



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

SEPTEMBER 15, 2020

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

MONITOR'S COUNSEL
Burnet, Duckworth & Palmer LLP
2400, 525 – 8th Avenue S.W.
Calgary, Alberta T2P 1G1

Attention: David LeGeyt
Telephone No.: 403-260-0210
Fax No.: 403-260-0332
Email: dlegeyt@bdplaw.com

File No. 074432-4

**THIRD REPORT OF THE MONITOR
BDO CANADA LIMITED
SEPTEMBER 15, 2020**

I N D E X

INTRODUCTION.....	1
PURPOSE	3
TERMS OF REFERENCE.....	4
OPERATIONAL UPDATE	4
SALE AND INVESTMENT SOLICITATION PROCESS.....	6
VACATION PAY CHARGE.....	7
FINANCIAL PERFORMANCE.....	9
UPDATED CASH FLOW FORECAST	10
EXTENSION OF STAY OF PROCEEDINGS	12
CONCLUSION AND RECOMMENDATIONS	13

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. The granting of 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.

PURPOSE

8. The purpose of this report (the "**Third Report**") is to provide information to this Honourable Court with respect to:
 - a. An operational update since the date of the Second Report;
 - b. An update as to the status of the SISP;
 - c. Korite's application to seek approval of a charge against the assets of Korite in favour of certain key employees;
 - d. The Company's financial performance since the date of the Second Report;
 - e. Korite's updated cash flow forecast;
 - f. Korite's request for an extension of the Stay through to November 6, 2020; and
 - g. The Monitor's conclusions and recommendations in respect of the above, as applicable.

TERMS OF REFERENCE

9. In preparing this Third 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**").
10. 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
11. Some of the Information referenced in this Third 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.

OPERATIONAL UPDATE

12. Since the date of the Second Report, the following activities and events have transpired:
 - a. The ongoing COVID-19 pandemic (the "**Pandemic**") continues to hamper the cruise industry, tourism and travel markets and tradeshow which continues to significantly impact the Company's revenue generating opportunities;
 - b. In light of the above, the Company has delayed re-opening production of the mines located near Lethbridge, Alberta (the "**Mine**") and has been focusing on marketing its existing inventory;

- c. With a view to reducing expenses in the current environment, the Company has terminated 20 employees who had previously been placed on temporary layoff status; and
 - d. In the First Report, the Monitor advised that with a view to reducing costs Korite had issued notice to disclaim or resiliate (the “**Disclaimer Notice**”) to Brandt Tractor Ltd. (“**Brandt**”), in relation to one of two leased excavators. It was subsequently determined that Brandt had assigned the single lease relating to both excavators to Wells Fargo Finance Equipment Company (“**Wells Fargo**”). In light of the delay in re-opening the mine, the Company subsequently issued a Disclaimer Notice in relation to both excavators and Wells Fargo and Korite have, with the approval of the Monitor, made mutually agreeable arrangements for the excavators to be returned to Wells Fargo.
13. Since the date of the Second Report, Management has continued to advance the Proceedings by:
- a. maintaining existing operations;
 - b. cooperating with the Monitor as required;
 - c. spending a significant amount of time and effort in conjunction with the Sale Advisor and the Monitor to administer the SISP; and
 - d. communicating with various stakeholder groups and/or their advisors, including the principal secured creditor, Canadian Imperial Bank of Commerce (“**CIBC**”), and the second secured creditors (the “**Vendor Creditors**”) and their respective counsel.

SALE AND INVESTMENT SOLICITATION PROCESS

14. A SISP update as provided by the Sale Advisor is as follows:
- a. on or about July 31, 2020, the Sale Advisor created a list of Known Potential Bidders (as defined in the SISP) and distributed a Teaser Letter to 531 Known Potential Bidders, located in the following geographic areas:
 - i. 350 in North America;
 - ii. 55 in China and the Far East;
 - iii. 34 in Europe;
 - iv. 25 in Pakistan;
 - v. 22 in India;
 - vi. 10 in the Middle East;
 - vii. 4 in Australia; and
 - viii. 31 elsewhere.
 - b. the Known Potential Bidders who were sent the Teaser Letter included approximately 110 Known Potential Bidders already operating in the mining, manufacturing, distribution and/or wholesale jewellery-related industry, and approximately 100 private equity firms, primarily located in North America, but some international ones as well;
 - c. on or about July 31, 2020, the Sale Advisor caused notice of the SISP to be published in the Calgary Herald and the Financial Post;
 - d. the Sale Advisor advertised the SISP on its website and LinkedIn page;
 - e. by August 12, 2020, the Sale Advisor prepared and made available to Potential Bidders the CIM and the Data Room (as defined in the SISP);
 - f. 19 parties were approved as Potential Bidders, executed confidentiality agreements and were provided access to the Data Room; and

