

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
COURT NO.: 500-11-062372-236

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:

**CAPCIUM INC. AND GELCAN CORPORATION
INC.**

Legal persons having their head office at 7300
Transcanada Hwy, in the City of Pointe-Claire, in the
Province of Québec, H9R 1C7.

Hereinafter collectively referred to as “Capcium”

-and-

RAYMOND CHABOT INC.,

Having a place of business at 600 De La Gauchetière Street
West, in the city of Montréal, in the province of Québec,
H3B 4L8

Hereinafter referred to as the “Monitor” or “RCI”

**FIRST REPORT TO THE COURT BY RAYMOND CHABOT INC. IN ITS CAPACITY AS
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 First report of the Monitor in the context of the
comeback hearing.

Signed in Montréal on May 26, 2023

RAYMOND CHABOT INC.
Monitor



Dominic Deslandes, CPA, CIRP, LIT

1. INTRODUCTION

- 1.1 This report of the Monitor is intended to complement the report dated May 14, 2023 (the “**Pre-Filing Report**”) prepared by Raymond Chabot Inc. (“**RCI**”), then in its capacity as Proposed Monitor, in the context of the current proceedings (the “**CCAA Proceedings**”), and should be read in conjunction with the Pre-Filing Report.
- 1.2 On May 15, 2023, The Bank of Nova Scotia (“**Scotiabank**”) filed an application entitled “Application for an initial order, an amended and restated initial order and other relief” (the “**Initial Application**”), in respect of Capcium Inc. and Gelcan Corporation Inc. (“**Capcium**” or the “**Debtors**”).
- 1.3 On May 17, 2023, the Superior Court of the Province of Québec for the district of Montréal (the “**Court**”) granted the Application and issued an initial order (the “**Initial Order**”) under the Companies’ Creditors Arrangement Act (the “**CCAA**”) and a bidding procedure order (the “**Bidding Procedure Order**”) approving a sale and investment solicitation process in respect of the Debtors (the “**SISP**”).
- 1.4 The Court scheduled the comeback hearing for May 26, 2023, at 9:30 a.m.
- 1.5 This report is intended to provide the Court with an update on the Monitor’s activities since the issuance of the Initial Order, as well as to provide the Court with the Monitor’s comments and recommendations regarding: (i) the request for an extension of the stay of proceedings and (ii) the request to increase the amount of the Interim Financing and its related charge. The report has been prepared based on information made available to the Monitor as of the date hereof. The Report covers the following:
- Administration by the Monitor (section 2)
 - Review of the cash flow (section 3)
 - Sale and Investment Solicitation Process (section 4)
 - Interim Financing and Interim Lender Charge (section 5)
 - Extension of the stay of proceedings (section 6)
 - Conclusion (section 7)

2. ADMINISTRATION BY THE MONITOR

- 2.1 On May 19, 2023, the Monitor posted documents in regards to the CCAA Proceedings on its website (<https://www.raymondchabot.com/en/companies/public-records/capcium-inc-et-al/>) (the “**Monitor’s Website**”);
- 2.2.1 Such documents include the following:
- The Initial Order;
 - The Initial Application; and
 - The Pre-Filing Report.
- 2.2 On May 23, 2023, the Monitor requested that a notice with respect to the Initial Order be published in La Presse+ (May 27 and June 3, 2023 editions).
- 2.3 On May 25, 2023, the Monitor filed Forms 1 and 2 with the Office of the Superintendent of Bankruptcy.
- 2.4 On May 25, 2023, the Monitor sent a notice to creditors, which was also posted on the Monitor’s Website.
- 2.5 As further described in section 4 of this report, the Monitor initiated the SISP.
- 2.6 Since its appointment, the Monitor exercised oversight over the receipts and disbursements of the Debtors. The Analysis of the cash flow for the 2-week period ended May 19, 2023, is presented in section 3 of this report.
- 2.7 Since its appointment, the Monitor also had multiple communications with creditors as well as with potential bidders in the context of the SISP.

3. REVIEW OF THE CASH FLOW

3.1 Since the issuance of the Initial Order, the Monitor has exercised oversight over the affairs and finances of the Debtors.

3.2 The following table presents the actual versus forecasted variations in cash for the 2-week period ended May 19, 2023:

Cashflow follow up for the 2-week period ended May 19, 2023

	Actual	Budget	Variance
Receipts			
Receivables (opening)	156	166	(9)
DIP financing	250	250	-
Total receipts	406	416	(9)
Disbursements			
Salaries, wages and benefits	122	112	(10)
Group insurance	-	-	-
Quality control testing and other	-	40	40
IT & IS	-	20	20
Consumables	6	5	(1)
Insurance	-	-	-
Occupancy costs (other than rent)	60	57	(3)
Professional fees, consulting & business fees	36	30	(6)
Restructuring fees	-	100	100
Licences	-	-	-
DIP financing fee and interest	-	30	30
Others and Miscellaneous	(3)	5	8
Total disbursements	221	399	178
Opening bank balance	89	89	-
Cash increase (decrease)	186	17	169
Closing bank balance	275	106	169

3.3 The cash inflows are overall in line with the forecasts.

3.4 The differences in the disbursements are mainly explained by the deferral of certain disbursements.

4. SALE AND INVESTMENT SOLICITATION PROCESS

4.1 As provided for in the Bidding Procedure Order rendered on May 17, 2023, in conjunction with the Initial Order, the Monitor worked in collaboration with the Debtors to initiate the SISP.

