charges.
14. The Monitor, CIBC and the Vendor Creditors are in agreement with Korite’s engagement of Assurgo and the terms of the Engagement Agreement.


15. Korite will also be seeking approval of the Sales Agent Charge to secure the Completion Fees payable to the Sale Advisor under the terms of the Engagement Agreement. The Sales Agent Charge would rank immediately behind the previously created Court Ordered Charges.
16. The Monitor is of the view that the Sales Agent's role is significant in the Proceedings and it should be afforded the benefit of the Sales Agent Charge as contemplated by the Company's upcoming application. Consequently, the Monitor is supportive of the amendment of the ARIO to include the Sales Agent Charge.

CONCLUSION AND RECOMMENDATIONS

17. The Monitor remains satisfied that management has been acting in good faith and with due diligence, and in light of the reasons set out in this Second Report, the Monitor is supportive of and recommends to this Honourable Court approval of the following:
 - a. Approval of the SISP;
 - b. Approval of the Engagement Agreement and the engagement of the Sales Agent by the Company;
 - c. The establishment of the Sales Agent Charge and the amendment of the ARIO to include the Sales Agent Charge; and
 - d. The sealing of Confidential Exhibit "3" of Affidavit No. 4.

All of which is respectfully submitted this 17th 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