

Court File No.: CV-20-00647824-00CL

**HEMATITE GROUP**

**REPORT OF KPMG INC.,  
IN ITS CAPACITY AS PROPOSED MONITOR**

**SEPTEMBER 17, 2020**

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C.1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
HEMATITE HOLDINGS INC., HEMATITE MANUFACTURING INC.,  
HEMATITE INDUSTRIAL PRODUCTS INC., CANADIAN PAVACO INC.,  
PAVACO HOLDINGS U.S. INC., HEMATITE, INC. AND  
HEMATITE AUTOMOTIVE PRODUCTS INC.  
(collectively "Hematite Group")**

Applicants

**PRE-FILING REPORT OF KPMG INC.  
In its capacity as Proposed Monitor of the Applicants**

**SEPTEMBER 17, 2020**

## I. INTRODUCTION

1. KPMG Inc. (“**KPMG**” or the “**Proposed Monitor**”) understands that the Hematite (“**Hematite Group**”, the “**Company**” or the “**Applicants**”) intends to make an application (the “**CCAA Application**”) before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) returnable on September 18, 2020 (the “**Proposed Filing Date**”), seeking an Order (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) to obtain a stay of proceedings in favour of the Applicants, and affiliated entities 1238579 Ontario Inc. (“**123 Ontario**”) and Hematite R.E. 1, Inc. (“**RE1**”), until September 28, 2020, and to seek other related relief, with a view to allowing Hematite an opportunity to restructure its business and affairs. The Applicant’s CCAA proceedings are referred to herein as the “**CCAA Proceedings**”.
2. On the CCAA Application, the Applicants will also be seeking to appoint KPMG as the CCAA monitor in the CCAA Proceedings (in such capacity, the “**Monitor**”).

## II. PURPOSE OF REPORT

3. KPMG, in its capacity as Proposed Monitor, has reviewed the Court materials filed by the Applicants in support of the CCAA Application. The purpose of this pre-filing report (the “**Report**”) of the Proposed Monitor is to provide information to this Honourable Court pertaining to:
  - (i) KPMG’s qualifications to act as Monitor (if appointed);
  - (ii) a limited summary background on the Applicants and the CCAA proceedings, the objectives of the CCAA Proceedings, and the Company’s creditors;
  - (iii) the Applicant’s thirteen-week cash flow forecast (the “**Cash Flow Forecast**”) for the period from September 14, 2020 to December 11, 2020 (the “**Forecast Period**”);
  - (iv) the Applicants’ request that it be authorized to obtain interim financing, by way of a debtor-in-possession (“**DIP**”) revolving credit facility pursuant to a DIP facility agreement dated September 18, 2020 (the “**DIP Facility Agreement**”). The DIP Facility Agreement provides for a DIP credit facility of up to a maximum amount of \$6 million (the “**DIP Facility**”), which is to have an interim borrowing limit of \$2.3 million (the “**Interim DIP Facility**”) until the return date of the Comeback Motion (as hereinafter defined);

- (v) the Applicant’s request that it be authorized to commence proceedings under Chapter 15 of the United States Bankruptcy Code (the “**US Code**”) and authorizing Hematite Holdings Inc. (“**Hematite Holdings**”) to act as foreign representative in those proceedings;
- (vi) the charges proposed in the Initial Order;
- (vii) the key terms of a plan sponsor agreement dated September 17, 2020 between Woodbridge Foam Corporation (“**Woodbridge**”) and the Applicants (the “**Plan Sponsor Agreement**”);
- (viii) certain other relief that the Proposed Monitor understands the Applicants intend to seek in their next motion to the Court prior to the expiry of the initial 10-day stay period (if granted) (the “**Comeback Motion**”), for an Order (the “**Amended and Restated Initial Order**”), including, among other things, authorization of the maximum amount of the DIP Facility, the Administration Charge and the Directors’ Charge (both as hereinafter defined); and
- (ix) the Proposed Monitor’s conclusions and recommendations.

### **III. TERMS OF REFERENCE**

4. Capitalized terms used but not defined in this Report are as defined in the Affidavit of Jacques Nadeau sworn September 17, 2020 (the “**Nadeau Affidavit**”), filed by the Applicants as part of their materials in support of the CCAA Application and the Initial Order. This Report should be read in conjunction with the Nadeau Affidavit, as certain information contained in the Nadeau Affidavit has not been included herein in order to avoid unnecessary duplication.
5. In preparing this Report, the Proposed Monitor has relied solely on information and documents provided by the Applicants and their advisors, including unaudited financial information, declarations and the Nadeau Affidavit (collectively, the “**Information**”). In accordance with industry practice, except as otherwise described in the Report, KPMG has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards (“**GAAS**”) pursuant to the *Chartered Professional Accountants of Canada Handbook* and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
6. Future orientated financial information contained in the Cash Flow Forecast is based on the Applicant’s estimates and assumptions regarding future events. Actual results will vary from the

information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved.

7. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

#### **IV. KPMG’S QUALIFICATIONS TO ACT AS MONITOR**

8. KPMG is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). KPMG is not subject to any of the restrictions to act as Monitor as set out in section 11.7(2) of the CCAA and, in particular, neither KPMG nor any of its representatives has been at any time in the two preceding years:

- (i) a director, an officer or an employee of an Applicant;
- (ii) related to the Applicants or to any director or officer of an Applicant; or
- (iii) the auditor of an Applicant.

9. Should the Court grant the Applicant’s request to make the Initial Order, KPMG has consented to act as Monitor. A copy of KPMG’s consent to act as Monitor is attached as **Appendix “A”**. The Proposed Monitor has retained Gowling WLG (Canada) LLP (“**Gowling**”) to act as its legal counsel in the CCAA Proceedings.

#### **V. BACKGROUND**

10. Detailed information with respect to the Applicant’s business, operations, products and causes of insolvency are detailed extensively in the Nadeau Affidavit. The information contained in this Report represents only a summary of the background to the CCAA proceedings.
11. As noted in the Nadeau Affidavit, Hematite Holdings is a private holding company incorporated under the Ontario *Business Corporations Act*. Hematite Holdings is a direct or indirect parent of each of the Applicants, except for Hematite Industrial Products Inc. (“**Hematite Industrial**”) which is under common control with Hematite Holdings.
12. Founded in 1978, Hematite is primarily in the business of designing and manufacturing automotive parts products related to acoustics management, airflow management, and water deflection. Hematite also designs and manufactures industrial products through Hematite Industrial.

13. Hematite has operations in Canada and the U.S., operating primarily from premises in Brantford, Ontario, Guelph, Ontario, and Englewood, Ohio, certain of which are leased from affiliated non-CCAA applicant real estate entities. Products are supplied to customers – the largest being FiatChrysler, Ford, and Toyota – in Canada and the U.S.
14. An overview of Hematite premises and employees is as follows:

Function	Location	Address	Leased/Owned	Number of Employees
Brantford Facility	Brantford	46 Plant Farm Blvd Brantford, Ontario	Leased - Unrelated third party	125
Speedvale Facility	Guelph	669 Speedvale Ave. W. Guelph, Ontario	Leased - 123 Ontario	25
Industrial Plants	Guelph	659 Speedvale Ave. W. & 551 Imperial Rd. N. Guelph, Ontario	Leased - 123 Ontario	25
Englewood Facility	Ohio	300 Lau Parkway, Englewood, Ohio	Leased - RE 1	90
Fayetteville Facility	Tennessee	49 East Park Drive, Fayetteville, Tennessee	Leased - Unrelated third party	0
Corporate Headquarters	Guelph	669 Speedvale Ave. W., Guelph, Ontario	Leased - 123 Ontario	25

15. As further noted in the Nadeau Affidavit, as of September 17, 2020, the Applicants had 200 employees in Canada and the 90 employees in United States (“U.S.”). Approximately 80 employees in Canada and 50 employees in the U.S. were temporarily laid off in the beginning of the pandemic, however, most of them have returned as at the date of this Report. The Company’s employees do not benefit from a Company-backed pension plan, are not represented by a union and are not subject to a collective bargaining agreement.

**Historical Financial Results**

16. As described in the Nadeau Affidavit, the adverse effects of the COVID-19 pandemic on automotive manufacturers resulting in suspended production for nine (9) weeks beginning in late March 2020 negatively impacted Hematite’s financial performance. As a result of the foregoing and significant capital expenditures invested in the business in recent years, the Company is facing an imminent liquidity crisis and has defaulted on various financial and other covenants with its two primary secured lenders, Toronto-Dominion Bank (“TD”) and BDC Capital Inc. (“BDC”). As further described later in this Report, the TD Forbearance Agreement (defined below), pursuant to which TD has advanced

incremental bulge financing to the Applicants in the amount of approximately \$5.5 million since March 2020, expired on September 8, 2020.

17. In August 2018, Hematite engaged BDO Canada LLP as financial advisor to, among other things, assist the Company in evaluating its strategic options, and support the Applicants in reporting to their lenders and forecasting their liquidity needs.
18. Also pursuant to the TD Forbearance Agreement, Hematite engaged Blair Davidson, in May 2020, as chief restructuring officer (“CRO”) to assist the Company in evaluating its strategic options and managing its stakeholder group.
19. The Proposed Monitor understands that TD does not intend to extend the forbearance period further, nor is it prepared to advance further funds.
20. With the assistance of BDO and the CRO, Hematite had discussions with several potential strategic partners and determined that its preferred strategic partner was Woodbridge following extensive discussions beginning in August 2020. As outlined in the Nadeau Affidavit, Woodbridge is a well-known global automotive parts manufacturer which brings significant Canadian and international experience in the automotive industry, turnaround expertise, operational support and strong financial backing to support the Applicants through their restructuring.
21. Included in the Nadeau Affidavit are copies of the Applicant’s unaudited financial statements for the 12-month period ending March 30, 2019 and 4-month period ending July 31, 2020. Set out below is a summary of the Applicant’s income statement for the 12-month period ending March 30, 2020 and the 4-month period ending July 31, 2020.

