Raymond Chabot Inc.

An affiliate of
Raymond Chabot Grant Thornton LLP

CANADA
DISTRICT OF QUÉBEC
DIVISION NO.:
COURT NO.:
OFFICE NO.:

SUPERIOR COURT
Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*,
R.S.C., c. C-36, as amended)

IN THE MATTER OF THE ARRANGEMENT OR COMPROMISE OF:

ATIS GROUP INC.

Legal person incorporated under the *Canada Business Corporations Act*, having its place of business at 1000 de La Gauchetière Street West, Suite 2500, in the City and Judicial district of Montreal, Province of Quebec, H3B 0A2.

And its Subsidiaries: **10422916 CANADA INC., SOLARCAN ARCHITECTURAL HOLDING LIMITED (N.S. LLC), 9092455 CANADA INC., 8528853 CANADA INC., VITROTEC PORTES & FENÊTRES INC., 9060642 CANADA INC., VITRERIE LÉVIS, DISTRIBUTEUR VITRO CLAIR INC., ATIS LP.**

Hereinafter collectively referred to as "Atis Group"

-and-

RAYMOND CHABOT INC.,
Dominic Deslandes, CPA, CA, CIRP, LIT

Hereinafter referred to as the "Proposed Monitor"

PRE-FILING REPORT TO THE COURT SUBMITTED BY RAYMOND CHABOT INC. IN ITS CAPACITY AS PROPOSED MONITOR

PREAMBLE

To one of the Honourable judges of the Superior Court, sitting in commercial division, in and for the judicial district of Montréal, we respectfully submit the Pre-filing report of the Proposed Monitor.

Signed in Montréal on February 19, 2021

RAYMOND CHABOT INC.
Proposed Monitor

Dominic Deslandes, CPA, CA, CIRP, LIT

1. INTRODUCTION

1.1 Raymond Chabot Inc. ("RCI") has been informed that Atis Group intends to file an application under the *Companies' Creditors Arrangement Act* ("CCAA") before the Superior Court of Québec, Commercial Division, seeking an Initial Order granting, *inter alia*, a stay of proceedings in favour of Atis Group until March 1st, 2021 and appointing RCI as Monitor of Atis's CCAA proceedings.

1.2 RCI is a "trustee" within the meaning of Section 2 of the *Bankruptcy and Insolvency Act* and is not subject to any of the restrictions set out in subsection 11.7(2) of the CCAA. RCI consents to act as Monitor.

2. ENGAGEMENT OF RCI AND PREPARATION OF THIS PRE-FILING REPORT

2.1 On January 7, 2021, Raymond Chabot Grant Thornton, LLP ("RCGT"), an affiliated company of RCI, was appointed by Atis Group's Board of Directors to:

2.1.1 Analyze different restructuring measures for Atis Group (including its subsidiaries and divisions) determined by management, with the help of Solstice groupe conseil Inc. ("Solstice") and the Chief Restructuring Officer ("CRO"), Claude Rouleau;

2.1.2 Prepare different financial projection scenarios reflecting the above-mentioned measures; and

2.1.3 Support management and Atis Group's shareholders in implementing the chosen restructuring measures.

2.2 Since the date of the engagement, RCGT has:

2.2.1 Taken part in multiple meetings and discussions with management and representatives of Solstice, including the CRO, to assess the financial situation of Atis Group and its subsidiaries/divisions as at December 31, 2020;

2.2.2 Obtained financial and other information from management relating to operations, weekly cash flow projections, the financial situation and possible restructuring measures;

2.2.3 Reviewed some of Atis Group's books and records;

2.2.4 Reviewed various other documents and materials relevant to Atis Group and its business;

2.2.5 Assisted Atis Group with the preparation of its weekly cash flow and monthly financial projections, involving various restructuring scenarios;

2.2.6 Worked closely in collaboration with Atis Group's legal counsel (McCarthy Tétrault LLP) to develop multiple scenarios related to the legal, operational and financial restructuring of Atis Group and its subsidiaries/divisions;

2.2.7 Held discussions and virtual meetings with the board members, the shareholders, management and the CRO to discuss the outlook for Atis Group and its subsidiaries based on the current financial situation and the monthly projections prepared using various assumptions;

2.2.8 Held several discussions with representatives of ScotiaBank (as Atis Group's first-ranking secured creditor) and shared different weekly cash flow projections as well as monthly projections that included various restructuring measures; and

2.2.9 Prepared this Pre-filing Report.

2.3 Since its engagement, RCGT has become familiar with Atis Group's current state of affairs including the basis on which it is now seeking relief pursuant to the CCAA.

