Raymond Chabot Inc.

An affiliate of
Raymond Chabot Grant Thornton LLP

CANADA
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-059536-215

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.,
Dominic Deslandes, CPA, CIRP, LIT

Hereinafter referred to as the "Monitor" or "RCI"

SECOND 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 this report of the Monitor.

Signed in Montréal on July 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, and the First Report to the Court by Raymond Chabot in its Capacity as Monitor dated May 26, 2023 (the "**First 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 provides, among other things:

1.4.1 A stay of proceedings against the Debtors and the property until and including July 24, 2023 (the "**Stay Period**");

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 (the "**Interim Financing Facility**").

1.5 This report is intended to provide the Court with an update on the Monitor's activities since the issuance of the ARIO, as well as to provide the Court with the Monitor's comments and recommendations regarding the request for an extension of the Stay Period. 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 First 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);
- Projected cash flow (section 6);
- Extension of the Stay Period (section 7);
- Conclusion (section 8)

2. ADMINISTRATION BY THE MONITOR SINCE THE FIRST REPORT

2.1 Since the issuance of the Initial Order, the Monitor has been conducting the SISP in accordance with the Bidding Procedures Order. An update on the SISP is provided in section 5 of this report.

2.2 The Monitor exercised oversight over the receipts and disbursements of the Debtors. The Analysis of the cash flow for the 10-week period ended July 14, 2023, is presented in section 4 of this report.

2.3 The Monitor also had multiple communications with creditors.

2.4 The Monitor held discussions with the secured creditors, Scotiabank and Investissement Québec, as well as discussions with the legal representatives of the landlord, Alexandria Real Estate Equities.

3. RESTRUCTURING MEASURES AND UPDATE REGARDING CAPCIUM'S OPERATIONS

3.1 As mentioned in the Pre-Filing Report, Capcium was unable to continue to support the costs of its current commercial manufacturing and, as a cost-cutting measure, had reduced its workforce to approximately 25 employees by the filing of the Initial Application. Further lay-offs have been made since then, with 12 employees remaining employed by Capcium as of this report.

3.2 While manufacturing has stopped, the personnel required to maintain the licences active have been retained and the maintenance on the essential equipment continues.

3.3 Additional cost-cutting measures were taken to limit the expenditures.

3.4 Although the operations were essentially interrupted as part of the ongoing restructuring process due to the liquidity constraints, Capcium was able to generate some additional sales while incurring limited expenses.

3.5 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 forecasted variations in cash for the 10-week period ended July 14, 2023:

Cashflow follow up - 10-week period ended July 14, 2023

For the week ending Friday :	Actual	Budget	Variance
Receipts			
Receivables (opening)	288	407	**(119)**
Additional Sales	346	-	**346**
DIP financing	500	1,200	**(700)**
Other receipts	32	-	**32**
Total receipts	1,166	1,607	**(441)**
Disbursements			
Salaries, wages and benefits	393	306	**(87)**
Group insurance	89	45	**(44)**
Quality control testing and other	7	40	**33**
IT & IS	31	52	**21**
Consumables	43	15	**(28)**
Insurance	49	76	**27**
Occupancy costs (other than rent)	160	291	**131**
Professional fees, consulting & business fees	142	100	**(42)**
Restructuring fees	170	430	**260**
Licences	-	41	**41**
DIP financing fee and interest	1	48	**47**
Others and Miscellaneous	(2)	25	**27**
Total disbursements	1,083	1,469	**386**
Opening bank balance	89	89	**-**
Cash increase (decrease)	83	138	**(55)**
Closing bank balance	**172**	**227**	**(55)**

4.3 The explanations for the variances are:

4.3.1 **Receivables (opening)**: The existing accounts receivable have been more difficult to collect than anticipated initially. *Permanent variance.*

4.3.2 **Additional Sales**: Considering the limited cash flows and the cessation of operations at the plant, new sales were hypothetical at the time of the initial cash flow. Efforts were made to accommodate clients and free some inventories held by some suppliers, generating $365,000 in cash inflows, while requiring approximately $50,000 in disbursements. *Permanent variance.*

4.3.3 **DIP Financing**: Considering the additional sales and the overall lower disbursements, the use of the DIP is considerably lower than forecasted at this stage of the restructuring process. *Temporary variance.*

