

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:

**CAPCIUM INC.**

Legal person incorporated under the *Canada Business Corporations Act*, having its place of business at 7300 Transcanada Hwy, in the City of Pointe-Claire, in the Judicial district of Montreal, Province of Quebec, H9R 1C7.

**GELCAN CORPORATION INC.**

Legal person incorporated under the *Canada Business Corporations Act*, having its place of business at 7300 Transcanada Hwy, in the City of Pointe-Claire, in the Judicial district of Montreal, Province of Quebec, H9R 1C7.

Hereinafter collectively referred to as “Capcium”

-and-

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

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

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

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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 May 14, 2023

RAYMOND CHABOT INC.  
Proposed Monitor



Dominic Deslandes, CPA, CA, CIRP, LIT

**1. OVERVIEW OF CAPCIUM**

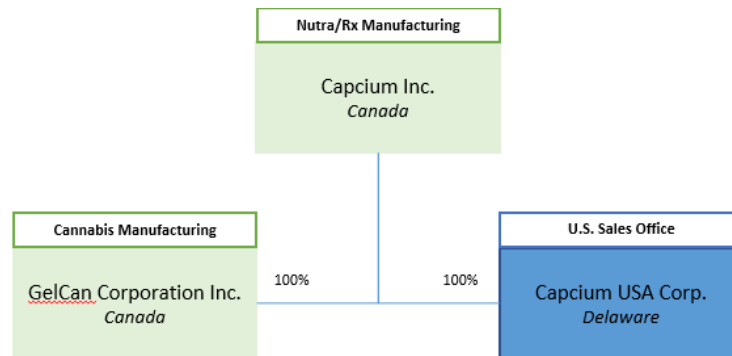
- 1.1 Capcium is a private company founded in August 2012, which was amalgamated to become the existing entity in January 2015. It specializes in the softgel encapsulation for the pharmaceutical, cannabis, over-the-counter and health & wellness industries. It is compliant with all major pharmaceutical standards including Health Canada, FDA (USA) and EMEA (Europe), as well as compliant to food grade nutrition products standards from Health Canada, FDA and EMEA and cannabis transformer standards of Health Canada.
- 1.2 It has a multiple stage share capital comprised of common, Series “A” and Series “B” shares and is owned in by numerous shareholders.
- 1.3 Capcium started its activities as a manufacturer of nutritional and industrial products, as an affiliate of a manufacturer of industrial gel colored capsules for paintball recreational activity.
- 1.4 Its main customer base now consists of clients in the pharmaceutical, nutritional supplements and cannabis industries.
- 1.5 In 2020, Capcium completed construction of and moved into a state-of-the-art facility in Pointe-Claire, Québec. It obtained its Health Canada nutritional manufacturing licence in 2020, its cannabis standard transformer licence in 2021, and its Health Canada and FDA pharmaceutical manufacturing licences in 2022.
- 1.6 It employed approximately 132 employees at the beginning of April 2023. As part of the current liquidity crisis, Capcium was unable to continue to support the costs of its current commercial manufacturing and reduced its workforce as a cost-cutting measure. As of today, 25 employees remain.
- 1.7 When the project for the new facilities was set, the financial projections were targeting revenues of more than \$43 million per year for 2021-2022.
- 1.8 For the financial year ending December 31, 2022, Capcium generated revenues of \$7.8 million and losses of \$24 million.
- 1.9 Various factors, which will be explored further in this report, impacted the sales of products manufactured by the company to its customer base.
- 1.10 At current sales level, the fixed costs related to the facilities and the General & Administration fees required to manage the business are too high to sustain the business.

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1.11 The current organizational chart is summarized below:



1.11.1 GelCan Corporation inc. is a wholly-owned subsidiary established as a corporate entity in which the cannabis contracts were segregated.

1.11.2 Capcium USA Corp. was established in order to be able to accommodate US-based clients in the future, as well as for remuneration purposes for US-based employees.

1.12 The Board of directors of Capcium have all resigned on March 23, 2023.

## 2. INSOLVENCY

2.1 Capcium owes \$27.2 million to its creditors :

- i. Scotiabank : principal amount of \$6.2 million (secured);
- ii. Investissement Québec : \$16.8 million (secured);
- iii. Others : \$4.2 million (unsecured);
- iv. There are no unpaid deduction at source

2.2 As it will be further explained in this report, Capcium is unable to meet its obligations as they become due;

2.3 With the consent of Capcium Inc.'s management, Scotiabank (the "**Bank**"), the first ranking secured creditor, 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 Capcium until May 26, 2023 and appointing RCI as Monitor of Capcium's CCAA proceedings.

2.4 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.

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### **3. ENGAGEMENT OF RCI AND PREPARATION OF THIS PRE-FILING REPORT**

3.1 On March 6<sup>th</sup>, 2020, Raymond Chabot Grant Thornton & Cie, LLP (“**RCGT**”), an affiliated company of RCI, was mandated by Scotiabank, secured lender to Capcium to:

- 3.1.1 Assess the financial situation of the company, including the value of the assets pledged to the Bank;
- 3.1.2 Review the different financial projections prepared by management;
- 3.1.3 Review the multiple restructuring plans presented by management, and
- 3.1.4 Explore the possible alternative restructuring scenarios.