- g. 18 Potential Bidders expressed an interest in a going concern transaction.
15. The deadline for the delivery of non-binding letters of intent (“**LOI’s**”) was September 14, 2020 (the “**Phase 1 Deadline**”). The Monitor is filing a confidential supplement to this Third Report (the “**Confidential Supplement**”) which will include information in respect of the LOI’s received.
 16. The Monitor is of the view that it would not be appropriate to publicly disclose the details of the LOI’s until after the conclusion of all SISP activities and the closing of a transaction. Consequently, the Company will be seeking to have the Confidential Supplement sealed for a period of six months until the completion of the Proceedings and the discharge of the Monitor, which the Monitor supports.
 17. Korite, the Monitor, CIBC and the Vendor Creditors are in the process of assessing which of the parties submitting LOI’s shall be deemed to be Qualified Bidders (as defined by the SISP). Qualified Bidders will be permitted to continue to participate in the SISP and undertake further due diligence with a view to submitting formal offers by the final bid deadline of October 9, 2020.
 18. The SISP contemplates a final agreement deadline of October 16, 2020, with Korite's application to this Court for approval of a transaction(s) as soon as reasonably practicable thereafter, and closing of a successful transaction(s) within ten days of the approval order becoming a final order.

VACATION PAY CHARGE

19. Four individuals within the Management team of Korite have expressed concerns that receipt of their accrued vacation pay entitlements are at risk in light of the Proceedings. The Sale Advisor and Korite are of the view that the continued cooperation of these key employees (the “**Affected Employees**”) is critical to a successful SISP outcome, particularly given that Phase II of the SISP involves Qualified Bidders meeting with and traveling to the Korite mine site with Management.

20. In light of the above, Korite will be seeking approval of a fifth-ranking charge against the Assets in favour of these four individuals in order to secure the accrued vacation pay entitlements owed to them in the aggregate amount of \$105,255.41 (the "**Vacation Pay Charge**") ranking behind the Sales Agent Charge. In the event any of these Affected Employees resign or are terminated with cause prior to the conclusion of the Proceedings, such individual shall not be entitled to the Vacation Pay Charge.
21. A schedule setting out the names of the Affected Employees and the respective amounts to which each would be entitled to pursuant to the Vacation Pay Charge is attached as **Confidential Exhibit "3"** to the September 14, 2020 Affidavit No. 5 of Tim A. Bowman filed in these Proceedings ("**Bowman Affidavit No. 5**").
22. Throughout the SISP, the Monitor has been involved in many meetings and communications with Assurgo and Management and concurs that the Affected Employees are very important to the ongoing administration of the SISP, particularly in light of the next stage of the SISP contemplating Qualified Bidders meeting with Management and attending the Mine with Management.
23. The Monitor notes that while the proposed Vacation Pay Charge represents a form of retention arrangement, the quantum of the Vacation Pay Charge only attempting secured existing employment entitlements already accrued to the benefit of the Affected Employees versus establishing a form of success fee.
24. In light of the above, the Monitor is supportive of the establishment of the proposed Vacation Pay Charge provided the LOI's received warrant continuation of the SISP and the granting of the extension of the Stay being requested by the Company.
25. The Monitor supports the Company's request to seal Confidential Exhibit "3" of Bowman Affidavit No. 5 in light of the personal information contained therein.

FINANCIAL PERFORMANCE

26. Management had prepared a 13 week cash flow forecast (the “**Forecast**”), a copy of which was appended as Schedule “B” of Exhibit “1” to the July 3, 2020 Affidavit No. 3 of Tim A. Bowman sworn and filed in contemplation of the Comeback Application.
27. A variance analysis of the Company’s actual receipts and disbursements from the period June 28, 2020 through to September 12, 2020 (the “**Reporting Period**”) versus the corresponding period in the Forecast is set out in the following table:

June 28 - September 12, 2020				
	Actual	Forecast	Variance	Notes
Receipts				
Accounts receivable	1,364,649	714,960	649,689	a)
Interim financing	-	665,000	(665,000)	b)
Miscellaneous	154,462	171,889	(17,427)	
	<u>1,519,111</u>	<u>1,551,849</u>	<u>(32,738)</u>	
Disbursements				
Employees	576,682	457,122	(119,560)	c)
Contracts / Leases	105,027	107,162	2,135	
Production	29,240	55,548	26,308	
Purchases	11,423	271,383	259,960	d)
General and administrative	187,543	179,135	(8,408)	
Professional fees	47,657	81,500	33,843	
Secured Lender	184,063	178,614	(5,449)	
Restructuring	124,319	220,500	96,181	e)
	<u>1,265,954</u>	<u>1,550,964</u>	<u>285,010</u>	
Net cash flow for period	253,157	885	252,272	
Cash/Operating Line - beginning	<u>(2,857,526)</u>	<u>(2,857,526)</u>	-	
Cash/Operating Line - closing	<u>(2,604,369)</u>	<u>(2,856,641)</u>	252,272	

28. The Company experienced positive cash flow of approximately \$253,000 over the Forecast Period, which resulted in a negative overall variance of approximately \$252,000 in comparison to the Forecast. The Monitor offers the following comments in respect of certain of the above noted significant individual line item variances:

- a. the positive variance of approximately \$650,000 in respect of sales and accounts receivable is due to better than anticipated results than had been estimated when taking into account the effects of the Pandemic;
- b. the Forecast provided for the Company to have to draw \$665,000 on the Interim Facility over the Forecast Period, however; as a result of the greater than anticipated sales and collections, the Company has not had to draw on the Interim Facility to date;
- c. the negative variance of approximately \$120,000 in respect of employee expenses is a result of the costs associated with terminations discussed earlier in this Third Report;
- d. the favourable variance of approximately \$260,000 associated with purchase of materials is a result of the Company focusing on the sale of its existing inventory; and
- e. the positive variance of approximately \$96,000 in respect of restructuring expenses is a timing difference in relation to invoices to be rendered by the Company's legal counsel, the Monitor and the Monitor's legal counsel.

UPDATED CASH FLOW FORECAST

29. Management has prepared a further updated forecast for the period September 13, 2020 to December 12, 2020 (the "**September 13th Forecast**") which is attached as Exhibit "4" of Bowman Affidavit #5. The September 13th Forecast can be summarized as follows:

September 13 - December 12, 2020	
Receipts	
Accounts receivable	392,927
Interim financing	666,000
Miscellaneous	157,074
	1,216,001
Disbursements	
Employees	433,508
Contracts / leases	109,017
Production	61,563
Purchases	67,641
General and administrative	161,546
Professional fees	23,250
Secured lender	183,272
Restructuring	424,807
	1,464,604
Net cash flow for period	(248,603)
Operating line - beginning	(2,604,370)
Operating line - closing	(2,852,973)

30. The Monitor has reviewed the reasonableness of the September 13th 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 September 13th Forecast extends several weeks beyond the contemplated completion of the SISP, has been prepared assuming status quo operations and does not contemplate any transactions under the SISP;
 - b. Management has forecast negative cash flow of approximately \$249,000 over the forecast period, notwithstanding anticipating having to draw \$666,000 on the Interim Facility; and
 - c. With the use of the Interim Facility, the September 13th Forecast contemplates the Company having sufficient funds available to operate through to the anticipated completion of the SISP.

31. 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 September 13th Forecast. We have also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the September 13th Forecast.
32. 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 September 13th Forecast;
 - b. As of the date of this Third 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 September 13th Forecast, given the hypothetical assumptions; or
 - c. The September 13th Forecast does not reflect the probable and hypothetical assumptions.
33. The Monitor gives no assurance and makes no representations as to whether the September 13th 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 Third Report that has been provided by the Company. The September 13th Forecast has been prepared solely for the purpose of demonstrating how Korite intends to fund its operations through to December 12, 2020.

EXTENSION OF STAY OF PROCEEDINGS

34. The Company will be seeking a further extension of the Stay through to November 6, 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, provided the LOI's received warrant the continuation of the SISP.

CONCLUSION AND RECOMMENDATIONS

35. 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 Third Report, the Monitor is supportive of and recommends to this Honourable Court approval of the following:
- a. An extension of the Stay through to November 6, 2020 provided the LOI's warrant the continuation of the SISP;
 - b. The amendment of the ARIO to provide for the Vacation Pay Charge as the fifth-ranking Court Ordered Charge, provided the LOI's warrant the continuation of the SISP;
 - c. The sealing of Confidential Exhibit "3" of Bowman Affidavit No. 5; and
 - d. The sealing of the Confidential Supplement until after the conclusion of the Proceedings and the discharge of the Monitor.

All of which is respectfully submitted this 15th day of September, 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