<b>Consolidated Income Statement</b>		
<b>\$CAD</b>	<b>FY 2020</b>	<b>YTD 2021</b>
Sales	77,599,277	13,751,852
Cost of Goods Sold	73,683,223	14,413,431
<b>Gross Margin</b>	<b>3,916,055</b>	<b>-661,579</b>
<i>Gross Margin %</i>	<i>5%</i>	<i>-5%</i>
Selling & Administrative Expenses	6,483,944	1,408,608
<b>Operating Income (Loss) before Tax</b>	<b>-2,567,890</b>	<b>-2,070,187</b>
Tax	-11,136	-414,474
<b>Net Profit / (Loss)</b>	<b>-2,556,754</b>	<b>-1,655,713</b>
<b>EBITDA</b>	<b>3,384,259</b>	<b>-138,825</b>



22. As a result of the COVID-19 production impacts discussed earlier, the gross sales of Hematite for the period between March and May 2020 were significantly below projection. On a consolidated basis, Hematite estimates that its gross sales between March and May 2020 were approximately \$6.6 million. By comparison, Hematite's gross sales over the same period in 2019 were \$21.4 million and its projected sales for the period based on monthly financial projections issued in December 2019 were \$21.7 million. Accordingly, Hematite's gross sales were approximately 70% below expectations due primarily to the impact of the COVID-19 pandemic.
23. On a combined basis, the Companies' operating income is estimated to have underperformed relative to projected operating income by \$4 million over the period from March to May, 2020.
24. In June 2020, when production was still in the process of ramping back up, Hematite's gross sales were approximately \$3.3 million, compared to \$4.9 million over the same period in 2019. In July and August 2020, Hematite's gross sales returned to a level comparable to the same period in 2019.
25. Given the challenging economic conditions, the Company has not generated positive EBITDA for the 4-month period ending July 31, 2020 compared to \$3.4 million for the 12-month period ending March 30, 2020.
26. As described later in this Report, since March 2020 TD has provided approximately \$5.5 million in bulge financing in support of Hematite's working capital under various forbearance agreements with the ABL Borrowers (as hereinafter defined).
27. Further, as detailed in a later section of this Report, Hematite's key customers, FCA, Ford, and Toyota, agreed to support the business by accelerating payment terms and providing additional working capital support pursuant to an Accommodation Agreement (as hereinafter defined) dated August 26, 2020.

28. Set out below is Hematite’s unaudited balance sheet as at July 31, 2020:

<b>Balance Sheet as at July 31, 2020</b>	
<b>\$CAD</b>	
	<b>Total</b>
Current Assets	25,038,068
Capital Assets (net)	26,006,051
Other Assets	5,457,295
<b>Total Assets</b>	<b>56,501,414</b>
Bank Indebtedness	14,378,423
Other Current Liabilities	27,868,399
<b>Current Liabilities</b>	<b>42,246,822</b>
Term Loans	8,366,113
Due to Shareholders	80,022
<b>Non-Current Liabilities</b>	<b>8,446,135</b>
<b>Equity</b>	<b>5,808,457</b>
<b>Total Liabilities &amp; Equity</b>	<b>56,501,414</b>

29. Current assets comprised accounts receivable of \$17.4 million, inventory of \$4.1 million, SRED tax receivables of \$2.2 million and prepaid expenses of \$1.3 million. The Company’s capital assets are primarily located in their Brantford (\$13 million) and Englewood facilities (\$11.4 million). Other assets include intercompany receivables of approximately \$5 million.
30. TD’s indebtedness as at July 31, 2020 totaled \$14.4M (please see Section VII for further details). Other current liabilities comprised of accounts payable and accrued liabilities of \$18.6 million and capital lease obligations of \$9.5 million.
31. Non-current liabilities include intercompany term loans of \$4.6 million and the BDC term loan of \$2.6 million (please see below for further details).

## **VI. OBJECTIVES OF THE CCAA PROCEEDINGS**

32. The primary objectives of the CCAA Proceedings are to: (i) stabilize Hematite’s business, (ii) ensure Hematite has the necessary working capital to continue operations and (iii) provide a forum to explore a plan of compromise or arrangement under the CCAA (a “**Plan**”) pursuant to the Plan Sponsor Agreement that would seek to maximize creditor and stakeholder recoveries.

## VII. CREDITORS

### Secured Creditors

33. As detailed in the Nadeau Affidavit, TD and BDC are secured creditors of certain of the Applicants that, as at August 31, 2020 are owed approximately \$14.5 million and \$2.8 million respectively.
34. Pursuant to subordination and priorities agreement dated April 10, 2014, BDC's security on certain of the Applicants' assets and undertakings is subordinate to TD, however BDC has a first-ranking security on the intellectual property.

