



Deloitte Restructuring Inc.

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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01-Montréal
COURT No.: 500-11-062174-236
ESTATE No.: 41-2926464

S U P E R I O R C O U R T
Commercial Division

IN THE MATTER OF THE BANKRUPTCY OF: RENORUN INC., a legal person, duly incorporated according to law, having a place of business at 212-4767 rue Dagenais, Montréal, QC, H4C 1L8
Bankrupt

- and -

DELOITTE RESTRUCTURING INC.

(Benoit Clouatre, CPA, CIRP, LIT, designated responsible person) having its place of business at 1190 avenue des Canadiens-de-Montréal, Suite 500, Montreal, Quebec, H3B 0M7.

Trustee

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

1. The *Bankruptcy and Insolvency Act*, a federal act in Canada (the "**BIA**"), provides for a first meeting of creditors to discuss the creditors' collective interest in the administration of the Bankrupt's estate.
2. Unless otherwise stated, all the amount included in this trustee's preliminary report to creditors are presented in Canadian dollars.

A) Background

3. RenoRun Inc. ("**RenoRun**") is a legal person incorporated by articles of incorporation under the *Canada Business Corporations Act* (1985) c. C-44, on September 4, 2019.
4. Its head office was located at 212-4767, rue Dagenais, Montréal, QC, H4C 1L8.
5. Until recently, RenoRun was a vertically integrated digital hardware store that was purchasing and storing building materials and through its digital platform, selling and delivering the products to contractors directly to their job sites within hours. The goal was to provide a one-stop shop for contractors to drive efficiency by reducing planning and sourcing time.
6. RenoRun targeted small and medium-sized contractors, primarily servicing six metropolitan areas in North America (Montreal, Toronto, Boston, Chicago, Philadelphia and Washington, DC).

Financial statements

7. For reference, below is RenoRun's income statement for the years ended December 31, 2019 (7-month period) to December 31, 2022. In addition, you will find below RenoRun's balance sheets as at the same dates:

Income statement				
For the years ended December 31				
In Canadian \$	2022	2021	2020	2019
Unaudited	DRAFT⁽¹⁾	DRAFT⁽¹⁾		(7 months)
Net sales	71 440 415	32 888 982	12 710 097	4 774 636
Cost of goods sold	75 339 156	33 810 292	13 082 065	5 457 979
Gross loss	(3 898 741)	(921 310)	(371 968)	(683 343)
Operating expenses				
General and administrative	26 292 512	10 896 142	4 955 843	2 201 526
Technology	12 319 628	5 560 583	3 107 320	851 433
Fulfillment	9 597 998	4 348 994	1 425 495	152 162
Sales and marketing	8 030 589	3 456 257	1 673 802	581 062
	56 240 727	24 261 976	11 162 460	3 786 183
Loss from operations	(60 139 468)	(25 183 286)	(11 534 428)	(4 469 526)
Other income (expense)				
Interest income (expense)	(581 653)	(591 365)	(122 530)	6 195
Other	(5 938 025)	(1 445 684)	224 706	(365 809)
	(6 519 678)	(2 037 049)	102 176	(359 614)
Net loss	(66 659 147)	(27 220 335)	(11 432 252)	(4 829 140)

Balance Sheet				
As at December 31				
In Canadian \$	2022	2021	2020	2019
Unaudited	DRAFT⁽¹⁾	DRAFT⁽¹⁾		
Assets				
Current assets	28,251,465	70,800,666	5,723,862	13,088,802
Long term assets	6,743,074	3,578,531	1,256,306	805,479
	34,994,538	74,379,197	6,980,168	13,894,281
Liabilities				
Short term liabilities	46,707,018	19,452,183	3,274,302	812,197
Long term liabilities	6,090,623	5,970,299	1,871,261	163,302
	52,797,641	25,422,482	5,145,563	975,499
Shareholder's equity				
Share capital	112,855,381	112,855,381	23,152,695	23,055,610
Contributed surplus	706,275	706,275	428,581	177,591
Deficit	(131,364,759)	(64,604,941)	(21,746,671)	(10,314,419)
	(17,803,103)	48,956,715	1,834,605	12,918,782
	34,994,538	74,379,197	6,980,168	13,894,281

Note 1: Per RR's books and records

Causes of insolvency

8. As indicated in the above financial statements, RenoRun has cumulated deficits totaling \$131M for the period from June 1, 2019, to December 31, 2022.
9. Since its inception, RenoRun has never been able to turn a profit on its operations. Despite negative returns on its Canadian operations, its founding market, RenoRun launched an aggressive growth strategy and expanded across four cities in the USA. At the same time,

significant investments were made in technology and human capital, which increased the company's fixed cost structure and further increased the deficit.

