



**Deloitte Restructuring Inc.**  
1190, avenue des Canadiens-de-  
Montréal  
Suite 500  
Montréal QC H3B 0M7  
Canada

Tel: 514-393-7115  
Fax: 514-390-4103  
www.deloitte.ca

C A N A D A  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
COURT. No.: 500-11-058310-208  
ESTATE No.: 41-2647457

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

**IN THE MATTER OF THE PROPOSAL OF:**

**COALISION INC.**, a company incorporated under the Québec *Business Corporations Act*, RLRQ, C. S-31.1 having its head office located at 110-700 Saint-Antoine street East, in the city of Montréal, Province of Québec, H2Y 1A6;

**Debtor**

- and -

**DELOITTE RESTRUCTURING INC.**, a company incorporated under the laws of Canada, having a place of business at 500-1190 av. Des Canadiens-de-Montréal, in the city of Montréal, Province of Québec, H3B 0M7;

**Trustee**

**REPORT TO THE COURT ON CHANGES RELATED TO THE AUTHORIZATION TO SELL ASSETS OUTSIDE THE ORDINARY COURSE OF BUSINESS (THE "REPORT")**  
(Section 65.13 of the Bankruptcy and Insolvency Act ("**BIA**"))

**I. INTRODUCTION AND OBJECTIVE OF THIS REPORT**

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the *De Bene Esse Application for the Approval of a Sale of Assets Outside the Ordinary Course of Business* (the "**De Bene Esse Application**") under the BIA.
2. On May 26, 2020, Coalision filed a notice of intention to make a proposal ("**NOI**", and the "**NOI Proceedings**"), and Deloitte Restructuring Inc. was appointed as trustee to the NOI Proceedings of Coalision (the "**Trustee**").
3. The factual background which led to the filing of the NOI, as well as the various restructuring efforts and proceedings that took place since then in the present matter, are described in detail in the following reports of the Trustee:
  - (i) First report of the Trustee dated May 26, 2020, issued in the context of Coalision's *Application for the Approval of an Administration Charge*;

- (ii) Second report of the Trustee dated June 22, 2020, issued in the context of Coalision's *Application for the Extension of the Delay to File a Proposal with the Official Receiver*;
  - (iii) Third report of the Trustee dated June 26, 2020 (the "**Third Report**"), issued in the context of Coalision's *Application for the Approval of a Sale of Assets Outside the Ordinary Course of Business and for the Issuance of an Approval, Assignment and Vesting Order* (the "**Approval Application**");
4. The purpose of the Third Report was to provide information to the Court on the solicitation process undertaken by Coalision with the assistance of the Trustee and about the transaction contemplated pursuant to the Asset Purchase Agreement by and between Coalision, as vendor, and 1254429 B.C. Unlimited Liability Company (the "**Purchaser**"), as purchaser with respect to the sale of all right, title and interest in and to all of the tangible and intangible assets, undertaking and properties of Coalision relating to the production, distribution, wholesale and retail business of the Lolë and Paradox brands conducted by Coalision and all activities incidental thereto (the "**Transaction**" and the "**Purchased Assets**"), and the Trustee's position in support of the Transaction.
  5. On June 29, 2020, as a result of the Approval Application, the Court issued an order approving the Transaction and the vesting of the Purchased Assets.
  6. This fourth report of the Trustee (the "**Fourth Report**") is issued in the context of Coalision's De Bene Esse Application, with the objective to provide this Court with:
    - (i) An update on the implementation of the Transaction following changes to the structure of the share capital of the Purchaser, resulting in the Purchaser being indirectly owned upon closing by the shareholders currently having a control in fact of Coalision, thereby rendering the Transaction a disposition to a person related to the insolvent person within the meaning of s.65.13 (6) BIA;
    - (ii) An update on the developments in the NOI Proceedings since June 26, 2020;
    - (iii) The conclusions and recommendations of the Trustee on the foregoing.
  7. In preparing the Fourth Report and making the comments herein, the Trustee has been provided with, and has relied upon, unaudited financial information, Coalision's books and records and financial information prepared by Coalision and discussions with management of Coalision ("**Management**") (collectively, the "**Information**"). The Trustee has not performed an audit or other verification of such information. Forward looking financial information included in the Report is based on assumptions of Management regarding future events, and actual results achieved will vary from this information and the variations may be material.
  8. The Information that was analyzed does not include the extent of the impact of Coronavirus ("**COVID-19**") on Coalision's operations. At the time of the Report, the situation is continuing to evolve, and many uncertainties remain as to the effect the COVID-19 crisis will have on Coalision and the broader domestic and global economies.
  9. The Trustee relied, in part, on publicly available information, Management forecasts and other information provided by Management in relation to the effect COVID-19 will have on Coalision.
  10. A copy of the First, Second, Third and Fourth Report and further reports of the Trustee, as the case may be, will continue to be made available on the Trustee's Website.