### TD

35. TD and Hematite Manufacturing Inc. ("**Hematite Manufacturing**"), Hematite, Inc. ("**Hematite US**") and Hematite Industrial (collectively, the "**ABL Borrowers**") are parties to a credit agreement dated December 29, 2017 (the "**TD Credit Agreement**") pursuant to which TD provides a revolving asset-based loan facility to the ABL Borrowers (the "**TD Facilities**"). The balance of the TD Facilities is approximately \$13.7 million as at September 16, 2020.
36. Hematite Manufacturing is the lessee under two capital leases provided by TD Equipment Finance Canada, a division of TD, which were each entered into in April 2018 for a term of 84 months and relate certain equipment located at Hematite's Brantford, Ontario facility (the "**TD Capital Leases**"). The amount owing under these capital leases is approximately \$4 million as at August 31, 2020.
37. As a result of, among other things, the economic impact of COVID-19 on Hematite's business, the ABL Borrowers breached certain of their financial and other covenants under the TD Facilities.
38. On June 26, 2020, Hematite entered into a forbearance agreement with TD as amended and extended on August 6, 2020 (the "**TD Forbearance Agreement**"). Pursuant to the TD Forbearance Agreement, TD provided certain relief to support Hematite's working capital needs, including increasing the credit limit from \$9 million to \$14.5 million and suspending monthly payments under the TD Capital Leases. As mentioned earlier in this Report, the TD Forbearance Agreement expired on September 8, 2020. The Proposed Monitor understands that TD does not intend to extend the forbearance period, nor is it prepared to advance further funds.
39. All of the advances under the TD Facilities are guaranteed by Hematite Manufacturing, Hematite US, Hematite Industrial and 123 Ontario (the "**Guarantees**").

40. As noted in the Nadeau Affidavit, the amounts owing under the TD Facilities, Guarantees and TD Capital Leases, as applicable, are secured by, among other things, (i) first-ranking general security agreements on all of the assets and undertakings of Hematite Manufacturing and Hematite Industrial; (ii) second-ranking general security agreements on all of the assets and undertakings of 123 Ontario; (iii) a security agreement from Hematite US granting a first-ranking security interest over accounts receivable and inventory and a second-ranking security interest over equipment; and (iv) collateral mortgages against the Speedvale Facility and the Industrial Plants.

#### BDC

41. BDC and Hematite Manufacturing are parties to a letter agreement dated December 21, 2017 pursuant to which BDC provided a term loan in the amount of \$3 million (the “**BDC Loan**”). As outlined in the Nadeau Affidavit, BDC is not willing to advance further funds to the Applicants.
42. The BDC Loan is guaranteed by, among others, Hematite Industrial, 123 Ontario, Canadian Pavaco Inc., Pavaco Holdings U.S. Inc., Hematite US and Hematite Automotive Products Inc..

#### **Unsecured Creditors**

43. Based on the Applicants’ books and records, as at September 11, 2020, Hematite’s trade debt totalled approximately \$15.8 million (excluding intercompany liabilities).

## VIII. THE APPLICANTS' CASH FLOW FORECAST

44. Hematite, in consultation with the Proposed Monitor, has prepared the Cash Flow Forecast for the purpose of projecting the Applicants' estimated liquidity needs during the Forecast Period. A copy of the Cash Flow Forecast is attached hereto as **Appendix "B"**.

<b>Hematite Group in \$CAD</b>	
<b>Weekly Cash Flow Forecast for the Period September 14, 2020 to December 11, 2020</b>	<b>Total</b>
<b>Cash Receipts</b>	
Accounts Receivable	21,599,477
<b>Total Receipts</b>	<b>21,599,477</b>
<b>Cash Disbursements</b>	
Inventory Purchases	12,219,035
Other Operating Expenses	2,331,087
Tooling Expense	300,000
Payroll and Benefits	5,175,067
Equipment and Auto leases	1,486,912
Tax Remittances	518,230
Capital Expenditures	1,673,900
DIP Financing Interest	158,712
Professional fees	2,759,840
<b>Total Disbursements</b>	<b>26,622,783</b>
<b>Net Cash Flow</b>	<b>(5,023,306)</b>
Opening Cash	-
Revolver Draw	875,587
DIP Loan Draw	6,000,000
<b>Closing Cash</b>	<b>1,852,281</b>
Opening revolver balance	(13,548,031)
Net Cash Flow	(875,587)
<b>Closing revolver balance</b>	<b>(14,423,618)</b>
Opening DIP Loan Balance	-
DIP Draw	(6,000,000)
<b>Closing DIP Loan Balance</b>	<b>(6,000,000)</b>

45. The Cash Flow Forecast projects that the Applicants will experience a net cash outflow of approximately \$5 million over the Forecast Period, composed of:

- (i) cash receipts of approximately \$21.6 million, primarily related to the collection of existing receivables and new sales generated from the sale of goods to customers – the largest being FCA, Ford, and Toyota – in Canada and the U.S.;
- (ii) cash disbursements of approximately \$26.6 million, primarily related to the purchase of raw materials, payroll and benefits, capital expenditures, and the costs of the CCAA Proceedings.