10. RenoRun's multifaceted expansion was funded by raising additional debt and equity. The rising cost of debt paired with the company's unprofitable operating structure has led to a liquidity crisis. With an incapacity to raise new funds through equity and/or debt, and amidst RenoRun's restructuring measures, it could no longer service its debt obligations.
11. On March 27, 2023, RenoRun ultimately filed a notice of intention to make a proposal ("**NOI**") to its creditors under the BIA. Deloitte Restructuring Inc. ("**Deloitte**") consented to act as trustee under the NOI. RenoRun then launched a sale and investment solicitation process ("**SISP**") for the sale of its business, property, assets and undertaking (the "**Business**"), which was conducted by Deloitte.
12. As a result of the SISP, no binding offers were received for the sale of the business. In the absence of alternative solution that would guarantee the future of the operations of RenoRun, it was decided by the board of directors of RenoRun that an extension of the stay of proceeding to allow the company to develop a proposal for its creditors was not justified and viable in the circumstances. Therefore, on April 27, 2023, at the end of the original stay of proceedings period of 30 days as per the NOI, with the absence of a request to the Court to extend this original stay of proceedings period, RenoRun was deemed to have filed an assignment into bankruptcy. Deloitte was appointed as trustee of the estate of the Bankrupt (the "**Trustee**"), subject to affirmation by the creditors of the Trustee's appointment or substitution of another trustee by the creditors.

B) Trustee's preliminary evaluation of assets and liabilities

13. Below is a summary of the Statement of Affairs as of April 27, 2023, which includes the estimated net realization value of the assets of RenoRun, as determined by RenoRun's management (the "**Management**"), as well as the estimated deficit following the distribution of the estimated proceeds from the liquidation of the assets to the secured creditors:

Statement of Affairs As at April 27, 2023 In Canadian \$	Estimated Realization Value⁽¹⁾
Assets	
Cash	5,815,118
Guaranteed investment certificate	300,000
Account receivables	50,000
Inventory	928,000
Short-term assets	<u>7,093,118</u>
RenoRun US Inc.	-
SRED claims 2021	640,708
Fixed assets	247,963
Intangible assets	<u>125,000</u>
Total assets	<u>8,106,789</u>
Liabilities	
Security for unpaid wages under section 81.3 of the BIA ⁽²⁾	105,408
SVB - First rank creditor ⁽³⁾	2,402,110
Triple Point Capital - Second rank creditor ⁽³⁾	4,537,716
Unsecured creditors ⁽⁴⁾	<u>44,591,806</u>
	<u>51,637,039</u>
Deficit	<u>(43,530,250)</u>

Note 1

Estimated realization value is before any costs related to the liquidation of the assets and to the administration of the bankrupt estate.

Note 2

The security for unpaid wages under section 81.3 of the BIA is based on the preliminary assessment of amounts owed to the employees.

Note 3

Amounts owed to the secured creditors, Silicon Valley Bank and Triple Point Capital, were established based on the current indebtedness of both secured lenders.

Note 4

Amounts owed to creditors were established with the financial information provided by RR at the date of the bankruptcy.

Unsecured creditors will have the onus to prove their claims and only those claims that are proven will constitute valid claims and will receive a distribution if funds are available.

14. The estimated values attributed to the various assets of RenoRun in the Statement of Affairs are discussed below:

- a) Cash: The net realization value of the cash balance is based on the cash balance received by the Trustee at the time of the bankruptcy.
- b) Guaranteed investment certificate ("GIC"): The Trustee must determine whether the supplier holding a letter of credit of \$300K has a right to a claim in the bankruptcy of RenoRun, in which case the supplier would be entitled to draw on the letter of credit. Royal Bank of Canada ("**RBC**"), the holder of the GIC, is currently investigating the supplier's rights to a claim.
- c) Accounts receivable: The net realization value of the accounts receivable was calculated based on a percentage of recoverability of the book value of the accounts receivable as of April 27, 2023, based on Management's estimates and the Trustee's experience in similar transactions.