**II. UPDATE ON THE DEVELOPMENTS IN THE NOI PROCEEDINGS SINCE JUNE 26, 2020**

11. The Trustee has monitored the receipts and disbursements and did a variance analysis against the cash flow statement submitted to the Official Receiver on May 28, 2020. Since our Third report, no significant difference has been identified by the Trustee.
12. The Trustee has participated in conference calls with Management and their legal advisors in connection with their restructuring efforts and the contemplated closing of the Transaction. The Trustee also assisted Coalision in its dealings with a number of suppliers, employees and landlords in order to ensure an adequate comprehension of the procedures and ensure uninterrupted flow of goods and services.
13. Coalision has been working actively with its legal advisors and with the assistance of the Trustee in preparing all documentation and definitive agreements, with the Purchaser, to support the Transaction approved by the Court.

**III. UPDATE ON THE TRANSACTION AND CHANGES IN THE PURCHASER'S SHAREHOLDERS**

14. As appears more fully from the Third Report, a copy of which is attached hereto as **Schedule A** for reference, the Trustee had concluded as follows with respect to the Transaction:
  - (i) The process put in place by Coalision to identify a strategic partner and to conclude a transaction was adequate in the prevailing circumstances;
  - (ii) Although the process that was implemented and that led to the Transaction was more limited in nature ("**LSP**") than a more formal solicitation process ("**SISP**"), conducting a LSP instead of a SISP in the context prevailing between February 2020 to this day was the appropriate way to maximise the value of the assets of Coalision for the following reasons: **(a)** given the short time frame in which the parties operated, Coalision was not in a position to attract new investors and performing a SISP could have put in jeopardy the future sales and potential recoveries of the company; **(b)** given that the filing occurred in the context of a global pandemic which severely affected the retail industry, an extended SISP would have been at best a difficult and an expensive endeavour; **(c)** the investment solicitation processes previously undertaken and described in more details in the Third Report were unsuccessful; and **(d)** the secured creditors supported the manner through which the Transaction was solicited, and did not believe that a protracted SISP would have provided a better yield;
  - (iii) The Transaction contemplated was the most attractive in the current circumstances compared to a liquidation of the assets of Coalision, especially in the circumstances and uncertainty surrounding the COVID-19 situation. Moreover, in the current depressed state of the retail market and of the apparel sub-market, it was highly unlikely that an extended or expanded sales process would have resulted in any higher consideration for the Purchased Assets;
  - (iv) Simon Coalision and Pelican (as defined in the Third Report) are owed secured claims totaling \$21,988,000 as of the date of the filing of the NOI, representing an amount significantly higher than the value of the shares they were offered pursuant to the Transaction contemplated. Their support was a clear indication that the Transaction represented the best option available to Coalision's stakeholders;

