



Raymond Chabot inc.

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CANADA
DISTRICT OF QUEBEC

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

DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-059536-215

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.,
Dominic Deslandes, CPA, CIRP, LIT

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

**FOURTH REPORT TO THE COURT BY RAYMOND CHABOT INC.
IN ITS CAPACITY AS MONITOR**
(Section 9 and 11 of the CCAA)

To one of the Honorable judges of the Superior Court, sitting in commercial division, in and for the judicial district of Montréal, we respectfully submit this report of the Monitor.

Signed in Montréal, on September 21, 2023.

RAYMOND CHABOT INC.
Monitor

Dominic Deslandes, CPA, CIRP, LIT

1. INTRODUCTION

- 1.1 This report of the Monitor should be read in conjunction with the report dated May 14, 2023 (the “Pre-Filing Report”) prepared by Raymond Chabot Inc. (“RCI”) then in its capacity as proposed Monitor, the First, Second and Third Report to the Court by Raymond Chabot in its Capacity as Monitor respectively dated May 26, 2023 (the “First Report”), July 21, 2023 (the “Second Report”) and September 5, 2023 (the “Third Report”) in the context of the current proceedings (the “**CCAA Proceedings**”).
- 1.2 On May 15, 2023, the Bank of Nova Scotia (“**Scotiabank**”), as secured creditor of Capcium Inc. and its subsidiary, Gelcan Corporation Inc. (collectively, “**Capcium**” or the “**Debtors**”), 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.
- 1.3 On May 17, 2023, the Superior Court of the Province of Québec for the district of Montréal (the “**Court**”) granted the Initial 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 On May 26, 2023, in the context of the comeback hearing, the Court issued an Amended and Restated Initial Order (the “**ARIO**”) which provided, among other things:
 - 1.4.1 A stay of proceeding against the Debtors and the property until and including July 24, 2023;
 - 1.4.2 An administration charge of \$150,000; and
 - 1.4.3 An interim Financing Facility up to a maximum principal amount of \$1,200,000 (“Interim Financing Facility”).
- 1.5 On July 24, 2023, the Court issued an order extending the stay of proceeding against the Debtors and the property until and including September 6, 2023.
- 1.6 On September 6, 2023, the Court issued an order extending the stay of proceeding against the Debtors and the property until and including September 29, 2023 (the “**Stay Period**”).
- 1.7 This report is intended to provide the Court with an update on the Monitor’s activities since the Third Report, as well as to provide the Court with the Monitor’s comments and recommendations regarding the approval of a proposed transaction of the sale and reverse vesting order. 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 since the Third Report (section 2);
 - Restructuring measures and update regarding Capcium’s operations (section 3);
 - Review of the cash flow (section 4);
 - Update on the sale and Investment Solicitation Process (section 5);
 - Proposed transaction (section 6);
 - Impact of the Proposed Transaction on Stakeholders (section 7);
 - Conclusion (section 8).

2. ADMINISTRATION BY THE MONITOR SINCE THE THIRD REPORT

- 2.1 The Monitor has been conducting the SISP in accordance with the Bidding Procedures Order, considering the amendments described in our Second Report and Third Report (the “Amended SISP”). An update on the Amended SISP is provided in section 5 of this report, and the Proposed transaction is further detailed in section 6.
- 2.2 The Monitor exercised oversight over the receipts and disbursements of the Debtors.
- 2.3 The Monitor maintained communications with creditors, including the secured creditors (i.e., Scotiabank and Investissement Québec) as well as the landlord (Alexandria Real Estate Equities).
- 2.4 The Monitor assisted the Debtors with their relations with suppliers to maintain the facilities and the licenses active during the restructuring.

3. RESTRUCTURING MEASURES AND UPDATE REGARDING CAPCIUM’S OPERATIONS

- 3.1 As mentioned in our previous reports, Capcium was unable to maintain its operations and bear all-employee-related costs. Many layoffs were made since the Initial Order, with 10 employees remaining at the date of this report. Additional cost-cutting measures were also implemented to limit the expenditures.
- 3.2 While the manufacturing operations ceased, the personnel required to maintain the licenses active were retained and the maintenance on the essential equipment continues. In addition, the Debtors continued the collection of their accounts receivable.