- d) Inventory: The net realization value of the inventory was calculated based on a percentage of recoverability of the book value of the inventory as of April 27, 2023, based on the Trustee's experience in similar transactions.
- e) Reno Run US Inc. ("RenoRun US"): RenoRun is the sole shareholder and a significant creditor of RenoRun US. All operational activities in the US have stopped prior the bankruptcy in Canada. RenoRun US is expected to file for bankruptcy in the coming days. The Trustee estimates that there could be an amount recovered as a creditor in the bankruptcy of RenoRun US if a distribution occurred. However, as this stage, a recoverable value cannot be reliably estimated.
- f) SRED claims 2021: RenoRun submitted SRED claims for the 2021 fiscal year in the amount of \$1.2M. These SRED claims could be offset by other government potential claims against the estate of RenoRun. Consequently, to be conservative, the Trustee estimates the net realization value of the SRED claims 2021 to be approximately 50% of the claims.
- g) Fixed assets: RenoRun's fixed assets mainly consist mainly of vehicles and equipment. The net realization value of the fixed assets is based on the independent evaluation.
- h) Intangibles: RenoRun's intangibles consist of its intellectual property and trademark, which has been included in the sale of assets launched by the Trustee. The net realization value is based on an offer received.

Description of secured creditors:

- 15. Employees entitled to the WEPP have a seniority first ranking on the liquidation proceeds of the Bankrupt and will be eligible to a maximum of \$2,000 as dictated under section 81.3 of the BIA. The maximum claim for unpaid wages is estimated at \$105,408 as of the date of this report.
- 16. Following WEPP payments, Silicon Valley Bank ("**SVB**") holds security over all of RenoRun's assets. Based on the proof of claim received, SVB's claim amounts to approximately \$2,402,110. Triple Point Capital ("**TPC**") also holds security over all of RenoRun's assets. Based on the proof of claim received, TPC's claim amounts to approximately \$4,537,716.
- 17. On May 15, 2023, the Trustee received a proof of claim from RBC, who is asserting a secured claim of \$515,000. The Trustee is currently reviewing this claim.
- 18. As of the time of this report, the Trustee has not completed a review of the proofs of claim and the Trustee has not yet obtained an independent opinion on the validity of SVB, TPC and RBC's security over RenoRun's assets. The trustee, however, intends to obtain such independent opinion before any funds are distributed or any assets are remitted to the secured creditors.

Description of the unsecured creditors:

- 19. As shown on the table below, most of the unsecured creditors are related to the convertible notes issued by RenoRun:

Detail of the unsecured creditors

As at April 27, 2023

In Canadian \$

Convertible notes

Investissement Quebec	\$	14,044,438
BDC Capital Inc.		8,464,833
Fifth Wall		7,034,795
Schneider Electric Foundries LLC		5,643,222
Nicola Venture Capital Limited Partnership		2,821,611
ScaleUp Opportunity Fund I, L.P.		1,887,425
TriplePoint Venture Growth BDC Corp		881,753
TriplePoint Private Venture Credit Inc.		423,242
ScaleUp Opportunity Fund I (International), L.P.		228,783
Andrew P. Rowland		140,592
TriplePoint Venture Lending Fund, LLC		105,810
		<hr/>
		41,676,505
Other unsecured creditors		<hr/>
		2,915,295
Total - Unsecured creditors		<hr/> 44,591,800