4.2 So far, the Monitor initiated the first phase of the SISP and conducted the following actions:

- Finalized the teaser letter;
- Finalized the nondisclosure agreement (“**NDA**”);
- Finalized the list of parties to be solicited in the context of the SISP;
- Solicited a total of 66 parties, 56 being potential strategic bidders mainly in Canada, the United States, and Europe and 10 of them being potential financial bidders located in Canada and the United States. The transmission of the opportunity to the potential targets was initiated on May 19, 2023.

- The identified parties were retained for being either of sufficient size to acquire the assets and having compatible activities, or being an investment fund having interest in operations similar to those of the Debtors or being devoted to distressed assets. Some of these parties had already been solicited by the Debtors prior to the initiation of the CCAA Proceedings and 13 NDA were previously signed directly with the Debtors.
- 4.3 The Monitor set up and populated a data room to provide financial and operational information to the potential bidders and such data room is now accessible to them.
- 4.4 To this date, multiple parties have shown interest in the business and/or assets of the Debtors.

5. INTERIM FINANCING AND INTERIM LENDER CHARGE

- 5.1 Appears from the cash flow projections presented in the Pre-filing Report, Capcium requires interim financing to:
- Maintain its facilities and its licences active during the SISP;
 - Complete the SISP; and
 - Support restructuring costs.
- 5.2 The projected cash flow statement showed a funding requirement of approximately \$1,200,000 for the 12-week period ending July 28, 2023.
- 5.3 Scotiabank, the current first-ranking secured lender of Capcium, confirmed its interest and support by providing Interim Financing under this CCAA proceeding (the “**Interim Lender**”).
- 5.4 The Initial Order provided for an Interim Financing of \$250,000 and a charge of \$300,000. The \$250,000 has already been disbursed by the Interim Lender.
- 5.5 Considering the cash flow projections, an increase of the Interim Financing to \$1.2 million is sought along with an increase of the corresponding Interim Lender Charge to \$1,440,000. The increase in the Interim Financing is required to pursue the Debtors’ restructuring efforts.
- 5.6 The Monitor is of the opinion that the proposed Interim Financing is suitable and necessary given the following:
- 5.6.1 Scotiabank, the first-ranking secured creditor, is providing the Interim Financing;
 - 5.6.2 The Interim Financing will enable Capcium to cover expenses and cash requirements to carry out its restructuring efforts;
 - 5.6.3 The Interim Financing will enhance the realization proceeds, for the benefit of Capcium’s creditors and stakeholders; and
 - 5.6.4 No unsecured creditor will be materially prejudiced as a result of the security or charge requested.

6. EXTENSION OF THE STAY OF PROCEEDINGS

- 6.1 The Initial Order provides for a stay of proceedings until May 26, 2023.
- 6.2 Through the Bidding Procedure Order, the Court approved the timeline for the Sale Process, with non-binding offers to be received by June 19, 2023, and binding offers to be received by July 10, 2023.
- 6.3 Considering this timeline, the Monitor is seeking an extension of the stay period until July 24, 2023, to allow the Monitor to :
- 6.3.1 Complete the implementation of the SISP and receive the binding offers;
- 6.3.2 Analyze the offers received with the appropriate stakeholders with a view to identifying the Successful Bid; and
- 6.3.3 To submit the Successful Bid for approval by this Court.
- 6.4 Taking into account the additional Interim Financing, cash flow projections show that the Debtors have sufficient funds to conduct the restructuring measures during the requested extension period.
- 6.5 The Monitor has obtained the full cooperation of the Debtors as part of its mandate and has been able to assess that the Debtors are working in good faith, in consultation with Scotiabank, to implement the restructuring plan and the various measures that will be required in the framework of the ongoing restructuring.

7. CONCLUSION

- 7.1 Considering that :
- In a bankruptcy scenario, the value of the assets would be jeopardized, with major negative impacts for the stakeholders;
 - The orderly shutdown of the facility, a stay of proceedings and the continuation of the Sale Process are key to maximize the benefit for its creditors;
 - Additional Interim Financing has been made available by the Interim Lender to support the ongoing restructuring;

The Monitor is of the opinion that it is in the interest of all stakeholders for an extension of the stay until July 24, 2023, to be granted.