46. The Cash Flow Forecast projects borrowings under the:
- (i) Interim DIP Facility in the amount of \$2.3 million to fund any costs incurred, or to be incurred, in connection with these proceedings until the return date of the Comeback Motion, at which time it is intended that the approval of the full amount of the DIP Facility will be sought; and
  - (ii) total DIP Facility of \$6 million in aggregate over the remainder of the Forecast Period.
47. As evidenced by the Cash Flow Forecast, without access to interim financing, the Applicants lack sufficient liquidity to maintain operations. The Interim DIP Facility, DIP Facility and the Accommodation Agreement with the Company's key customers are expected to provide the Applicants with sufficient funding until the return date of the Comeback Motion and during the remainder of the Forecast Period, respectively, to ensure continued operations during the CCAA Proceedings.
48. The Cash Flow Forecast has been prepared by the Applicants on a conservative basis using probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast. The Cash Flow Forecast reflects the Applicant's estimates of receipts and disbursements on a weekly basis over the Forecast Period.
49. The Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to Information supplied to it by the Applicant. Since the probable and hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by management of the Applicants for the probable and hypothetical assumptions, and the preparation and presentation of the Cash Flow Forecast.
50. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:
- (i) the probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast.
  - (ii) as at the date of this Report, the probable and hypothetical assumptions developed by the Applicants are not suitably supported and consistent with the restructuring plan of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast; or

(iii) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

51. The Proposed Monitor notes that the Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

## **IX. PROPOSED INTERIM FINANCING**

52. The Applicants' losses and capital investments significantly eroded their liquidity, leaving them without sufficient funds to operate or restructure. As noted above, based on the Cash Flow Forecast, the Applicants require immediate interim financing to continue operations and implement their restructuring initiatives.

53. As shown in the Cash Flow Forecast, it is estimated that commencing immediately, the Applicants will require additional financial support in the amount of approximately \$3.5 million on a net basis throughout the Forecast Period, with a peak borrowing need of approximately \$6 million by the week ending October 16, 2020. Accordingly, the ability to borrow additional funds, in the form of a Court-approved DIP facility, secured by the DIP Charge (as defined below), is vital to providing the stability to, and the necessary cash flow for, Hematite's business, so that its value can be preserved while the Applicants pursue their restructuring plan.

54. In the period from September 18, 2020 until the proposed date of the Comeback Motion, based on the Cash Flow Forecast, the Interim DIP Facility is reasonably necessary to meet Hematite's the immediate liquidity needs.

### **DIP Facility Agreement**

55. Following extensive negotiations, Woodbridge, as lender (the "**DIP Lender**"), and the Applicants agreed upon the terms of the DIP Facility Agreement. A copy of the DIP Facility Agreement is attached as **Exhibit "P"** to the Nadeau Affidavit.

56. The principal terms of the DIP Facility Agreement include (the following is not an exhaustive list):

- (i) the maximum loan amount under the DIP Facility is \$6 million, \$2.3 million being made available at the effective date of the DIP Facility Agreement (the "**First Tranche**"), and the remainder upon the granting of the Amended and Restated Initial Order (the "**Second Tranche**");

- (ii) the interest rate on the DIP Facility is 15%, compounded daily and paid monthly in arrears, with the first payment due on October 31, 2020;
  - (iii) the payment of the DIP Lender's reasonable expenses in connection with the DIP Facility and the CCAA Proceedings. No closing fees are contemplated to be paid by the Applicants in connection with the DIP Facility;
  - (iv) the proceeds from the DIP Facility are to be used for the purposes of meeting the Applicants' immediate cash needs for general operating purposes as projected in the Cash Flow Forecast, its restructuring and its working capital requirements during the CCAA Proceedings;
  - (v) the DIP funds are to be advanced pursuant to drawdown requests to the DIP Lender for each of the First Tranche and the Second Tranche (or as otherwise agreed by the DIP Lender);
  - (vi) the DIP Facility Agreement is conditional upon, among other things, the granting of an Initial Order in form satisfactory to the DIP Lender, and the DIP Lender being granted the DIP Lender's Charge (as hereinafter defined) on all advances, fees, and expenses of the DIP Lender;
  - (vii) covenants include, among other things, that the Applicants shall achieve the Cash Flow Forecast (subject to certain limited permitted negative variances), and that Hematite Holdings be in compliance with the Plan Sponsor Agreement;
  - (viii) the conditions precedent to advancing funds under the DIP Facility Agreement include, among other things, that the Applicants have satisfied the conditions precedent to the Plan Sponsor Agreement;
  - (ix) the conditions precedent to advancing the Second Tranche include, among other things, (i) that the drawdown has been made under the First Tranche, (ii) the granting of an Amended and Restated Initial Order in form satisfactory to the DIP Lender; and
  - (x) the repayment and maturity date is September 30, 2022. Prepayment is permitted without penalty.
57. Until the Comeback Motion is heard, the DIP Facility will be limited to the Interim DIP Facility. The Interim DIP Facility will be used to cover post-filing obligations for the initial 10-day period and provide deposits, where required, to certain of the Applicant's critical suppliers/service providers. It is contemplated that in the Comeback Motion, the Applicants will seek the Court's approval of the entirety of the DIP Facility.



58. Based on the Cash Flow Forecast, the Proposed Monitor is of the view that the Interim DIP Facility is reasonably necessary to sustain the Applicants' business until the Comeback Motion.