3.2 Since the date of the engagement, RCGT has:

- 3.2.1 Taken part in numerous meetings and discussions with management and representatives of the Bank, to assess the financial situation of Capcium;
- 3.2.2 Obtained financial and other information from management relating to operations, cash flow projections, the financial situation and possible restructuring measures;
- 3.2.3 Reviewed some of Capcium’s books and records;
- 3.2.4 Reviewed various other documents and materials relevant to Capcium and its business;
- 3.2.5 Developed multiple scenarios related to the operational and financial restructuring of Capcium;
- 3.2.6 Held discussions with management and the Bank on the outlook for Capcium based on the current financial situation and the monthly projections prepared using various assumptions;
- 3.2.7 Prepared this Pre-filing Report.

3.3 Since its engagement, RCGT has become familiar with Capcium’s current state of affairs including the basis on which Capcium should be granted relief pursuant to the CCAA.

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

### **4. CAUSES OF FINANCIAL DIFFICULTIES**

4.1 Capcium is a startup company, which operated at its inception in facilities shared with the company from which it was spun off. It also operated at the time out of the Aurora Cannabis facility, where they could manufacture their products free of rent on Aurora Cannabis’s equipment.

4.2 When the project was launched to build new facilities to accommodate larger volumes of production and to open to the pharmaceutical market, the sales projections were aiming for potential sales of \$62 million.

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- 4.3 During the construction of the plant, cost overruns estimated at \$8.4 million occurred including as a result of the Covid-19 pandemic. The plant was completed during the crisis with major delays.
- 4.4 The forecasts also projected to obtain Health Canada and FDA licences shortly after the completion of the new facilities. Again, in large part as of result of the pandemic, the licences took significantly more time to obtain, having direct consequences on the sales for the pharmaceutical products it anticipated to manufacture for the Canadian and US markets.
- 4.5 As a result of the cost overruns on the construction of the new plant, reductions in equipment purchases had to be made, which impeded in the ability of Capcium to reach profitability.
- 4.6 Management estimates that further investments in equipment of approximately \$11.5 million for the installation of 4 additional encapsulation lines would be required for the plant to reach profitability.
- 4.7 The company has had to support an important fixed costs structure with drastically lower revenues than initially projected.
- 4.8 Since 2020, the shareholders have injected more than \$14.9 million to support the cashflow requirements.
- 4.9 Since the beginning, Capcium suffered from more that \$68 million in accumulated losses.
- 4.10 As part of its search for funding, Capcium proceeded in 2021 to a sale-leaseback of its new building with Alexandria Real Estate Equities (“**Alexandria**”), a US-based fund specialized in the pharmaceutical industry. The sale-leaseback generated liquidities that were put towards the reimbursement of a portion of Scotiabank debt and injected in Capcium’s cashflow.
- 4.11 The most recent cashflow requirements provided by management illustrates the need for a further cash injection of \$3 million to maintain its activities in the normal course of business for the next 3 months. At this time, none of the current shareholders are willing to invest further money in Capcium.
- 4.12 In the absence of this capital injection, Capcium does not have sufficient resources or the ability to generate sufficient funds to pay its employees, suppliers and other creditors in the normal course of business.
- 4.13 RCGT requested valuation reports from Corporate Assets to evaluate the different scenarios to restructure the Company. It was determined that the best outcome for the creditors would result by maintaining the pharmaceutical licences to seek potential buyers that would benefit from a fully operational facility.
- 4.14 In the scenario of a forced liquidation, the specialized equipment and design of the facilities would negatively impact the potential realization a bankruptcy trustee could obtain, and the predicted realization would be insufficient to leave a dividend to the unsecured creditors.

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- 4.15 The licences required to manufacture pharmaceutical, nutraceutical and cannabis derived products would be jeopardized by the end of operations, which would further reduce the potential realization that could be obtained from such specialized assets. These licences take months to years to obtain.
- 4.16 Considering the above, given the consequences that would arise from bankruptcy and Capcium's anticipated inability to meet its overall obligations, the Bank, with the consent of Capcium's management, is seeking Court protection for Capcium through the filing of an Application for an Initial Order under the CCAA with RCI acting as Monitor.
- 4.17 The CCAA proceedings would allow for the protection of its licences while a restructuring plan is carried for the benefit of all stakeholders.