C) Conservatory and protective measures

20. Since April 27, 2023, the Trustee implemented the following conservatory and protective measures:
- Opening of trust bank accounts at the National Bank of Canada;
 - Freezing of RenoRun's bank accounts and requesting the transfer of the cash balance to the Trustee trust bank accounts;
 - Changing of the locks at RenoRun's four locations (the two (2) Montreal warehouses, the Toronto warehouse and the Montreal headquarters);
 - Taking possession of and securing all of RenoRun's tangible assets (i.e. mainly inventory, equipment and trucks) and performing an inventory count of all of those assets;
 - Publication of a notice to creditors in the *Le Devoir* and *The Globe and Mail* newspapers;
 - Communication to all known creditors of RenoRun to inform them of the notice of bankruptcy and the date and time of the first meeting of creditors;
 - Communication of notices to former employees of RenoRun to inform them of their rights under the WEPP;
 - Ensuring proper insurance coverage of the RenoRun's assets;
 - Establishing the sale procedures (the "**Sale Procedures**") for the sale of all or a portion of the assets of RenoRun, which offers were requested by a specific submission bid deadline (the "**Submission Bid Deadline**"), as more fully described in the next section of this trustee's preliminary report to creditors.

D) The Sale Procedures:

21. On May 5, 2023, following the inventory count performed by the Trustee, recognizing the lack of interests from the previous SISP in going concern, the Trustee quickly began the marketing for the sale of all or a portion of the assets of RenoRun. The objective was to seek offers to purchase the assets of RenoRun on a "as-is, where-is" basis at the purchaser's own risk and peril, without any representation or warranty whatsoever, whether legal or conventional.
22. All offers had to be received on or before Monday, May 15, 2023, at 5:00 p.m., the Submission Bid Deadline, in order to be considered by the Trustee and presented to the creditors.
23. Despite a short period of solicitation of offers, which was established by the Trustee in the context of the cash constraints that the Trustee was facing, 18 potential purchasers have submitted at least one or more offers by the Submission Bid Deadline. The offers received were considered by the Trustee to estimate the Trustee's evaluation of the asset value presented previously in this trustee's preliminary report to creditors.
24. Acceptance of the best offers received as of the Bid Deadline is subject to the Trustee obtaining approval from the creditors.

E) Information relating to provable claims

25. As of the time of the preparation of this report, considering the limited numbers of proofs of claims received to date, the Trustee is not able to determine if there will be a significant difference between the number of claims declared by RenoRun and the number of claims proven by the various creditors.

F) Legal proceedings, reviewable transactions, and preference payments

26. The Trustee has not initiated any legal proceedings and has not yet finalized its analysis of reviewable transactions or preference payments to date.

G) Projected distribution and Trustee's comments on anticipated asset realization

27. As illustrated in the Statement of Affairs (summarized above), based on the information received from Management, the Trustee estimates that the proceeds that will be realized from the liquidation of all of RenoRun's assets could be sufficient to substantially or even fully reimburse the secured creditors. However, payment of professional fees, including the conservative and protective measures-related costs, must be considered and will reduce the proceeds to unsecured creditors. Therefore, based on the information currently on hand, it is estimated that residual funds could be available for the distribution of a dividend to the unsecured creditors of RenoRun following the realization of all of the Bankrupt's assets and payment of professional fees and the conservative and protective measures related costs.
28. Before concluding on the realization proceeds to be distributed to secured creditors and unsecured creditors, the Trustee will obtain more precise estimates of the liquidation value of all of RenoRun's assets as well as professional fees and the conservative and protective measures related costs. The results will be communicated to the inspectors who will be appointed at the meeting of creditors.

H) Legal Counsel

29. Prior to the bankruptcy of RenoRun, Fasken Martineau DuMoulin LLP ("**Fasken**") acted on behalf of RenoRun. Upon the deemed bankruptcy of RenoRun, Fasken immediately ceased acting on behalf of RenoRun and began advising the Trustee (as trustee in bankruptcy and in no other capacity) with respect to the present matter subject to the limitations set for in

Section 19(1) of the BIA. The confirmation of Fasken as legal counsel to the Trustee will be subject to obtaining the permission of the inspectors.

30. In addition to the foregoing, the Trustee shall, subject to permission of the inspectors, mandate Norton Rose Fulbright LLP to provide legal opinions with respect to the security of SVP, TPC and RBC on RenoRun's assets.

I) Other matters

31. None.

DATED AT MONTREAL, Quebec, this 17th day of May 2023.

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee of the Estate of
RenoRun Inc.
and not in its personal capacity

Per:



Benoit Clouatre, CPA, CIRP, LIT