### **Proposed Monitor's Recommendation**

59. Taking into consideration the above, the Proposed Monitor is supportive of the DIP Facility Agreement for the following reasons:

(i) the Applicants are facing an imminent liquidity crisis and Hematite is without the cash needed to continue operations and implement its restructuring plan – short term funding is needed urgently. The Proposed Monitor understands that the Applicants will be unable to pay continued operating costs owing to suppliers as they become due absent the DIP Facility;

(ii) if the DIP Facility is not available, the Applicants are expected to be unable to fund operations in the week ending September 25, 2020, and the Applicants will have virtually no prospect of completing their restructuring plan;

(iii) further delay attempting to source alternative interim financing is not justified in the circumstances. As previously noted, the Applicants were unable to secure interim financing with TD or BDC. Further, it is a condition of the Plan Sponsor Agreement that the DIP Facility Agreement be approved by the Court. Given the Applicants' highly levered balance sheet, it is unlikely that they would be able to secure sufficient alternative interim financing in a timely manner; and

(iv) the Proposed Monitor has compared the principal financial terms of the DIP Facility, together with the existing secured debt obligations, to recent DIP financing packages within a similar loan limit range in other CCAA proceedings. Taking into consideration interest and fees pricing, loan availability and certain security considerations, the Proposed Monitor is of the view that, in the circumstances, the terms of the DIP Facility appear to be commercially reasonable.

60. In light of the foregoing, it is the Proposed Monitor's view that further time spent attempting to source alternative DIP financing would (i) not be in the interest of the Applicants and/or their stakeholders; (ii) not necessarily result in the finalization of DIP financing on more favourable terms; (iii) threaten the viability of the Plan Sponsor's support; and (iv) would severely, and potentially fatally, compromise the ability of the Applicants to continue operations and complete their restructuring plan.

61. The Proposed Monitor further believes that in the circumstances, the DIP Facility is in the best interests of the Applicants' stakeholders and will enhance the prospects of maximizing the value of Hematite for the benefit of all its stakeholders. The DIP Facility is projected by the Applicants to be sufficient to fund the costs of these proceedings. The Proposed Monitor believes the DIP Facility will afford the Applicants the opportunity to operate without disruption or depletion of enterprise value and allow for the formulation of a Plan which should maximize value for the creditors.

## **X. PROPOSED CHARGES**

62. The proposed Initial Order provides for certain charges (collectively, the "**Charges**"), on the current and future assets, undertakings and properties of the Applicants, including all proceeds thereof (the "**Property**").

### **Administration Charge**

63. The proposed Initial Order provides for a charge on the Property in the initial amount of \$250,000 charging the assets of the Applicants to secure the fees and disbursements incurred in connection with services rendered to the Applicants both before and after the commencement of the CCAA proceedings by the following entities: the Monitor, the Monitor's legal counsel, and legal counsel to the Applicants (the "**Administration Charge**").
64. The quantum of the Administration Charge sought by the Applicants was determined in consultation with the Proposed Monitor and is supported by Woodbridge in its capacities as DIP Lender and Plan Sponsor. The creation of the Administration Charge is typical in CCAA proceedings as is the proposed priority of the Administration Charge as set out in the form of proposed Initial Order filed with the Court.
65. The proposed Initial Order provides that the Administration Charge will rank in priority to the security interests of the DIP Lender, which the Proposed Monitor understands has consented to the Administration Charge. The Proposed Monitor further understands that an increase in the amount of the Administration Charge to \$500,000 will be requested in the Comeback Motion.

### **DIP Charge**

66. As noted earlier in this Report, the Applicants require funding immediately to continue operations and pursue their restructuring during the CCAA proceedings, as evidenced by the Cash Flow Forecast.

67. Also as noted above, it is a condition of the DIP Facility Agreement that the DIP Lender receives the benefit of a super-priority charge on the Property for advances made to the Applicants during the CCAA Proceedings, subordinate only to the Administration Charge (the “**DIP Lender’s Charge**”).
68. The DIP Facility Agreement provides the Applicants with access to the financing required to undertake their restructuring activities, including the formulation of a Plan. The Proposed Monitor recommends that the Court approve the DIP Facility Agreement, to be accessed by the Applicant, up to a maximum of the Interim DIP Facility pending the Comeback Motion and, as such, the Proposed Monitor also supports the granting of the DIP Lender’s Charge.

### **Directors’ Charge**

69. The proposed Initial Order provides for a charge in the maximum aggregate amount of \$300,000 to indemnify the current directors and officers of the Applicants (the “**Directors and Officers**”) against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of these CCAA proceedings (the “**Directors’ Charge**”) during the interim period prior to the granting of the Amended and Restated Initial Order. The Proposed Monitor understands that the Applicants intend to request an increase to the Directors’ Charge to a maximum aggregate amount of \$500,000 in the Comeback Motion.
70. The Directors and Officers shall only be entitled to the benefit of the Directors’ Charge to the extent that they do not have coverage under any directors’ and officers’ insurance policy, or to the extent such coverage is insufficient to pay an indemnified amount. As canvassed in the Nadeau Affidavit, the Proposed Monitor understands that the Applicants maintain little or no directors’ and officers’ liability insurance.
71. The amount of the Directors’ Charge was calculated taking into consideration sales taxes, employee payroll and related expenses (including source deductions) as well as other employment-related liabilities that attract potential liability for the Directors and Officers.
72. The Proposed Monitor has been informed (and as noted in the Nadeau Affidavit) that due to the potential for personal liability, the Directors and Officers are unwilling to continue their services and involvement in the CCAA Proceedings without the protection of the Directors’ Charge. As the Applicants will require the participation and experience of the Directors and Officers to facilitate the successful completion of the CCAA Proceedings, including participating in the formulation of a Plan,

the Proposed Monitor believes that the Directors' Charge (both the amount and the priority ranking) is required and reasonable in the circumstances.