2.4 As a result, RCI is in a position to immediately act as Monitor in the CCAA proceedings, if appointed by this Court.

3. OVERVIEW OF ATIS

3.1 Atis Group was created in 2004 by Cyprium Partners, a U.S.-owned private equity firm ("Cyprium") following the purchase of two companies, Solarcan Doors and Windows and Laflamme Doors and Windows.

3.2 In 2015, Cyprium sold its shares of the company to a consortium of Québec investors comprised of Fonds de solidarité FTQ ("FSTQ"), Fondaction CSN ("Fondaction"), and Capital régional et coopératif Desjardins ("CRCD"). As of the date hereof, these three Québec investors are still the majority shareholders of Atis.

3.3 Between the time of its creation and 2017, Atis Group achieved growth through more than 20 acquisitions.

3.4 At that point, Atis Group:

3.4.1 Operated nine manufacturing facilities located in Québec, Ontario, British Columbia and New Brunswick;

3.4.2 Generated annual revenues of close to $200 million; and

3.4.3 Had a workforce of approximately 1,400 employees across Canada.

3.5 Atis Group's products were sold under various brands including Laflamme, Vinylbilt, Solarcan, Vimat, Supervision, Melco, Allsco, and Altek.

3.6 Starting in FY18, various factors resulted in a significant drop in sales and major operating losses, the whole as summarized in section 4 of this report.

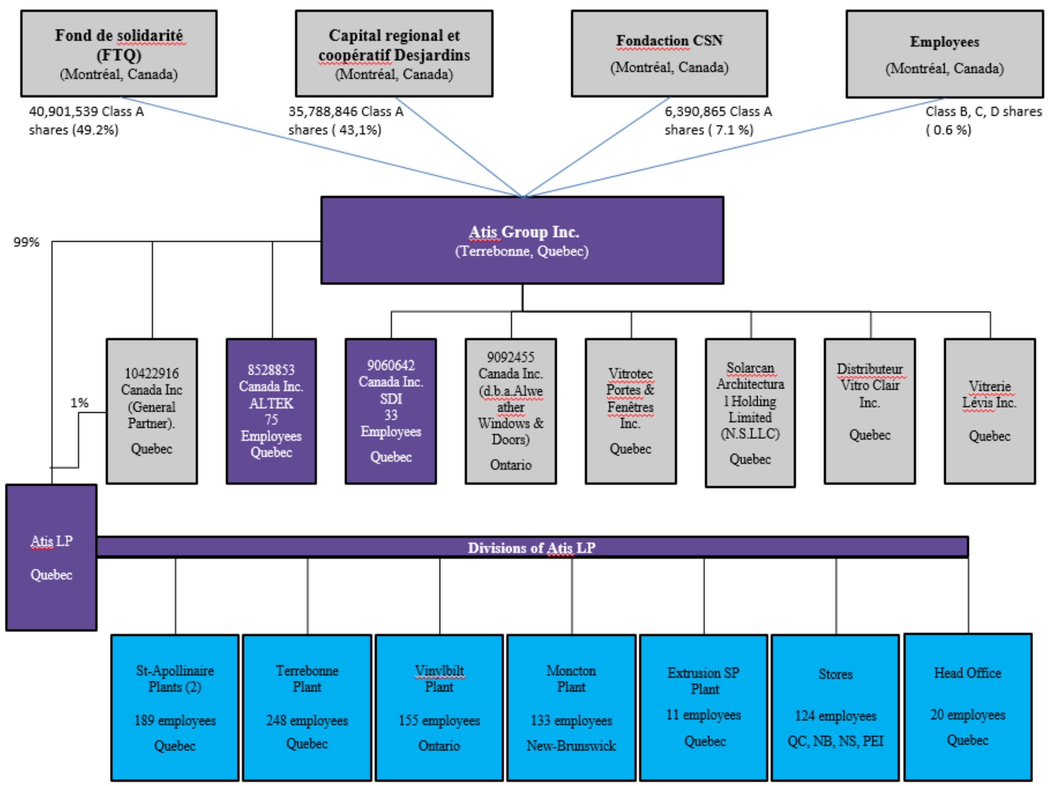
3.7 As at December 31, 2020, Atis Group:

3.7.1 Operated seven manufacturing plants located in Québec, New Brunswick and Ontario (Toronto Region) and 26 stores located in Québec, New Brunswick, Nova Scotia and Prince Edward Island;

3.7.2 Generated revenues of just over $115 million; and

3.7.3 Had a workforce of approximately 988 employees, 659 of whom were in Québec.

3.8 The current organizational chart is summarized below:



3.8.1 Operating companies in Atis Group are identified in purple whereas the divisions of Atis LP are presented in blue.

3.8.2 All of the commercial activities are in Atis LP, except for commercial construction sales and operations, which are isolated in distinct companies (Altek – Material; SDI – Installation)

3.8.3 Except for the Extrusion SP plant, which manufactures PVC products for the Group, all of the other plants that are part of Atis LP manufacture windows and/or door products for different market segments (retail customers, commercial customers, distribution through large retailers) under the Atis, Allsco, Laflamme, Supervision, Vinylbilt and Armor brands for distribution sales, as well as the Altek brand for commercial sales.

3.9 The Board of directors of Atis Group Inc. (the "Board") currently includes the following directors: Jean-François Couturier and Daniel Gilbert.

3.10 Following the departure of the previous president in Fall 2020 (Benoit Alain), the Board appointed Claude Rouleau (Solstice groupe conseil inc.) to act as Chief Restructuring Officer (CRO) and interim president of the Atis Group to help the restructuring and to allow it to return to profitability.

4. CAUSES OF FINANCIAL DIFFICULTIES

4.1 Given the six acquisitions that were made between FY16 and FY18, Atis Group's sales volume during that period stabilized around $170 million.

4.2 However, this stability hid the fact that past acquisitions resulted in a significant decrease in revenues. Two of these companies (Solarcan Architectural and Allied Doors and Windows) were ultimately shut down while another one (Phoenix Glass) was sold at a very low price.

4.3 Also, nowithstanding the fact that management tried to secure stable prices for raw materials through contracts with its main suppliers, costs increased significantly starting in FY18 due namely to the following factors:

4.3.1 Higher prices of glass; and

4.3.2 An increase in the rejection rate caused by the aging manufacturing equipment (average age of 19 years) and a high turnover rate for direct labor in many plants.

4.4 Moreover, the plant located in Ontario, which used to be very profitable, suffered a rapid and significant decrease in sales starting in FY19 since the government ended the "Green on" program and many major clients were lost to a new competitor.

4.5 The above-mentioned factors caused Atis Group to incur a net loss of over $13 million (before non-recurring costs, mostly made up of the write-off of goodwill and intangible assets) in FY19.

4.6 Given that Atis Group began facing financial difficulties, management hired consultants at the time to help prepare a strategic plan which focused on trying to improve/remedy the following issues:

4.6.1 Decline in sales;

4.6.2 Brand recognition and customer service;

4.6.3 Delivery delay to customers;

4.6.4 Productivity rates; and

4.6.5 Financial information.

4.7 However, due to the lockdown measures put in place by the governments in the spring of FY20 as a result of the COVID-19 pandemic, almost all of Atis Group's stores and all of its plants had to be closed between March 24 and April 21, 2020.

4.8 Once sites could be reopened, Atis Group was unable to hire foreign workers as it used to do in the past during the high season for temporary production employment. Local workers to replace these employees were hard to recruit and the turnover ratio was very high in some locations, causing a significant increase in delivery times, namely from 6 to 13 weeks.

4.9 These two issues drove the sales down for a second consecutive year, increasing the company's financial difficulties and jeopardizing the plan that was put in place at the end of FY19.

4.10 As sales decreased and direct costs increased, the gross margin declined significantly, shedding even more light on the significant fixed cost structure that could not easily be downsized as many acquisitions over the years were poorly integrated, causing many inefficiencies (i.e. too much duplication of efforts in different locations and a heavy fixed cost structure).

4.11 In May of 2020, a total of $9 million in financing (of which $7 million has been injected to this date) was obtained from the Atis Group's shareholders and Investissement Québec.