## **5. SUMMARY ANALYSIS OF FINANCIAL SITUATION**

- 5.1 We have reviewed the consolidated financial statements of Capcium for the years ended December 31, 2020, 2021 and 2022, as well as the 3 months ending March 31<sup>st</sup>, 2023.
- 5.2 Our analysis with respect to Capcium'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 Reducing the costs to the minimum required to maintain the production facility in working order and to maintain the licences. This would imply a significant reduction in the number of employees.
  - 6.1.2 Beginning a sale and investment solicitation process ("SISP") to find buyers for all assets;
  - 6.1.3 Depending on the outcome of the SISP, filing a plan of arrangement for the benefits of the creditors.
  - 6.1.4 The Bank, as well as Alexandria would cover the occupancy and fees related to maintaining the facilities in working order and maintaining the licences during the restructuring process via an interim financing and reductions in the rent.

## **7. PROJECTED CASH FLOW**

- 7.1 The Proposed Monitor prepared a projected cash flow statement based on Management's most recent cashflow. 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, Capcium requires interim financing to:

8.1.1 Maintain its facilities and its licences active during the Sale Process; and

8.1.2 Support restructuring costs.

8.2 The projected cash flow statement shows a funding requirement of approximately \$1,200,000 for the period ending July 28th, 2023.

8.3 Scotiabank, the current first-ranking secured lender of Capcium, 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 \$1,200,000.

8.4.2 Interest rate: prime + 6%.

8.4.3 Interim lender fee: \$25,000.

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

- i. A company having incurred significant losses over the last years;
- ii. The fact that the company was unable to secure additional financing from its other creditors and from its shareholders;
- iii. All of the members of the Board of directors have resigned;
- iv. The risks associated with the filing of CCAA proceedings;
- v. The expected return by the Bank 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 \$1,440,000 on all the Debtor's assets, 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 Proposed Monitor is of the opinion that the proposed Interim Financing is suitable given the following:

- i. Scotiabank, the first-ranking secured creditor, would be providing the Interim Financing;
- ii. The Interim Financing will enable Capcium to cover expenses and cash requirements to carry out its restructuring plan;

- iii. The loan will enhance the realization proceeds, for the benefit of Capcium's creditors and stakeholders; and
- iv. Finally, no unsecured creditor will be materially prejudiced as a result of the security or charge requested.

## **9. PROPOSED ADMINISTRATION CHARGE**

- 9.1 The draft Initial Order provides for a charge in favour of the Proposed Monitor, the Proposed Monitor's counsel and the Bank'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 \$50,000 for the initial 10-day period. An increase to \$150,000 will be sought at the comeback hearing.
- 9.2 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.

## **10. SALE AND INVESTMENT SOLICITATION PROCESS**

- 10.1 The Proposed Monitor, in consultation with Scotiabank, has developed a Sale Process to be conducted in respect of the business and assets of Capcium. The bidding procedures are as follows:
- 10.1.1 the Sale Process will be conducted by the Proposed Monitor;
  - 10.1.2 The Proposed Monitor will identify prospective investors and purchasers and provide such Prospective Bidders with a Teaser Letter;
  - 10.1.3 there will be two mandatory phases to identify a successful bid :
    - i. a non-binding LOI phase to qualify Prospective Bidders as Qualified Bidders (30 days) and
    - ii. a binding offer phase where Qualified Bidders submit binding Qualified Bids (45 days);
  - 10.1.4 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
  - 10.1.5 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 for a closing date within 75 to 90 days.
- 10.2 A successful Sale Process would mitigate the losses for Scotiabank and could allow Alexandria to find a new tenant for its very specialized building.



- 10.3 The Proposed Monitor is of the opinion that the proposed Sale Process is fair and reasonable in order to advance the restructuring process for the benefit of all of Capcium's stakeholders.

## **11. IMPACTS OF A BANKRUPTCY**

- 11.1 Scotiabank holds first-ranking security on all of Capcium's movable property and would incur a significant loss in either a forced or orderly liquidation scenario.
- 11.2 Capcium would lose significant value/ability to attract potential buyers if the operations were to be shut down completely, as the licences require a lengthy process to obtain and any potential buyer would have to support significant costs before having any return on investment;
- 11.3 In light of the foregoing, the impacts of Capcium's bankruptcy for the various stakeholders would be, among other things, as follows:
- 11.3.1 Suppliers/unsecured creditors: given their rank as unsecured creditors and the potential significant deficit of the first-ranking secured creditor, Capcium's assets would be insufficient to eventually pay a dividend.
  - 11.3.2 The Bank (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.
  - 11.3.3 Investissement Québec : given the assets under security and their rank (subordinate to Scotiabank), Capcium's assets would be insufficient to eventually pay IQ a dividend;
  - 11.3.4 Alexandria (as landlord of the building) : would incur a potential significant loss as a result of losing a tenant in a very specialized building.
  - 11.3.5 Shareholders: would lose their entire initial investment.

## **12. CONCLUSIONS AND RECOMMENDATIONS**

- 12.1 Capcium is unable to meet its obligations as they become due.
- 12.2 In a bankruptcy scenario, the value of the assets would be jeopardized, with major negative impacts on stakeholders.
- 12.3 The orderly shutdown of the facility, a stay of proceedings, a Sale Process, as well as the other restructuring measures provided for in the draft Initial Order are key to maximise the benefit for its creditors.
- 12.4 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.