- (v) The Trustee reviewed and confirmed the validity and enforceability of the securities of CIBC and Simon Coalision registered in the provinces of Quebec, Ontario, Alberta, British Columbia and Manitoba;
  - (vi) The Transaction would allow the continuity of operations of Coalision in Montreal, and for several jobs to be maintained;
  - (vii) Despite many efforts of the Management and shareholders of Coalision in recent months, only one other interesting potential external investor had some serious interest to enter into a transaction to purchase Coalision's assets in a formal restructuring process, but withdrew because of the circumstances and uncertainty surrounding the COVID-19 situation.
15. As at that time, it was contemplated that the Purchaser, 1254429 B.C. Unlimited Liability Company, would be upon closing a corporation controlled by the ("**Investors**"), being Unified Commerce Group, LLC (50.1%) ("**UCG**") as well as the two main secured lenders (excluding CIBC) and shareholders of Coalision: Mr. Herbert Simon (37.9%), who controls Simon Coalision Investment, Inc. ("**Simon Coalision**"), and Pelican II Investment Fund, L.P. (12.0%) ("**Pelican**").
16. Simon Coalision currently owns 61.35% of the share capital of Coalision, and as a result, has a control in fact over Coalision. Nevertheless, in accordance with what Coalision had alleged at paragraphs 74 and 75 of the Approval Application and what the Trustee reported at paragraph 50 of the Third Report (**Schedule A** hereto), the Transaction was contemplating at that time that Mr. Herbert Simon would hold only 37.9% of the share capital of the Purchaser upon closing, and Pelican 12%, for a total of 49.9% among themselves, and that as a result, the Transaction was not considered a related party transaction pursuant to 65.13(6) BIA.
17. Subsequently to the approval of the Transaction by this Court on June 26, 2020, the Purchaser had informed Coalision that it intended to execute the Asset Purchase Agreement and close the Transaction as soon as possible and in accordance with the Order.
18. However, the Trustee was informed very recently that Coalision and the Purchaser were unable to close the Transaction in the short term as contemplated, as a result of the difficulties of UCG, Mr. Herbert Simon and Pelican, being the contemplated shareholders of the Purchaser upon closing, to enter into definitive agreements in the short term with respect to the Transaction.
19. The Trustee was also informed that considering Coalision's current cash position and the need to resolve the uncertainty created by the NOI Proceedings, the Transaction was now contemplated to be implemented, and the Asset Purchase Agreement entered into, as soon as possible and in accordance with the vesting order issued on June 26, 2020, but that the Purchaser, upon closing, would be indirectly owned solely by Mr. Herbert Simon (88%), who controls Simon Coalision, and Pelican (12%).

20. The proposed changes in the Purchaser shareholders, representing the three interested parties, are summarized as follows:

<b>Purchaser shareholders</b>	<b>As per the Approval Application</b>	<b>Updated, as per this Fourth Report</b>
UCG	50.1%	0.0%
Mr. Herbert Simon (who controls Simon Coalision)	37.9%	88.0%
Pelican	12.0%	12.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

21. After consideration of the circumstances in relation to such changes, the Trustee is of the view that the proposed changes still represent the best alternative for all of Coalision's creditors, including secured creditors and all other stakeholders, for the same reasons and characteristics set out in the Third Report (**Schedule A** hereto). Indeed, the changes to the share capital do not impact the beneficial aspects of the Transaction for Coalision and its stakeholders, nor the circumstances and context which have led to the Transaction.

22. With respect to the Transaction becoming a disposition of assets to a person which is related to the insolvent person within the meaning of section 65.13(6) of the BIA, the Trustee is satisfied that the approval of the Transaction remains justified and that the criteria set out pursuant to 65.13(6) BIA are met. Indeed:

- i. As demonstrated notably by the fact that the Transaction was initially secured with UCG, a non-related party, as the majority shareholder of the Purchaser, the process put in place by Coalision to identify a non-related strategic partner as well as the efforts made by Coalision to conclude a transaction were adequate in the circumstances. Significant efforts were made to find a non-related strategic partner and only one other interesting potential external investor had some serious interest to enter in a transaction to purchase Coalision's assets in a formal restructuring process, but withdrew because of the circumstances and uncertainty surrounding the COVID-19 situation;
- ii. The withdrawal of both non-related strategic partner as well as the LSP conducted by Coalision tend to indicate that a transaction with non-related parties is uncertain in the circumstances, considering notably the amount of secured debt held by Simon Coalision and Pelican;
- iii. Given its financial situation as well as the context of a global pandemic which severely affected the retail industry, the Trustee is of the opinion that Coalision is not in a position to attract new investors, and a new process would be detrimental to Coalision. Without a transaction occurring in the coming days it will be difficult to maintain the operations of the business at its current level given its increased need in liquidities in the coming weeks.

23. A prompt conclusion of the Transaction is still necessary, since neither the CIBC, the current secured creditors nor the shareholders wish to further support the operations of Coalision in the current form and in the context of the Covid-19 pandemic.

24. A prompt conclusion of the Transaction is also necessary in order to maintain the schedule of the fall/winter 2020 collection ("**FW20**"). In the next few months, Coalision must receive almost all of the FW20, which requires significant payments to creditors. As per Management, ignoring or delaying those payments (not currently payables) would jeopardize Coalision's business as a going concern.