4. REVIEW OF THE CASH FLOW

- 4.1 Since the issuance of the Initial Order, the Monitor has exercised oversight over the affairs and finances of the Debtors.
- 4.2 The following table presents the actual versus the forecasted variations in cash since the Third Report, from August 25 to September 8, 2023:

For the week ending Friday :	Note	Actual	Budget	Variance
Receipts				
Receivables (opening)		-	-	-
Additional Sales		-	-	-
DIP financing	1	-	200	(200)
Other receipts		2	-	2
Total receipts		2	200	(198)
Disbursements				
Salaries, wages and benefits		39	42	2
Group insurance		-	-	-
Quality control testing and other		-	-	-
IT & IS	2	1	28	27
Consumables		-	-	-
Insurance	3	-	8	8
Occupancy costs (other than rent)		21	21	-
Professional fees, consulting & business fees	4	9	50	41
Restructuring fees	3	-	50	50
Licences		-	-	-
DIP financing fee and interest		-	-	-
Others and Miscellaneous	2	-	10	10
Total disbursements		70	209	139
Opening bank balance		195	195	-
Cash increase (decrease)		(68)	(9)	(59)
Closing bank balance		127	186	(59)

- 4.3 The explanations for the significant variances are as follows:
- 4.3.1 **DIP Financing:** The Monitor's efforts to limit expenditures and disbursements to the minimum has staved off the need to use the Interim Financing Facility during the period under review;
- 4.3.2 **IT & IS:** Continuous efforts are made to limit expenditures;
- 4.3.3 **Insurance:** Timing difference;
- 4.3.4 **Professional fees, consulting & business fees and Restructuring fees:** Timing difference;
- 4.3.5 **Others and Miscellaneous:** Permanent variance.

5. UPDATE ON THE SALE AND INVESTMENT SOLICITATION PROCESS

- 5.1 Since the Third Report and further to requests by the Monitor, some bidders revised their offers, one bidder agreed to waive certain conditions contained in its offer and one bidder withdrew its offer.
- 5.2 The final offers are presented in **Appendix A** (UNDER SEAL).

- 5.3 Considering the offers on hand and the expected costs related to each transaction, the Monitor, in consultation with Scotiabank, retained an offer, which is further described in the following section.
- 5.4 Following the selection of the successful offer, the bidder who had previously withdrawn its offer, submitted a revised offer to the Monitor. Given that this offer was unsolicited and that the Monitor had already selected the successful offer, the Monitor informed this party that its revised offer would not be considered. In any event, the unsolicited offer was not superior in terms or in value to the successful offer and would therefore have been rejected.

6. PROPOSED TRANSACTION

- 6.1 The Proposed Transaction is structured as a reverse vesting order. The reverse vesting structure is essential to preserve the existing permits and licenses held by the Debtors, which are required by the purchaser.
- 6.2 The Proposed Transaction can be summarized as follows:
- 6.2.1 The amount offered is presented in **Appendix B** (UNDER SEAL);
 - 6.2.2 The bidder contemplates the acquisition of substantially all assets of the Debtors via a reverse vesting order;
 - 6.2.3 The bidder would not assume any liabilities of Capcium;
 - 6.2.4 The main conditions precedent to the offer are as follows:
 - 6.2.4.1 The acquisition of the unpaid portion of the existing DIP Loan, after repayment of an amount not exceeding the amount offered;
 - 6.2.4.2 the signature of a definitive agreement;
 - 6.2.4.3 The issuance of approval and reverse vesting order.
 - 6.2.5 There are no financing conditions;
 - 6.2.6 The closing of the transaction would occur no later than September 30, 2023. After discussion between the parties, the parties agreed to close the transaction as soon as possible, which would most likely result in a closing by September 26, 2023.
 - 6.2.7 A deposit amounting to 10% of the offer was made to the Monitor.

7. IMPACT OF THE PROPOSED TRANSACTION ON STAKEHOLDERS

- 7.1 The estimated impact of the Proposed Transaction for stakeholders is presented in **Appendix C** (UNDER SEAL).
- 7.2 As illustrated, the net proceeds after the estimated costs of the transaction do not fully cover the interim financing advanced by Scotiabank.
- 7.3 There is no unpaid deduction at source.

- 7.4 Considering that the interim financing will not be repaid in full, there will be no realization left for the employee priority claims.
- 7.5 Scotiabank and Investissement Québec will suffer from a loss for the entire amount of their secured debt.
- 7.6 Finally, considering the estimated net realization, the Proposed Transaction won't allow the Debtors to file a plan of arrangement for the benefit of their creditors.

8. CONCLUSION

- 8.1 Considering, among other things, the following:
 - 8.1.1 The Proposed Transaction was obtained following an exhaustive bid solicitation process conducted by the Monitor;
 - 8.1.2 The Proposed Transaction is the best in the circumstances;
 - 8.1.3 Scotiabank, the only creditor having a financial interest in the transaction, supports the Proposed Transaction, even though they suffer from a loss;
 - 8.1.4 The reverse vesting order sought is the most efficient way to close the transaction while keeping the value related to the pharmaceutical and cannabis licenses, which are costly to obtain and require significant delays.
- 8.2 The Monitor is of the opinion that it is in the interest of all stakeholders to approve the Proposed Transaction and recommends the issuance of the order sought.

SCHEDULE A
SUMMARY OF OFFERS RECEIVED
(UNDER SEAL)

APPENDIX B
PROPOSED TRANSACTION OFFER
(UNDER SEAL)

APPENDIX C
IMPACT OF THE TRANSACTION ON STAKEHOLDERS
(UNDER SEAL)