4.12 However, this financing only provided a short period of relief such that, by the end of 2020, the financial situation had deteriorated to the point where the Atis Group's shareholders were becoming increasingly concerned.

4.13 These concerns included:

1. The inability of management to implement the strategic plan prepared in FY19;
2. The ongoing cash burn coupled with the fact that the subordinated lenders/shareholders were unwilling to continue to provide further financial support and inject the remaining $2 million of the financing authorized in May 2020.

4.14 The preliminary financial statements for FY20 showed a loss of more than $24 million, without considering government programs totalling approximately $8 million.

4.15 On February 9, 2021, the CRO presented different restructuring plans, in which management would shut down and close totally or partially unprofitable operations, while focussing on operating profitable locations and reducing the fixed cost structure.

4.16 Cash requirements to complete this restructuring plan total close to $22 million over the next two fiscal years. Of this amount, $4.5 million is required over the next two months.

4.17 In the absence of this capital injection, Atis Group does not have sufficient resources or the ability to generate sufficient funds to pay its suppliers and other creditors in the normal course of business.

4.18 Considering the above, given the consequences that would arise from bankruptcy and Atis Group's anticipated inability to meet its overall obligations, Atis Group has no choice but to seek Court protection through the filing of an Application for an Initial Order under the CCAA.

4.19 The CCAA proceedings will allow Atis Group to protect its limited cash resources, thereby helping it to carry out either of its restructuring plans for the benefit of all stakeholders.

5. SUMMARY ANALYSIS OF FINANCIAL SITUATION

5.1 We have reviewed the consolidated financial statements of Atis Group for the years ended December 31, 2016, 2017, 2018, 2019, 2020.

5.2 Our analysis with respect to Atis Group's financial statements is attached herewith as Schedule "A", to be filed **under seal**.

6. RESTRUCTURING PLAN

6.1 The restructuring plan, as of the date of this report, is as follows:

6.1.1 Closing totally or partially unprofitable locations on or around February 28, 2021;

6.1.2 Moving the Atis Group's Head Office from Brossard and centralizing most of the decision making in one single location with a view of avoiding unnecessary duplication of tasks within its organization;

6.1.3 Selling and leasing back of the two plants in Saint-Apollinaire, and selling the two Vitrerie Lévis stores; and

6.1.4 Begining the sales process to find buyers for the surplus assets (mainly rolling stock and manufacturing equipment) from all the closed or partially closed locations.

7. PROJECTED CASH FLOW

7.1 Atis Group's management prepared a projected cash flow statement. A copy of this cash flow statement as well as our analysis of same is attached hereto as Schedule "B" to be filed **under seal**.

8. INTERIM FINANCING

8.1 In view of the cash flow projections discussed in the preceding section, Atis Group requires interim financing to:

8.1.1 Maintain its operations for profitable locations; and

8.1.2 Support restructuring costs.

8.2 The projected cash flow statement shows a funding requirement of approximately $4.5 million for the period ending on May 1st, 2021.

8.3 ScotiaBank, the current first-ranking secured lender of Atis Group, confirmed its interest and support by providing Interim Financing under this CCAA proceeding.

8.4 The terms and conditions of the proposed Interim Financing can be summarized as follows:

8.4.1 Amount: maximum amount of $6.250 million ($4.5 million until April 30, 2021).

8.4.2 Interest rate: prime + 3,75%.

8.4.3 Interim lender fee: 1,8% of the facility payable on each of the 180th and the 270th day following the date of the Borrower's acceptance of the Interim Financing Term Sheet.

8.4.4 The interest rate is deemed acceptable given the risks and uncertainties associated with Atis Group's business, namely:

8.4.4.1 A company having incurred significant losses over the last years and being in its worst period of the year in terms of revenue and profitability given the market seasonality;

8.4.4.2 The fact that the company was unable to propose conditions that could secure financing from IQ and the shareholders;

8.4.4.3 The risks associated with the filing of CCAA proceedings, i.e. continuing operations, the acceptance of a potential proposal, etc.;

8.4.4.4 The expected return by ScotiaBank on such investment.

8.4.5 Use of funds: in conformity with the cash-flow projections.

8.4.6 Collateral secured by a first-ranking security of $6.250 million on all the Debtor's assets (with $3 million being sought for the initial stay period), ranking prior to all other charges except for the administration charge.