4.3.4 **Salaries**: Some employees identified as not essential to maintain the licences active ended up being necessary, therefore increasing the payroll required during the period. In addition, the due diligence performed by the potential bidders required significant resources. As a consequence, the wages were underestimated by $87,000 for the 10-week period as compared to the initial projections. *Permanent variance.*

4.3.5 **Quality control testing and others, IT & IS, Insurance, Licences, Others and Miscellaneous**: Lower than expected. *Permanent variance.*

4.3.6 **Consumables**: $28,000 higher than anticipated as a result of the additional sales generated. *Permanent variance.*

4.3.7 **Occupancy costs**: Significantly lower, mostly as a result of lower energy costs. *Permanent variance.*

4.3.8 **Professional fees, consulting & business fees**: Fees related to employees retained as consultants to assist in the restructuring and with the due diligence of the bidders. So far, the due diligence has required more resources than anticipated. *Permanent variance.*

4.3.9 **Restructuring fees**: Lower than anticipated. *Permanent variance.*

4.3.10 **DIP financing fees and interest**: *Temporary variance.*

5. UPDATE ON THE SALE AND INVESTMENT SOLICITATION PROCESS

5.1 As provided for in the Bidding Procedure Order in conjunction with the Initial Order, the Monitor worked in collaboration with the Debtors to initiate the SISP.

5.2 The SISP provided for two mandatory phases to identify a successful bid:

5.2.1 A non-binding letter of intent ("**LOI**") phase to qualify Prospective Bidders as Qualified Bidders, with a deadline set to June 19, 2023 (Phase 1); and

5.2.2 A binding offer phase where Qualified Bidders submit binding Qualified Bids, with a deadline set to July 10, 2023 (Phase 2).

5.3 The Monitor initiated the first phase of the SISP and conducted the following actions:

5.3.1 Finalized the teaser letter;

5.3.2 Finalized the nondisclosure agreement ("**NDA**");

5.3.3 Finalized the list of parties to be solicited in the context of the SISP;

5.3.4 Solicited a total of 71 parties, 57 being potential strategic bidders mainly in Canada, the United States, and Europe and 14 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;

5.3.5 The potential bidders 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.

5.4 The Monitor set up and populated a data room to provide financial and operational information to the potential bidders and such data room is accessible to them.

5.5 As part of the Phase 1 of the SISP:

5.5.1 14 parties have signed an NDA;

5.5.2 14 parties have consulted the data room; and

5.5.3 3 parties have visited the premises.

5.6 On the Phase 1 deadline, the Monitor received non-binding LOIs.

5.7 Within the delays set by the SISP, the Monitor informed the bidders whether their bid had been accepted for Phase 2, and an extensive due diligence period was initiated.

5.8 On July 10, 2023, which was the deadline to submit a binding Qualified Bid, no offer met the criteria established by the SISP.

5.9 Discussions between the parties still involved and the Monitor continued.

5.10 While these discussions continued, several parties having not submitted an offer in Phase 1 expressed interest in exploring the opportunity.

5.11 In light of the above of the above and with the endorsement of Scotiabank, the Monitor has made the decision to reopen the SISP process (the "**Amended SISP**") and set new deadlines for the submission of LOIs in Phase 1 and of offers in Phase 2, the whole in accordance with the terms and conditions of the SISP approved by this Court. The new deadlines are as follows :

5.11.1 The Phase 1 Bid Deadline is extended until 4:00 p.m., on August 4, 2023;

5.11.2 The Phase 2 Bid Deadline is extended until 4:00 p.m., on August 22, 2023.

5.12 Such a decision is in the interest of all stakeholders, as:

5.12.1 Parties already involved will have the opportunity to continue their due diligence and resubmit an offer; and

5.12.2 New parties will be able to submit an offer under the Amended SISP.

5.13 As part of the Amended SISP, the Monitor solicited or re-solicited so far 12 Potential Bidders which were active in the initial Phase 1 of the SISP, or which contacted the Monitor after the initial Phase 1 Bid Deadline was expired. These Potential Bidders were sent a letter stating the new deadlines set for the Amended SISP, to which was attached the Bidding Procedures Order.

5.14 As part of the Amended SISP:

5.14.1 2 additional NDA were signed so far; and

5.14.2 1 site visit was conducted so far.

5.15 In order to maintain the integrity of the SISP and Amended SISP, the Monitor will not disclose at this stage additional information on the results of the process.

6. PROJECTED CASH FLOW

6.1 The Monitor prepared a projected cash flow statement based on Management's most recent cash flow. A copy of this cash flow statement as well as our comments of same is attached hereto as Schedule "A".