25. Coalision and the Purchaser still want to conclude the Transaction quickly following the approval of the Transaction by this Court, again on a de bene basis, considering the changes in the share capital of the Purchaser upon closing.

#### **IV. CONCLUSIONS AND RECOMMENDATIONS**

26. The Trustee is of the opinion that the Transaction, even when considering that the Purchaser will now be controlled by Simon Coalision and Pelican, remains a transaction that should be approved by this Court, considering that:

- i. Good faith efforts were made to sell the purchased assets to persons not related to Coalision, as appears from the fact that Coalision did solicit, secure and attempt to close the Transaction with a non-related purchaser, as it was structured when first approved by this Court on June 26, 2020;
- ii. The consideration offered by the Purchaser, even if controlled by Simon Coalision and Pelican, is superior to the consideration that would be received under any other offer made in accordance with the process leading to the sale, given that the same offer represented the best offer when the Purchaser was not controlled by parties considered to be related, and the Trustee does not foresee that a better outcome would result from a new solicitation process considering the current environment resulting from the general downturn of the brick-and-mortar retail industry, the COVID-19 pandemic, and the detrimental effect that holding a new solicitation process would have on Coalision;
- iii. The changes to the Transaction do not otherwise result in a transaction that would be less beneficial to Coalision's stakeholders, and the same characteristics of the Transaction which justified its approval by this Court remain.

27. In light of the above, the Trustee respectfully recommends that the De Bene Esse Application be granted by this Court in accordance with its conclusions.

DATED AT MONTRÉAL, this 15<sup>th</sup> day of July 2020.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Trustee in the Proposal of  
Coalision Inc.



Jean-François Nadon, CPA, CA, CIRP, LIT  
President



Benoit Clouâtre, CPA, CA, CIRP, LIT  
Senior Vice-President

## Schedule A



**Deloitte Restructuring Inc.**  
1190, avenue des Canadiens-de-  
Montréal  
Suite 500  
Montréal QC H3B 0M7  
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S U P E R I O R C O U R T  
Commercial Division

**IN THE MATTER OF THE PROPOSAL OF:**

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**Debtor**

- and -

**DELOITTE RESTRUCTURING INC.**, a company incorporated under the laws of Canada, having a place of business at 500-1190 av. Des Canadiens-de-Montréal, in the city of Montréal, Province of Québec, H3B 0M7;

**Trustee**

**REPORT TO THE COURT ON THE AUTHORIZATION TO SELL ASSETS OUTSIDE THE  
ORDINARY COURSE OF BUSINESS AND FOR THE ISSUANCE OF AN APPROVAL,  
ASSIGNMENT AND VESTING ORDER (THE "REPORT")**  
*(Section 65.13 of the Bankruptcy and Insolvency Act)*

**I. INTRODUCTION AND OBJECTIVE OF THIS REPORT**

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the Application for the Approval of a sale of assets outside the ordinary course of business and for the issuance of an approval, assignment and vesting order (the "**Sale Application**") under the *Bankruptcy and Insolvency Act* ("**BIA**").
2. Given the difficult financial situation of Coalision and facing the Covid-19 situation, Coalision had no other choice but to file a notice of intention to make a proposal ("**NOI**", and the "**NOI Proceedings**"), the whole as further detailed below.
3. On May 26, 2020, the Deloitte Restructuring Inc. ("**Trustee**") was appointed as trustee to the NOI Proceedings of Coalision.
4. The factual background which led to the filing of the NOI is described in Coalision's