8.4.7 Other material conditions: Interim Financing Order considered satisfactory by ScotiaBank.

8.5 The above-mentioned Interim Financing terms and conditions were approved by the Board of directors of Atis Group on February 17, 2021.

8.6 The Proposed Monitor is of the opinion that the proposed Interim Financing is suitable given the following:

8.6.1 ScotiaBank, the first-ranking secured creditor, would be providing the Interim Financing;

8.6.2 Other secured creditors affected by the security or charge under the proposed interim financing support such financing;

8.6.3 Atis Group's business and financial affairs will still be managed properly, with the assistance of the Proposed Monitor and the CRO;

8.6.4 The Interim Financing will enable Atis Group to cover expenses and cash requirements to carry out its restructuring plan;

8.6.5 The loan will enhance the prospect of a viable plan being made for the benefit of Atis Group's creditors and stakeholders; and

8.6.6 Finally, no unsecured creditor will be materially prejudiced as a result of the security or charge requested.

9. PROPOSED DIRECTORS' AND OFFICERS' CHARGE

9.1 The draft Initial Order provides for a directors and officers' charge (the "D&O Charge") to secure the indemnity for Atis Group's directors and officers provided in the Initial Order. Pursuant to the draft Initial Order, Atis Group's directors and officers would be indemnified in respect of all liabilities and obligations which may arise on or after the date of the Initial Order provided that the liability relates to his or her capacity as director and/or officer and is not attributable to a gross negligence or wilful misconduct on the part of the director or officer. The draft Initial Order provides for a D&O Charge in the amount of $2.25 million.

9.2 It is noted that Atis Group's directors and officers benefit from an insurance policy that provides some measure of protection, in a total amount of $3 million. Atis Group asserts that the directors and officers insurance currently available is not sufficient to adequately protect the directors and officers against the liability they may incur in the context of the restructuring proceedings under the CCAA.

9.3 The Proposed Monitor considers that this assertion is reasonable. The D&O Charge is intended to offer additional protection beyond what is available under the insurance policy coverage. The Proposed Monitor believes that such charge is required and reasonable under the circumstances.

10. PROPOSED ADMINISTRATION CHARGE

10.1 The draft Initial Order provides for a charge in favour of the Proposed Monitor, the Proposed Monitor's counsel and Atis Group's legal counsel, as security for the professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these proceedings (the "Administration Charge"). The Administration Charge as described in the Initial Order provides for an amount of $450,000.

10.2 The Administration Charge threshold has been established based on the various professionals' previous history and experience with restructurings of similar magnitude and complexity. The Proposed Monitor believes that the Administration Charge is required and reasonable in the circumstances having regard to the complexity of the proceedings, anticipated work levels of the applicable professional firms and the size of similar charges in comparable cases.

11. PROPOSED CRO CHARGE

11.1 The draft Initial Order provides for a CRO Charge, as security for the payment of his fees and any claims against the Directors and Officers which could eventually be claims against the CRO (the "CRO Charge"). The CRO Charge as described in the Initial Order provides for an amount of $750,000.

11.2 It is noted that Atis Group asserts that the CRO advised Atis Group that he is willing to provide or continue to provide his professional services during the restructuring only if he is protected by the CRO Charge. The Proposed Monitor believes that such charge is required and reasonable under the circumstances as the services of the CRO are necessary to Atis Group's restructuring.

12. PROPOSED KEY EMPLOYEE RETENTION PLAN

12.1 Atis Group's management, in conjunction with its Board and the CRO, has identified certain key employees whose knowledge, competences and expertise are required for the successful restructuring of the business under the CCAA. For information purposes, Atis Group employs approximately 988 individuals as of the date of the present report.

12.2 With respect of such employees, and in consultation with the Proposed Monitor and the CRO, Atis Group has developed a draft Key Employee Retention Program (the "KERP").

12.3 The objective of the proposed KERP is to retain these key employees who are vital to the ongoing and restructured operations of the Company during these challenging times, and to enable the preservation of the business' value. The departure of any of these employees would put a great deal of pressure on Atis Group's ability to successfully complete the restructuring process and emerge as a successful and profitable business.

