

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION N° : 01-MONTREAL
COUR N° : 500-11-058310-208
FILE N° : 41-2647457

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

**IN THE MATTER OF THE
BANKRUPTCY OF:**

9421-4442 Québec Inc. (Formerly Coalision Inc.), a legal person duly incorporated under the Law, having its head office and principal place of business at 4075 St-Denis, Montreal, Quebec, H2W 2M7.

Debtor

- and -

Deloitte Restructuring Inc.
(Jean-François Nadon, CPA, CA, CIRP, LIT, responsible) 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

The Bankruptcy and Insolvency Act (the "**BIA**"), provides for a first meeting of creditors to discuss the creditors' collective interest in the administration of the Bankrupt's estate.

Background

1. 9421-4442 Québec Inc., formerly known as Coalision Inc. ("**9421**" or the "**Debtor**"), was a wholesaler (70%) and a retailer (30%) who designed, produced, distributed and used to sale active wear, outdoor clothing, and yoga accessories through 29 retail stores, wholesale customers and ecommerce.
2. 9421 is a privately held company established in 2014 from the merger of Coalision Inc. (founded in Montreal in 1989) and 9296-3404 Québec Inc. under the laws of the Province of Quebec. 9421 also owns two international subsidiaries, namely Coalision USA, Inc. and Coalision Europe SAS. These entities were used to manage their international business and are not part of the Canadian proceedings.
3. As of February 29, 2020, when in full operation and prior to the situation created by the COVID-19 pandemic, 9421 employed 232 employees, of which 85 were employed at its head office in Montreal, 17 in its distribution center in Longueuil and 130 in all its other retail stores across Canada.
4. Burdened by the general downturn of the brick-and-mortar retail industry, 9421's financial situation has deteriorated due to several factors over the last few years.
5. Unfortunately, given the difficult financial situation of 9421 and facing the Covid-19 situation, 9421 had no other choice but to file a notice of intention to make a proposal ("**NOI**", and the "**NOI Proceedings**").
6. On May 26, 2020, the Trustee was appointed as Trustee to the NOI Proceedings of 9421.

7. On June 26, 2020, following a solicitation process which is furtherly resumed, the Court approved a transaction in which all the assets of 9421 were sold.
8. On August 8, 2020, 9421 was deemed to have made an assignment in bankruptcy and Deloitte Restructuring Inc., was appointed as Trustee of the estate of the bankrupt by the official receiver, subject to affirmation by the creditors of the trustee's appointment or substitution of another trustee by the creditors.

Sale of assets

9. In February 2020, 9421 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.
10. On June 26, 2020, 9421 received the approval from the Court for the sale of the assets of 9421 (The "**Transaction**"). The approval of the Transaction confirmed a loss of approximately \$27 million for the secured creditors of 9421.
11. The Investors were Mr. Herbert Simon (88%), who controls Simon Coalision Investment, Inc. ("**Simon Coalision**") and Pelican II Investment Fund, L.P. (12.0%) ("**Pelican**"). Both, as secured creditors, were included in the abovementioned \$27 million with respectively \$15 million and \$7 million.

Financial analysis

12. Prior to the Covid-19 crisis, 9421's financial situation had already deteriorated due to several factors over the last few years, namely lower sales than expected resulting in excess inventory, more competitors and an increase in rent expenses. Furthermore, investments in its digital platform and opening a corporate office in California also created additional pressure on the cash flow, and did not generate the expected returns.
13. Despite restructuring efforts, overall, the Debtor's performance continued to decline throughout the fiscal year 2019 and 9421 has been unable to return to profitability.
14. The following table sets out selected financial information for the periods indicated. The selected financial information below has been derived from the corresponding financial statements of 9421:

9421-4442 Québec Inc. - Income statement			
(C\$000)			
For the 12-month period ended on	(Unaudited)		
	31-Dec-2017	31-Dec-2018	31-Dec-2019
Revenues	86,288	89,164	80,704
Cost of goods sold	55,547	56,636	56,806
Gross profit	30,741	32,528	23,898
<i>Gross profit %</i>	36%	36%	30%
Operating expenses	28,412	32,460	25,013
EBITDA	2,329	68	(518)
Net profit (loss) - before extraordinary items and Income taxes	(13,602)	(5,041)	(7,325)
Income taxes	(2,673)	7,477	-
Gain on settlement of debts	-	(19,640)	-
Net profit (loss)	(10,929)	7,122	(7,325)

15. 9421, for the three-year period ended December 31, 2019 was not able to reach profitability, cumulating losses before Income taxes and extraordinary items of nearly \$26 million over that period.

Trustee's preliminary evaluation of assets and details of security interest

16. Below is a summary of the Statement of Affairs as of August 8, 2020 which includes the estimated net realization value of the remaining assets of 9421 as well as the estimated deficit following the distribution:

Assets	
N/A	-
Liabilities	
Unsecured creditors	29,788,460
Deficit	(29,788,460)

Note - Creditors have the burden of proving their claim and only creditors with proven claims in bankruptcy will have valid claims and may be entitled to a dividend in the proceedings, if any.

17. No assets have been presented in the summary of assets and liabilities given the Transaction. As of the date of this report, the possibility that a balance will be available to unsecured creditors following the realization of assets is highly unlikely, if not zero.
18. The unsecured creditors represent known trade creditors as of the date of the bankruptcy but also the remaining unsecured balance of the secured creditor's debts after the conclusion of the Transaction.

Conservatory and protective measures

19. The Trustee has made the following implementation of conservatory measures:
 - a. Opened a trust account at the National Bank of Canada;
 - b. Publication of a notice of the bankruptcy and the first creditor's meeting in a local newspaper.

Information relating to provable claims

20. As of the date of this report, and considering the low number of proofs of claim received to date, the Trustee is not able to determine if there will be a significant difference between the amount of claims declared by the Debtor and the amount of claims proven by the various creditors.

Legal proceedings, transfer at undervalue, and preference payments

21. At the date of this report, the Trustee did a brief review of potential transfers at undervalue and preferential payments. No transfers at undervalue nor preferential payments were found.

Projected distribution and Trustee's comments on anticipated asset realization

22. Due to the Transaction and following the significant losses incurred by the secured creditors, the Trustee is of the opinion that a distribution to unsecured creditors is highly unlikely, if not zero.

DATED AT Montreal, Quebec, this 26th day of August, 2020.

Deloitte Restructuring Inc.

In its capacity as Trustee of the Estate of
9421-4442 Québec Inc. and not in its
personal capacity

Per:



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