

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 ON THE STATE OF THE INSOLVENT PERSON'S
BUSINESS AND FINANCIAL AFFAIRS (THE "REPORT")**
(Paragraphs 50.4(7)(b)(ii) and 50.4(9) 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 extension of the delay to file a proposal with the official receiver (the "**Extension 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. The objective of this Second Report is to inform and report to this Court about:
 - (i) Trustee's activities since May 26, 2020;
 - (ii) Coalision's activities between May 26 and June 19, 2020;
 - (iii) Financial performance and cash flow projections;
 - (iv) Coalision's request for an extension of the stay of proceedings;
 - (v) Trustee's conclusions and recommendations.
8. In preparing the Second 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.
9. The Information that was analysed 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.
10. 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.
11. 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.
12. 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.
13. A copy of the First Report and Second 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 MAY 26, 2020

14. On May 29, 2020, in accordance with the BIA, the Trustee mailed, to all of the Debtor's known creditors, a notice informing them of the NOI. A copy of this notice has been posted on the Trustee's website and a dedicated email address (Coalision@deloitte.ca) has been established.

15. The forecast cash flow statement was prepared for the period from May 23 to July 3, 2020, and was submitted to the Official Receiver on May 28, 2020, together with the Debtor's report and the Trustee's report, pursuant to Subsection 50.4(2) of the BIA.
16. The Trustee has implemented procedures to ensure a weekly monitoring of the receipts and disbursements, with a view of performing comparison and variance analysis against the aforementioned cash flow statement.
17. Since the filing of the NOI, the Trustee has participated in several conference calls with Management and their legal advisors in connection with their restructuring efforts.
18. 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.
19. The Trustee participated in several conference calls with several different parties interested in purchasing the assets of Coalision. As it will be further described once the Debtor files an 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 Trustee has been significantly involved in discussions with several potential investors and purchasers for the assets of Coalision.

III. COALISION'S ACTIVITIES BETWEEN MAY 26 AND JUNE 19, 2020

20. On May 27, 2020, Coalision sent notices of disclaimer or resiliation in respect of all its 23 leases in Canada ("**Lease Disclaimers**"), with effective dates between June 25 and July 1st, 2020. Coalision advised the landlords of premises in which Coalision operated stores that it would not be paying the rent during the notice period given that it was not using the premises. Coalision believes this non payment is however alleviated by the fact that it paid the March 2020 rent to such landlords, notwithstanding that, given the COVID-19 Government of Québec decree, it was not able to operate the different stores during that month.
21. After assessing the situation at the time, the Trustee supported the position of the Lease Disclaimers in the present situation, for the following reasons:
 - (i) Since the filing of the NOI, Coalision has not used the premises in which it operated the stores;
 - (ii) The Lease Disclaimers were prevented to operate their different locations for part of March 2020 as a result of the Covid-19 pandemic and the related Government of Québec decree. Such extraordinary circumstances were not limited to Coalision;
 - (iii) Coalision's position that the rent in such circumstances was not payable has yet to be adjudicated by this Court, however the trustee supports such a conclusion, as well as the determination that the landlords are not prejudiced by the non-payment of rent during the notice period considering that the rent for March 2020 was paid.
22. As of the date of this Second Report, three landlords had respectively filed a motion in opposition to the notice to the landlord to disclaim or resiliate a lease agreement.
23. Since 2019, Coalision has been actively seeking and soliciting potential investors or purchasers. Prior to the NOI, the Debtor had several discussions with interested parties. In February 2020, Coalision did execute a non-binding conditional letter of intent with a serious and renowned interested party. In view COVID-19, the interested party decided that it would not be in a position, given the current uncertainties, to pursue a transaction with Coalision.