- Application for the Approval of an Administration Charge (the "**Charge Application**"), as well as in the First Report to the Court on the cash-flow statement and administration charge, both in the Court record.
5. On May 26, 2020, the Trustee issued its First Report. The purpose of the First Report was to provide information to the Court on the activities of Coalision, report on Coalision's cash flow statement and to support the Debtor's Charge Application.
  6. On May 28, 2020, following the presentation of the Charge Application, the Superior Court of Québec (Commercial Division) (the "**Court**") rendered an order approving an Administration charge.
  7. On June 22, 2020, the Trustee issued its Second Report. The purpose of the Second Report was to provide information to the Court on the activities of Coalision, update on Coalision's cash flow statement and to support the Debtor's request for an extension of the delay to file a proposal with the official receiver.
  8. On June 23, 2020, following the presentation of the Application for the extension of the delay to file a proposal with the official receiver (the "**Extension Application**"), the Court rendered an order extending the delay for the NOI Trustee to file a proposal with the official receiver to August 7, 2020.
  9. The activities of both the Trustee and Coalision as well as the financial performance of Coalision since the filing of the NOI up to June 22, 2020 and the updated cash flow projections are described and detailed in the Second Report to the Court on the state of the insolvent person's business and financial affairs.
  10. The objective of this Third Report is to inform and report to this Court about:
    - (i) Update on Trustee's activities since June 22, 2020;
    - (ii) Update on Coalision's activities since June 22, 2020;
    - (iii) The solicitation process undertaken by Coalision with the assistance of the Trustee;
    - (iv) The Proposed Transaction (as defined below);
    - (v) The Trustee's approval of the solicitation process and its opinion regarding the Proposed Transaction;
    - (vi) The conclusions and recommendations of the Trustee on the foregoing;
  11. In preparing the Third Report and making the comments herein, the Trustee has been provided with, and has relied upon, unaudited financial information, Coalision's books and records and financial information prepared by Coalision and discussions with management of Coalision ("**Management**") (collectively, the "**Information**"). The Trustee has not performed an audit or other verification of such information. Forward looking financial information included in the Report is based on assumptions of Management regarding future events, and actual results achieved will vary from this information and the variations may be material.
  12. The Information that was analyzed does not include the extent of the impact of Coronavirus ("**COVID-19**") on Coalision's operations. At the time of the Report, the situation is continuing to evolve, and many uncertainties remain as to the effect the COVID-19 crisis will have on Coalision and the broader domestic and global economies.
  13. The Trustee relied, in part, on publicly available information, Management forecasts and other information provided by Management in relation to the effect COVID-19 will have on Coalision.

14. Accordingly, it is not possible in the Report to identify and quantify the impact of all COVID-19 related uncertainties and implications. Changes to market conditions could substantially affect Coalision and the information contained in this Report.
15. Where not specified, the Trustee does not include any consideration of the likely impact of COVID-19 on sales, production, supply chain or other aspect of the business, which may have an adverse impact on the performance of Coalision. The Court should consider the broad effects and uncertainty on the financial condition of Coalision as a result of the negative impact from COVID-19 on the domestic and global economies and major financial markets.
16. A copy of the First, Second, and Third Report and further reports of the Trustee, as the case may be, will be made available on the Trustee's Website.

**II. TRUSTEE'S ACTIVITIES SINCE JUNE 22, 2020**

17. The Trustee has monitored the receipts and disbursements and did a variance analysis against the cash flow statement submitted to the Official Receiver on May 28, 2020. Since our second report, no significant difference has been identified by the Trustee.
18. The Trustee has participated in conference calls with Management and their legal advisors in connection with their restructuring efforts.
19. The Trustee assisted the Debtor in its dealings with a number of suppliers, employees and landlords in order to ensure an adequate comprehension of the procedures and ensure uninterrupted flow of goods and services.

**III. COALISION'S ACTIVITIES SINCE JUNE 22, 2020**

20. Coalision, with the assistance of the Trustee, has been in communication with employees, clients and suppliers affected by the NOI. The Debtor has been successful in maintaining its employee base, maintaining and securing clients confidence and a continued supply of goods and services to its business from its suppliers.

**IV. THE SOLICITATION PROCESS**

21. Since December 2017, Coalision has taken steps to find additional financing and/or an investor. Several private equity, strategic Investors and Lenders have been contacted to solicit their interests. The Trustee was involved in the process and accompanied Coalision to conduct a review of their financial needs.
22. The initiatives did not have the expected results, notably because of:
  - (i) The significance of the debt level at this time;
  - (ii) The lack of assets free of any lien and available for financing;
  - (iii) The nature (i.e., intangible) of the assets;
  - (iv) The complexity of the financing and shareholding structure; and,
  - (v) The imminence of the financing needs.
23. Management was not able to secure additional financing despite its aforementioned numerous efforts. The lack of success of those financing efforts can likely and notably be explained by the relatively small size that this type of investment would represent for the different US private equity funds.