7. EXTENSION OF THE STAY OF PROCEEDINGS

7.1 The ARIO provides for a stay of proceedings until July 24, 2023.

7.2 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.

7.3 Considering:

7.3.1 The results of the SISP so far; and

7.3.2 The Amended SISP deadlines, as described in section 5 of this report.

7.4 The Monitor is seeking an extension of the stay period until August 30, 2023, to allow the Monitor to:

7.4.1 Complete the implementation of the SISP and receive the binding offers, the deadline being set to August 22, 2023;

7.4.2 Analyze the offers received with the appropriate stakeholders with a view to identifying the Successful Bid; and

7.4.3 To submit the Successful Bid for approval by this Court.

7.5 Taking into account the Interim Financing, cash flow projections show that the Debtors have sufficient funds to conduct the restructuring measures during the requested extension period.

7.6 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 consultation with Scotiabank, in good faith to implement the restructuring plan and the various measures that are required in the framework of the ongoing restructuring.

8. CONCLUSIONS

8.1 Considering that:

8.1.1 In a bankruptcy scenario, the value of the assets would be jeopardized, with major negative impacts for the stakeholders;

8.1.2 The orderly shutdown of the facility, a stay of proceedings and the continuation of the SISP and Amended SISP are key to maximize the benefit for its creditors;

8.1.3 The Interim Financing made available by the Interim Lender to support the ongoing restructuring is sufficient to conduct the restructuring measures during the requested extension period.

8.2 The Monitor is of the opinion that it is in the interest of all stakeholders to extend the Stay Period until and including August 30, 2023, and recommends the issuance of the order sought by Scotiabank.

SCHEDULE A – PROJECTED CASH FLOW

PROJECTED CASH FLOW

- The table shown below comprises weekly cash flows for the 8-week period ending on September 8, 2023:

For the week ending Friday :	2023-07-21	2023-07-28	2023-08-04	2023-08-11	2023-08-18	2023-08-25	2023-09-01	2023-09-08	Total
Receipts									
Receivables (opening)	-	32	-	-	-	-	-	-	**32**
Addtionnal sales	-	77	-	-	-	-	-	-	**77**
DIP financing	-	200	-	200	-	150		-	**550**
Total receipts	-	309	-	200	-	150	-	-	**659**
Disbursements									
Salaries, wages and benefits	-	53	-	53	-	26	-	-	**131**
Group insurance	-	-	50	-	-	-	-	-	**50**
Quality control testing and other	-	-	-	-	-	-	-	-	**-**
IT & IS	1	1	5	1	-	-	-	-	**8**
Consumables	5	22	-	-	-	-	-	-	**27**
Insurance	-	24	-	-	-	-	-	-	**24**
Occupency costs	27	7	17	12	8	4	-	-	**75**
Professional fees, consulting & business fees	25	20	15	15	15	5	-	-	**95**
Restructuring fees	30	30	25	25	25	40	40	40	**255**
Licences	-	-	-	4	-	-	-	-	**4**
DIP financing fee and interest	-	11	-	-	-	11	-	-	**22**
Others and Miscellaneous	5	5	5	5	5	5	5	-	**35**
Total disbursements	93	173	117	114	53	91	45	40	**726**
Opening bank balance	171	78	215	98	184	130	190	145	**171**
Cash increase (decrease)	(93)	136	(117)	86	(53)	59	(45)	(40)	**(67)**
Closing bank balance	**78**	**215**	**98**	**184**	**130**	**190**	**145**	**105**	**105**

- These projections have been prepared based on assumptions which reflect the general direction that Capcium would be taking given the financial and economic conditions which are most likely to occur. It is based on forecasts prepared by Capcium's management.

- Our compilation was limited to presenting, in the form of a projected cash flow statement, information provided by management and evaluating the support for the assumptions or other information underlying the forecast.

- Given that these projections are based on assumptions regarding future events, actual results will vary from the information presented and the variances may be material.

- The projections prepared by Management take into consideration the restructuring plan presented in the previous section.

➢ During the period, cash inflows from opening balance receivables and additional sales would total $109,000.

➢ On the other hand, given the operating and restructuring costs, outflows would total $726,000.

➢ Considering the above, in order to proceed with the restructuring plan, interim financing advances of approximately $550,000 would be necessary with a further $150,000 available if required.