24. Since the filing of the NOI and the media coverage generated by the restructuring of Coalision's affairs, several additional potential investors have demonstrated some interest in the assets of the Debtor. With its advisors and the Trustee, Coalision had several discussions with the said investors and buyers, executed some non disclosure agreements and provided them with financial information that was prepared in collaboration with the Trustee.
25. As it will be further described once the Debtor submits an 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, on June 15, 2020 Coalision received a binding letter of intention ("LOI") from three interested investors (the "Investors"). After consulting with its legal advisors and the trustee, Coalision executed the LOI. Given the nature and complexity of the potential transaction and the involvement of the different secured creditors, the parties still require some additional time in view of completing all the required steps and documentation in view of concluding a final purchase agreement.
26. 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. FINANCIAL PERFORMANCE AND CASH-FLOW PROJECTIONS

Cash flow results for the 3-week period ended June 12, 2020

27. When the NOI was filed, the Debtor submitted a projected cash flow statement for the six-week period ending July 3, 2020 (the "Cash Flow Statement").
28. Since the filing of the NOI, the Debtor has been paying its suppliers in the ordinary course of business based on negotiated terms or on cash-on-delivery basis. The Debtor has advised the Trustee that it has not incurred significant unpaid liabilities since the NOI was filed. As indicated earlier, Coalision does not intend on paying the rent to its store landlords during the notice period.
29. The table below contains the comparative cash flow statement for the 3-week period ended June 12, 2020:

Coalision Inc. Cash flow	For the three weeks ended on June 12, 2020		
	Actual	Budget	Variance
Inflows			
Collections from sales	2,529,241	1,253,452	1,275,789
Governmental grant	72,563	71,104	1,459
Total inflows	2,601,804	1,324,556	1,277,248
Outflows			
Inv. Payments	189,674	1,695,825	(1,506,151)
Salaries and employee expenses	254,033	247,662	6,371
Rent	61,896	180,000	(118,104)
Operating expenses	407,379	665,540	(258,161)
Professional fees	347,971	75,000	272,971
Interest expense	137,587	137,271	316
Provision for unknown	(52,160)	45,000	(97,160)
Total outflows	1,346,380	3,046,298	(1,699,918)
Net cashflow from operations	1,255,424	(1,721,742)	2,977,166

30. Coalision realized a net cash flow of approximately \$1.3M for the 3-week period, representing a positive variance of approximately \$3M:

- (i) Total receipts totalled approximately \$2.6M, or approximately \$1.2M higher than initially forecasted. This is due to higher sales than anticipated in the web segment (approx. \$0.7M), as well as higher than forecasted accounts receivable receipts in the wholesale segment (approx. \$0.5M).
- (ii) Total disbursements totalled approximately \$1.3M, or approximately \$1.7M less than initially forecasted. This is primarily due to the following:
- Inventory payments: disbursements to makers were \$1.5M less than initially forecasted primarily due to timing (some suppliers continued offering payment terms and some payment terms were negotiated with suppliers due to the Covid-19 situation);
 - Operating expenses: disbursements were \$0.3M less, partially due to deposits to utility providers that were less than initially forecasted.
 - Professional fees: disbursements were higher than expected by approximately \$0.3M, mainly due to higher involvement of professional services than initially forecasted and payments for pre-filing invoices

Cash flow forecast for the 8-week period ending August 7, 2020

31. In support to its Motion for an extension, Coalision revised and extended their cash flow projections (the "**Revised Cash Flow Forecast**") for the period from June 13, 2020 to August 7, 2020 (see Appendix A).

Coalision Inc.	
For the 8-week period ending	2020-08-07
	(\$, unaudited)
Inflows	
Collections from sales	4,451,049
Governmental grant	-
Total inflows	4,451,049
Outflows	
Inv. Payments	12,284,546
Salaries and employee expenses	495,324
Rent	173,929
Operating expenses	2,470,951
Professional fees	179,861
Interest expense	159,860
Capital Expenditures	15,000
Provision for unknown	120,000
Total outflows	15,899,471
Net cashflow	(11,448,422)
Opening bank balance	(13,255,988)
Ending bank balance	(24,704,410)