24. Since they were not able to find additional financing and/or investors, in the beginning of 2018, some shareholders agreed to invest close to \$23 million in a transaction in which a portion of the existing long-term debt was written off and a portion of the existing long-term debt was converted into equity.
25. Despite the refinancing of Coalision in early 2018, the company continued to operate at a loss. The accumulated losses necessitated, during spring 2019, an additional injection of \$2 million by way of a financing from its main shareholder, Simon Coalision Investment, Inc. ("**Simon Coalision**").
26. Following an extensive review of its business and affairs in the first months of 2020, it was determined that, without a transaction, a refinancing or an equity injection in order to restructure its operations, debt and equity structure, Coalision would not be able to successfully continue its activities.
27. In February 2020, Coalision informally initiated a Limited Solicitation Process ("**LSP**") to identify a strategic partner that could potentially inject new funding and/or buy the business wholly or partially, with a view to maximizing the value of the business for all stakeholders and securing the employment of as many of its employees as possible considering the upcoming restructuring measures.
28. This LSP focused on targeting limited potential strategic and financial parties that had recently demonstrated an interest in pursuing a transaction with respect to Coalision.
29. Coalision had several discussions with two potential interested parties and provided them with financial information that was prepared in collaboration with the Trustee, which was kept fully informed on an ongoing basis.
30. On March 4, 2020, Coalision received a non-binding letter of intent from one of the interested parties (the "**Potential Buyer**").
31. Coalision provided the Potential Buyer with additional diligence materials during the following weeks, and held daily calls in an effort to ensure a transaction could be secured before Coalision ran out of liquidities.
32. On March 19, 2020 the Potential Buyer informed Coalision that due to COVID-19 it would not be able to move forward with the transaction and it they could not articulate when a transaction might be possible in the future due to the underlying uncertainty of the economy and its impact on Coalision.
33. While Coalision, together with the NOI Trustee, was continuing the process to identify a purchaser or investor for Coalision's assets, the filing of the NOI and the media coverage generated by the restructuring of Coalision's affairs brought several additional potential investors and buyers ("**Potential Investors**"), who have demonstrated some interest in the assets of the Debtor.
34. With its advisors and the Trustee, Coalision had several discussions with the said Potential Investors, executed some non-disclosure agreements and provided them with financial information that was prepared in collaboration with the Trustee.
35. In total, the Trustee and Coalision were in discussions with seven potential investors that were contacted or identified after the NOI. It became quickly apparent that the Potential Investors were looking for a transaction that would not fully reimburse the amounts owed to the CIBC.

36. In early June, the Trustee and Coalision also had additional conversations with the Potential Buyer to see if they had reviewed their position regarding a potential transaction. The Potential buyer informed the Trustee that they were still not in a position to pursue a transaction.
37. On June 4, 2020, Coalision received a non-binding letter of intent from one of the Potential Investor. This letter of intent was then rejected since it was conditional on obtaining financing in delays that Coalision wouldn't be able to sustain and also because CIBC would not be fully reimbursed in such transaction.
38. On June 15, 2020 Coalision received a binding letter of intention ("**LOI**") from three interested investors (the "**Investors**") providing for the purchase by a corporation to be incorporated of substantially all assets of Coalision (the "**Offer**").
39. The Investors are Unified Commerce Group, LLC (50.1%) as well as the two main secured lenders (excluding CIBC) and shareholders of Coalision: Mr. Herbert Simon (37.9%), who controls Simon Coalision, and Pelican (12.0%).
40. After consulting with its legal advisors and the trustee, Coalision executed the LOI.

#### **V. THE PROPOSED TRANSACTION**

41. The Offer provides that, subject its approval by this Court (the "**Proposed Transaction**"), 1254429 B.C. Unlimited Liability Company (the "**Purchaser**"), a corporation controlled by the Investors, will acquire all right, title and interest in and to all of the tangible and intangible assets, undertaking and properties of Coalision relating to the production, distribution, wholesale and retail business of the Lolë and Paradox brands conducted by Coalision and all activities incidental thereto (the "**Purchased Assets**"). The Purchased Assets would be sold in their current state and without any representation or any warranty from Coalision ("as is, where is").
42. The Offer has an estimated value of \$15 million and provides, among other things, for the following:
  - (i) The first rank secured creditor balance, CIBC, estimated at \$14.4 million will be assumed by the Purchaser; and
  - (ii) cure costs in connection with court-assigned agreements totalling \$559,000 will be paid by the Purchaser;
43. The Purchaser is a wholly owned subsidiary of Lolë Brands LLC with the shares of which, upon closing, will be directly or indirectly owned by Unified Commerce Group, LLC (50.1%), Mr. Herbert Simon (37.9%), who controls Simon Coalision, and Pelican (12.0%).
44. Additionally, should the circumstances permit, the Investors will commit in providing up to \$9 million of new growth capital, as needed, to fund operating or growth shortfalls in the Purchaser.
45. The intent communicated by the Investors is to also keep the head office in Québec and to retain as many employees as possible in the Purchaser.
46. Payment of all wages, vacations and source deductions accrued since the NOI filing date until the closing date as well as all other wages and vacations due according to the section 65.13(8) of the BIA will be paid, by deducting the amount payable from the current balance of Coalision's cash.