### **Summary and Proposed Ranking of the Court-Ordered Charges**

73. It is contemplated that the priorities of the Charges sought by the Applicants will be as follows:

- (i) the Administration Charge;
- (ii) the DIP Lender's Charge; and
- (iii) the Directors' Charge.

Pending the Comeback Motion, it is not contemplated that any of the Charges will have priority over the encumbrances and interests set out in paragraph 37(a)-(d) of the proposed Initial Order.

## **XI. CHAPTER 15 PROCEEDINGS**

74. As noted in the Nadeau Affidavit, Hematite's operations are supported by certain of its subsidiaries and affiliates located in the United States. As described earlier in this report, certain of the Applicants' Property, operations, creditors and employees are based in the United States. Approximately 30-40% of the Applicants' revenues are derived from operations in the United States, and the majority of its revenues are to U.S.-based customers.

75. The proposed Initial Order contemplates that Hematite Holdings Inc. will be appointed as the foreign representative and authorized to seek recognition of these proceedings outside of Canada.

76. Accordingly, if the proposed Initial Order is granted, the Applicants intend to proceed as soon as possible with commencing proceedings under Chapter 15 of the US Code and will seek to have the CCAA proceedings recognized as a foreign main proceeding and the Initial Order enforced in the United States. This will include a request for an order granting provisional relief under Chapter 15 of the US Code and implementing a stay of proceedings in the United States to prevent any disruption to the Company's ability to carry on its business operations in the United States, pending further order of the court of competent jurisdiction in the United States.

77. The Proposed Monitor is of the view that protection in the United States is necessary to preserve the going concern value of Hematite's business and further agrees that the Chapter 15 proceedings should be commenced immediately. The Proposed Monitor has reviewed the circumstances, including facts

set out in the Nadeau Affidavit, and agrees with the affiant's conclusion that Canada is the centre of main interest for Hematite.

## **XII. THE PLAN SPONSOR AGREEMENT**

78. As noted earlier in this Report, Hematite Holdings and Woodbridge had been in discussions since August, 2020 regarding Woodbridge's involvement in the restructuring of Hematite's business.
79. On August 19, 2020, Hematite Holdings and Woodbridge entered into a letter of intent (the "LOI") summarizing the terms and conditions pursuant to which Woodbridge was prepared to sponsor Hematite's restructuring under a Court-supervised process which would result in Woodbridge or its affiliate acquiring the equity of the restructured business.
80. As noted earlier in this Report, Woodbridge (in such capacity, the "Plan Sponsor") and the Applicants negotiated and entered into the Plan Sponsor Agreement for the purpose of effecting the key terms of the LOI and the Plan. A copy of the Plan Sponsor Agreement is attached as **Exhibit "O"** to the Nadeau Affidavit.
81. The Plan Sponsor Agreement is conditional upon certain Orders being obtained by the following key dates, on terms satisfactory to the parties (all terms not otherwise defined herein are as defined in the Plan Sponsor Agreement):
- (i) September 18, 2020 – Initial Order (including the DIP Lender's Charge in Favour of the DIP Lender);
  - (ii) September 28, 2020 – Amended and Restated Initial Order (including the DIP Lender's Charge on the maximum DIP Facility);
  - (iii) October 9, 2020 – Claims Procedure Order;
  - (iv) November 13, 2020 – Plan Filing and Meeting Order;
  - (v) December 18, 2020 – Plan Sanction Order; and
  - (vi) such further Orders as may be required.
82. Other key terms of the Plan Sponsor Agreement include (the following is not an exhaustive list):

- (i) the conditions precedent to funding (or continuing to fund) by the Plan Sponsor include, among other things (in form satisfactory to the Plan Sponsor): (i) execution of definitive assignment or settlement agreements (or other arrangements) with TD and BDC respectively; (ii) receipt of customer support and consent agreements from key customers of the Applicants; (iii) a non-compete/non-solicit agreement on behalf of John Pavanel (principal), in favour of the Plan Sponsor and Hematite Holdings for a period of 5 years from the implementation of the Plan (the “**Closing**”); (iv) delivery of employment agreements of certain executive management and key employees, and; (v) Closing to occur no later than December 31, 2020 (the “**Outside Date**”);
- (ii) the Plan Sponsor agrees to, among other things:
  - provide the DIP Facility on terms satisfactory to the parties, with funds to be advanced according to the Cash Flow Forecast;
  - in consultation with the parties, provide the Applicants with sufficient funds to settle or acquire the claims of their secured lenders; and
  - provide the Applicants with sufficient cash to compromise the Applicants’ unsecured claims pursuant to the Plan, on terms satisfactory to the Plan Sponsor, in exchange for equity of the Applicants upon Closing, on an ‘as is, where is’ basis.
- (iii) the DIP Lender is to be an unaffected creditor in the CCAA Proceedings;
- (iv) exclusivity until Termination; and
- (v) a break fee of \$500,000 payable to the Plan Sponsor in the event that the Applicants enter into a transaction arising from an unsolicited Superior Proposal, representative of the Plan Sponsor’s out-of-pocket expenses and time spent in connection with the transaction contemplated by the Plan Sponsor Agreement.