32. The projections reflect the following general assumptions:
- Granting of the 45-day period extension to file a Proposal;
 - Continued operations for the web and wholesale segment;
 - Important inventory payments in prevision of the Fall/Winter Coalision sales;
 - Compliance with the conditions under the CIBC Forbearance Agreements.
33. At the time of this Second Report, Coalision advised the Trustee that they were in compliance with the conditions under the Forbearance Agreement dated May 25, 2020 and the First amendment to the forbearance agreement dated June 12, 2020, including in respect of the borrowing base calculation. Therefore, the CIBC continues to support the operations of the Debtor by maintaining the borrowing availability on its credit line. The Revised Cash Flow Forecast does not include the inflows that will be generated by the closing of a purchasing agreement in line with the LOI. The forbearance agreement and

amendment with the CIBC contemplates that a transaction must be completed in July 2020 to allow Coalision to go ahead and implement its projected cash flow.

V. COALISION'S REQUEST FOR AN EXTENSION OF THE STAY OF PROCEEDINGS

34. Coalision advised the Trustee of their intention to file a first motion for a 45-day extension of the time limit to file a proposal to its creditors pursuant to Subsection 50.4(9) of the BIA.
35. Coalision requires additional time to (i) complete the assessment of their going forward options, (ii) continue the discussions with the interested investor and secured creditors in view of concluding a transaction and (iii) potentially formulate a proposal.

CONCLUSIONS AND RECOMMENDATIONS

36. The Trustee is of the opinion that the reasons invoked in the Extension Application for an extension are reasonable and supports the purposes of an extension.
37. The Trustee is of the opinion, based on the requests in the Extension Application for an extension, that:
- (i) It is in the creditors' best interest that an extension of the stay proceedings be granted in order to allow the Coalision additional time for the reasons detailed in paragraph 35;
 - (ii) The Debtor have acted, and are continuing to act, in good faith and with due diligence; and
 - (iii) No creditor will be materially prejudiced by the granting of the extension.
38. The Trustee respectfully submits this Second Report to this Court.

DATED AT MONTRÉAL, this 22th 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 Clouatre, CPA, CA, CIRP, LIT
Senior Vice-President

Appendix A

Coalision Inc.	Wk1	Wk2	Wk3	Wk4	Wk5	Wk6	Wk7	Wk8	Total
For the week ending	2020-06-19	2020-06-26	2020-07-03	2020-07-10	2020-07-17	2020-07-24	2020-07-31	2020-08-07	
(\$, unaudited)									
Inflows									
Collections from sales	286,232	286,232	286,232	376,027	492,694	492,694	492,694	1,738,245	4,451,049
Governmental grant	-	-	-	-	-	-	-	-	-
Total inflows	286,232	286,232	286,232	376,027	492,694	492,694	492,694	1,738,245	4,451,049
Outflows									
Inv. Payments	214,724	600,605	18,981	1,127,000	1,411,454	1,713,021	3,989,538	3,209,222	12,284,546
Salaries and employee expenses	123,831	-	-	123,831	-	123,831	-	123,831	495,324
Rent	-	-	-	150,000	-	-	-	23,929	173,929
Operating expenses	222,974	222,974	233,059	406,416	267,518	267,518	489,465	361,028	2,470,951
Professionnal fees	25,000	25,000	25,000	25,000	25,000	25,000	25,000	4,861	179,861
Interest expense	-	-	137,271	-	-	-	22,589	-	159,860
Capital Expenditures	-	-	10,000	-	-	-	2,500	2,500	15,000
Provision for unknown	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	120,000
Total outflows	601,529	863,579	439,311	1,847,247	1,718,972	2,144,370	4,544,092	3,740,372	15,899,471
Net cashflow	(315,297)	(577,347)	(153,079)	(1,471,220)	(1,226,278)	(1,651,676)	(4,051,398)	(2,002,126)	(11,448,422)
Opening bank balance	(13,255,988)	(13,571,285)	(14,148,632)	(14,301,711)	(15,772,931)	(16,999,209)	(18,650,885)	(22,702,284)	(13,255,988)
Ending bank balance	(13,571,285)	(14,148,632)	(14,301,711)	(15,772,931)	(16,999,209)	(18,650,885)	(22,702,284)	(24,704,410)	(24,704,410)