**VI. TRUSTEE'S OPINION**

47. The Trustee is of the opinion that the Proposed Transaction represents the best alternative for all of Coalision's creditors, including secured creditors and all other stakeholders, for the following reasons:

- (i) Based on the foregoing, the Trustee is of the opinion that the process put in place by Coalision to identify a strategic partner as well as the efforts made by Coalision to conclude a transaction were adequate in the circumstances. The Trustee has assisted and supported Coalision during the LSP with the objective of maximizing the value of a transaction.
- (ii) Although the LSP was more limited in nature than a more formal solicitation process ("SISP"), the Trustee is of the opinion that conducting a LSP instead of a SISP in the context prevailing between February 2020 to this day was the appropriate way to maximise the value of the assets of Coalision for the following reasons: (1) given the short time frame in which the parties operated, Coalision was not in a position to attract new investors and performing a SISP could have put in jeopardy the future sales and potential recoveries of the company; (2) given that the filing occurred in the context of a global pandemic which severely affected the retail industry, an extended SISP would have been at best a difficult and an expensive endeavour; (3) the investment solicitation processes previously undertaken were unsuccessful; and (4) the secured creditors support the manner through which the Proposed Transaction was achieved, and do not believe that a protracted SISP would have provided a better yield.
- (iii) The Trustee is of the opinion that the Offer is the most attractive in the current circumstances compared to a liquidation of the assets of Coalision, especially in the circumstances and uncertainty surrounding the COVID-19 situation. Moreover, in the current depressed state of the retail market and of the apparel sub-market, it is highly unlikely that an extended or expanded sales process would result in any higher consideration for the Purchased Assets than the value of the Offer. The Offer is therefore reasonable and fair, taking into account the market value of the Purchased Assets and the Transaction is more beneficial to the creditors than a sale or disposition under bankruptcy.
- (iv) Simon Coalision and Pelican are owed secured claims totaling \$21,988,000 as of the date of the filing of the NOI, representing an amount significantly higher than the value of the shares they will be offered in the Purchaser as described in the Proposed Transaction. Their support is a clear indication that the Proposed Transaction represents the best option available to Coalision's stakeholders.
- (v) The Trustee has reviewed and confirmed the validity and enforceability of the securities of CIBC and Simon Coalision registered in the provinces of Quebec, Ontario, Alberta, British Columbia and Manitoba.
- (vi) The Proposed Transaction would allow the continuity of operations of Coalision in Montreal, and would allow several jobs to be maintained since the Investors communicated the intention to continue the same activities. Management estimates that the Offer would allow to maintain approximately 30 full-time employees.
- (vii) Despite many efforts of the Management and shareholders of Coalision in recent months, only one other interesting potential external investor had some serious interest to enter in a transaction to purchase Coalision's assets in a formal

restructuring process, but withdrew because of the circumstances and uncertainty surrounding the COVID-19 situation. Simon Coalision and Pelican were both supportive of such a transaction should it had been brought to fruition.

- (viii) As of the date of this Report, the Trustee has not been informed of any contestation from other creditors.

48. The latest unaudited asset balances, as at June 21, 2020, is presented below.

<b>Coalision Inc.</b>	<b>(Unaudited)</b>
<b>As at June 21, 2020</b>	
<b>(C\$000)</b>	
<b>Assets</b>	
Cash	-
Accounts receivable	5,271
Intercompany accounts receivable	8,551
Inventories	22,999
<b>Total current assets</b>	<b>36,821</b>
Invest in wholly-owned subsidiaries	525
Fixed assets	2,147
Goodwill and intangible assets	54,376
<b>Total assets</b>	<b>93,869</b>