### **XIII. COMEBACK MOTION**

85. Should the Court grant the proposed Initial Order, the Proposed Monitor understands that the Applicants intend to return to the Court on or before September 28, 2020 for the Comeback Motion seeking:

- (i) an extension of the stay of proceedings established by the Initial Order;

(ii) approval of the maximum amount under the DIP Facility; and

(iii) an expansion of the Initial Order to include the more fulsome restructuring provisions, as typically included in CCAA initial orders, including but not limited to increases to the Administration Charge and the Directors' Charge.

86. Subsequent to the granting of the Initial Order, KPMG (in its then capacity as Monitor) will report to the Court in connection with the Comeback Motion, as well as any other relief sought by the Applicants.

#### **XIV. PROPOSED MONITOR'S CONCLUSION AND RECOMMENDATIONS**

87. Without CCAA protection and access to interim financing, a shut-down of the Applicant's operations is inevitable, which would have an adverse impact on the Applicant's stakeholders, including employees and customers. The stay of proceedings and related relief granted under the CCAA will provide the Applicants with an opportunity to restructure their business and affairs for the benefit of their stakeholders.

88. Hematite is facing a liquidity crisis. According to the Nadeau Affidavit, it is without the realizable assets and funds required to meet its obligations as they become due, including employee obligations, trade debt, rent and other contractual commitments. In the circumstances, Hematite is seeking protection under the CCAA to afford itself the necessary breathing room to stabilize its business and pursue its restructuring. The CCAA proceeding would provide a forum to explore a plan of compromise or arrangement under the CCAA that would seek to maximize creditor and stakeholder recoveries.

89. The Proposed Monitor understands that Hematite and Woodbridge have invested significant time and effort to develop a framework in which Woodbridge is prepared to act as Plan Sponsor for a Plan to the Applicants' creditors, resulting in an equity purchase of Hematite's restructured business. Woodbridge is a known entity in the automotive industry and the Proposed Monitor understands that the Company's key customers are supportive of Woodbridge. In this regard, the Plan Sponsor Agreement provides a solid platform for the restructuring efforts of the Applicants.

90. For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable. The Proposed Monitor is also of the view that granting the relief requested will provide the Applicants the best opportunity to restructure under the CCAA, thereby preserving value for the benefit of the Applicants' stakeholders. As such, the

Proposed Monitor supports the Applicants' application for CCAA protection and respectfully recommends that the Court grant the relief sought by the Applicants in the Initial Order.

All of which is respectfully submitted this 17<sup>th</sup> day of September, 2020.

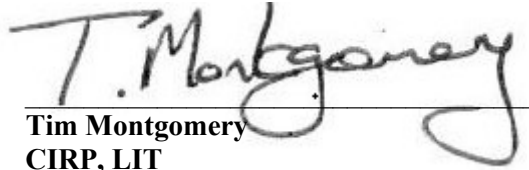
**KPMG Inc.**  
**In its capacity as Proposed Monitor of**  
**Hematite Group**  
**And not in its personal or corporate capacity**

Per:



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**Katherine Forbes**  
**CPA, CA, CIRP, LIT**  
Senior Vice President



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**Tim Montgomery**  
**CIRP, LIT**  
Vice President



**APPENDIX “A” – KPMG’S CONSENT TO ACT AS MONITOR**

Court File No.

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT, R.S.C., 1985 c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
HEMATITE HOLDINGS INC., HEMATITE MANUFACTURING INC.,  
HEMATITE INDUSTRIAL PRODUCTS INC., CANADIAN PAVACO INC.,  
PAVACO HOLDINGS U.S. INC., HEMATITE, INC. AND  
HEMATITE AUTOMOTIVE PRODUCTS INC.**

**Applicants**

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**CONSENT**

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**KPMG INC.** hereby consents to act as Monitor in respect of the above-captioned proceedings pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, if so appointed by this Honourable Court.

Dated at Toronto this 17<sup>th</sup> day of September 2020.

**KPMG INC.**

Per: \_\_\_\_\_

*Katherine Forbes*

Name: Katherine Forbes

Title: Senior Vice President

## **APPENDIX “B” – CASH FLOW FORECAST**



IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF HEMATITE HOLDINGS INC. ET AL.

Court File No:

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**REPORT OF THE PROPOSED MONITOR  
KPMG INC.**

**DATED SEPTEMBER 17, 2020**

**GOWLING WLG (CANADA) LLP**

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