12.4 Atis Group is asking the Court to grant a charge of $500,000 ("KERP Charge") on its assets to guarantee the payment of the KERP. Atis Group requests that the KERP Charge rank after the Administration Charge and the CRO Charge, but in priority to all other secured and unsecured creditors.

The Monitor believes that the KERP and the KERP Charge are required and reasonable in the circumstances, and key components which will allow Atis Group to successfully maintain its business and carry out its restructuring plan.

13. PAYMENTS TO SUPPLIERS

13.1 The draft Initial Order provides for the payment of amounts owing for goods or services actually supplied to the Debtors prior to the date of the Initial Order by third party suppliers up to a maximum aggregate amount of $300,000 if, in the opinion of the Debtors, the supplier is critical to the business and ongoing operations of the Debtors and required, in the opinion of the Monitor, to facilitate the restructuring.

13.2 The Proposed Monitor believes that payments to critical suppliers for a maximum aggregate amont of $300,000 is required and reasonable to facilitate the restructuring of Atis Group.

14. SALE AND INVESTMENT SOLICITATION PROCESS

14.1 Atis Group's management, in consultation with the Proposed Monitor and the CRO, has developed a sale and investment solicitation process to be conducted in respect of the business and certain assets of Atis LP (the "SISP"). SISP procedures are as follows :

14.1.1 the SISP will be conducted by the Proposed Monitor;

14.1.2 The Proposed Monitor will identify prospective investors and purchasers and provide such Prospective Bidders with a Teaser Letter;

14.1.3 there will be two mandatory phases to identify a successful bid : (i) a non-binding LOI phase to qualify Prospective Bidders as Qualified Bidders and (ii) a binding offer phase where Qualified Bidders submit binding Qualified Bids;

14.1.4 if the Proposed Monitor determines that more than one Qualified Bid was received that is in the best interests of their stakeholders, they may, without having the obligation to do so, conduct an Auction to select a Successful Bid; and

14.1.5 after a definitive agreement in respect of a Successful Bid has been finalized, the Proposed Monitor will apply to the Court for an order approving any transaction(s) contemplated in such Successful Bid.

14.2 The Proposed Monitor is of the opinion that the proposed SISP is fair and reasonable in order to advance the restructuring process for the benefit of all of Atis Group's stakeholders.

15. IMPACTS OF A BANKRUPTCY

15.1 ScotiaBank holds first-ranking security on all of Atis Group's movable and immovable property and would incur a significant loss in either a forced or orderly liquidation scenario.

15.2 The profitable divisions of Atis Group would lose their value/ability to attract potential buyers if the operations were to be shut down completely;

15.3 In light of the foregoing, ,the impacts of Atis Group's bankruptcy for the various stakeholders would be, among other things, as follows:

15.3.1 nearly all employees would be terminated; and

15.3.2 only certain positions could be maintained in the short term to put plant operations on hold.

15.4 As for the suppliers/unsecured creditors: given their rank as unsecured creditors and the potential significant deficit of the first-ranking secured creditor, Atis Group's assets would clearly be insufficient to eventually pay a dividend.

15.5 ScotiaBank (in its capacity as secured creditor): would likely need to take the necessary steps to directly or indirectly realize/sell off the assets held under guarantee in an attempt to seek repayment.

15.6 Shareholders: would lose their entire initial investment.

15.7 Closure of a major employer in several regions, with impacts on the sector.

16. CONCLUSIONS AND RECOMMENDATIONS

16.1 Atis Group will soon be unable to meet its obligations as they become due.

16.2 In a bankruptcy scenario, the value of the assets would be jeopardized, with major negative impacts on stakeholders, including hundreds of employees.

16.3 The orderly total or partial shutdown of certain plants and most of the stores and a stay of proceedings, as well as the other restructuring measures provided for in the draft Initial Order are key to Atis Group's ability to restructure its operations for the benefit of its creditors and customers.

16.4 The CCAA proceedings will ensure Atis Group protects its limited cash resources and, subject to the court's approval of the Interim Financing, Atis would have sufficient funds until at least April 30, 2021 as presented in the cash-flow projections.

16.5 The Proposed Monitor is of the opinion that it is in the interest of all stakeholders for an initial order pursuant to the CCAA to be issued in order to allow Atis to restructure its operations.