- (i) As of June 21, 2020, Coalision had \$5.3 million of accounts receivable balance mostly owed by some of its wholesale clients. Included in this amount are clients that have already filed for court protection and/or are currently experiencing challenges. Therefore, from the \$5.3 million, a provision of \$2.3 million should be deducted from accounts receivable balance.
- (ii) As of June 21, 2020, Coalision had \$8.6 million of intercompany accounts receivable balance. The intercompany accounts receivable are related to namely amounts owed by Coalision USA and Coalision Europe. As of June 21, 2020, both these entities did not have the funds to reimburse Coalision.
- (iii) As of June 21, 2020 the inventory book value is approximately \$23 million, which includes \$7.6 million of "in transit" inventory and a significant portion of inventory from 2019 collections or previous. Coalision obtained a third party appraisal for the inventory in January 2020 with a net orderly liquidation value of the inventory significantly lower than its book value. The impact of the COVID-19 situation was not reflected in the appraisal values since it has performed prior to the COVID-19 pandemic, and could be expected to be significantly lower.
- (iv) Fixed assets are mainly composed of leasehold improvements, furniture and fixture. The value of those assets are uncertain in the insolvency context of Coalision and facing the COVID-19 pandemic. Given that Coalision disclaimed all of its leases, the value is close to nil.
- (v) Goodwill and intangible assets totaling \$54 million are composed of goodwill with \$23 million and trademarks with \$31 million. Those assets have no value in the context of the current financial situation of Coalision. In any circumstances, as is often the case in a context of insolvency proceedings, the value that can be generated from such intangible assets is likely to be materially impacted.

49. As of June 21, 2020 the balance of CIBC was approximately \$14.4 million. Adding the remaining secured loans for an aggregate capital amount of \$24.5 million, the total secured capital indebtedness of Coalision represent \$38.9 million, which is higher than the gross book value of the accounts receivable and inventory as of June 21, 2020 of \$28.3 million. It is difficult to establish if these assets that would be realized in a liquidation perspective would generate sufficient funds to reimburse the balance of CIBC, but it is clear that the value that could be generated will be significantly lower than the book value of \$28.3 million and significantly lower than the amount owed to the other secured lenders who support the transaction.
50. The Purchaser is not related to Coalision within the meaning of section 65.13(6) of the Bankruptcy and Insolvency Act, although a shareholder of Coalision (Pelican) and a person controlling a shareholder of Coalision (Mr. Simon, through Simon Coalision) will indirectly hold a minority stake in the Purchaser (49.9%).
51. A prompt conclusion of the Proposed Transaction is necessary, since neither the CIBC, the current secured creditors nor the shareholders wish to further support the operations of Coalision in the current form and circumstances (COVID-19).
52. A rapid conclusion of the proposed transaction is also necessary in order to maintain the schedule of the fall/winter 2020 collection ("**FW20**"). In the next few months, Coalision must receive almost all of the FW20, which implies significant payments to creditors. As per management, ignoring of delaying those payments (not currently payables) would jeopardize Coalision as a going concern.
53. Subject to the authorization of this Court, the closing of the Proposed Transaction by Coalision is scheduled quickly after the reception of the Court's order.

#### **CONCLUSIONS AND RECOMMENDATIONS**

54. The Trustee is of the opinion that Coalision had no other choice than to proceed with the Offer considering the financial challenges Coalision is facing, but also considering the circumstances and uncertainties created by the general downturn of the brick-and-mortar retail industry and the COVID-19 pandemic.
55. The Trustee is of the opinion that, in the circumstances, the disposal of the assets is more advantageous if it occurs through the Offer than in the event of a bankruptcy.
56. The Trustee is of the opinion that, in the circumstances, the process conducted by Coalision with the secured creditors in relation to the Offer is sufficient, and the secured creditors have been kept fully informed on an ongoing basis.
57. The Trustee is of the opinion that, in the circumstances, the Offer and the Proposed Transaction provide a fair and reasonable consideration for the Assets sold.

58. In light of the above, the Trustee respectfully recommends this Court to grant Coalision's request to authorize the Offer and the Proposed Transaction.

DATED AT MONTRÉAL, this 26<sup>th</sup> day of June 2020.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Trustee in the Proposal of  
Coalision Inc.



Jean-François Nadon, CPA, CA, CIRP, LIT  
President



Benoit Clouâtre, CPA, CA, CIRP, LIT  
Senior Vice-President