

Court File No.: CV-22-00691990-00CL

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 DCL CORPORATION

SECOND REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

FEBRUARY 16, 2023

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1.0 INTRODUCTION

- 1.1 On December 20, 2022 (the “**Filing Date**” or “**Petition Date**”), DCL Corporation (“**DCL Canada**” or the “**Applicant**”) obtained an initial order (the “**Initial Order**”) from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings commenced thereby are referred to herein as the “**CCAA Proceedings**”. Among other things, the Initial Order appointed Alvarez & Marsal Canada Inc. as monitor in the CCAA Proceedings (in such capacity, the “**Monitor**”).
- 1.2 On December 29, 2022, the Applicant obtained an amended and restated Initial Order (the “**Amended and Restated Initial Order**”) that, among other things, approved the DIP Facility and the Final DIP Credit Agreement (each as defined in the First Report (as defined below)), and extended the Stay Period (as defined in the Amended and Restated Initial Order) until and including March 17, 2023.
- 1.3 DCL Canada is a subsidiary of its U.S. parent, H.I.G. Colors Inc. (“**Holdings**”), a direct wholly-owned subsidiary of the ultimate corporate parent, H.I.G. Colors Holdings, Inc. (“**HIG Colors Holdings**” and, together with Holdings and its direct and indirect subsidiaries, including the Applicant and its subsidiaries, the “**DCL Group**”).
- 1.4 The CCAA Proceedings were commenced as part of a larger coordinated restructuring of the DCL Group. On the Petition Date, HIG Colors Holdings and certain of its U.S.-based subsidiaries (collectively, “**DCL US**” or the “**Chapter 11 Debtors**”) ¹ each filed voluntary

¹ The Chapter 11 Debtors are: HIG Colors Holdings, Holdings, DCL Holdings (USA), Inc. (the “**US Borrower**”), DCL Corporation (USA) LLC (“**DCL USA LLC**”), DCL Corporation (BP), LLC, and Dominion Colour Corporation (USA).

petitions for relief under Chapter 11 of the U.S. Bankruptcy Code (the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Bankruptcy Court**”), and such proceedings, the “**Chapter 11 Proceedings**”, and together with the CCAA Proceedings, the “**Restructuring Proceedings**”). On December 22, 2022, the U.S. Bankruptcy Court granted a number of “first day orders” in the Chapter 11 Proceedings.

1.5 In connection with the CCAA Proceedings, Alvarez & Marsal Canada Inc. (“**A&M**”), in its capacity as proposed monitor, filed the Pre-Filing Report of the Proposed Monitor dated December 20, 2022 (the “**Pre-Filing Report**”). The Monitor has also provided the Court with the First Report of the Monitor dated December 27, 2022 (the “**First Report**”). The Pre-Filing Report, the First Report and other Court-filed documents in the CCAA Proceedings are available on the Monitor’s case website at: www.alvarezandmarsal.com/DCLCanada (the “**Case Website**”).² A copy of the First Report (without appendices) is also attached hereto as **Appendix “A”**.

1.6 The purpose of this second report of the Monitor (this “**Second Report**”) is to provide the Court with information and, where applicable, the Monitor’s views on:

- (i) the Applicant’s cash flow results for the six-week period ended January 27, 2023, together with an updated cash flow forecast;
- (ii) the Applicant’s request that the Court issue the proposed order (the “**Order**”), that, among other things, authorizes the execution by the Applicant of the Stalking Horse

² Materials filed in connection with the Chapter 11 Proceedings are available at: <https://cases.ra.kroll.com/DCL>

APA, *nunc pro tunc*, and approves the Final Bidding Procedures (each as defined below);

- (iii) counsel to the Monitor's review of the security granted by the Applicant in respect of the Prepetition Term Loan (as defined below);
- (iv) the activities of the Monitor since the date of the First Report (December 27, 2022);
and
- (v) the Monitor's conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Second Report, A&M, in its capacity as Monitor, has been provided with and has relied upon unaudited financial information and the books and records prepared by DCL Canada and the DCL Group (including information prepared by the Applicant's and the Chapter 11 Debtors' restructuring advisor, Ankura LLC ("**Ankura**")) and has held discussions with management, the chief restructuring officer (the "**CRO**"), Ankura and the DCL Group's Canadian and U.S. restructuring legal counsel (collectively, the "**Information**"). Except as otherwise described in this Second Report, in respect of DCL Canada's cash flow forecast:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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 Canadian Auditing Standards ("**CASs**") pursuant to the *Chartered Professional Accountants*

Canada Handbook (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

(ii) some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

2.2 Future oriented financial information referred to in this Second Report was prepared based on DCL Canada’s and the Chapter 11 Debtors’ estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 This Second Report should be read in conjunction with the affidavit of the CRO, Mr. Scott Davido, sworn February 15, 2023 (the “**Third Davido Affidavit**”) filed in support of the Applicant’s motion for relief under the CCAA. Capitalized terms used but not defined in this Second Report shall have the meanings given to such terms in the Third Davido Affidavit.

2.4 Unless otherwise stated, all monetary amounts contained in this Second Report are expressed in U.S. dollars (“**USD**”).

3.0 CASH FLOW RESULTS

DCL Group's Consolidated Cash Flow Results

- 3.1 As described in the First Report, the DIP Facility includes certain cash flow covenant tests that are tested against the DCL Group's consolidated cash flow results. One such test requires that aggregate sales receipts be at least 80% of the aggregate amount thereof in the applicable DIP Budget (as defined in the Final DIP Credit Agreement) for the applicable period. As described further in the Third Davido Affidavit, on a consolidated basis, the DCL Group faced certain challenges regarding the collection of third-party accounts receivable and, for certain of the periods ended January 20, 2023 through February 3, 2023, the DCL Group was unable to maintain such aggregate sale receipts of at least 80%, resulting in "Events of Default" arising under the DIP Facility.
- 3.2 The DCL Group has requested a waiver of such Events of Default from the DIP Agent and lenders under the DIP Facility, which is expected to be implemented by way of an amending agreement (the "**DIP Amendment**"). The DIP Amendment is anticipated to be finalized as part of the order approving the DIP Facility, on a final basis, in the Chapter 11 Proceedings, which is expected to occur at the Second Day Hearing (as defined below) scheduled to take place on February 21, 2023, together with other relief to be sought before the U.S. Bankruptcy Court relating to the Global Settlement (as defined and discussed below). If the DIP Amendment is finalized in its anticipated form, and subject to the Monitor's review thereof, the Monitor is prepared to provide the requisite consent, as required by the Amended and Restated Initial Order, to the Applicant's execution of the DIP Amendment.

3.3 While collections to date have been lower than forecast, the Monitor notes that lower than forecast disbursements have more than offset this negative variance. On a consolidated basis, through the period ended February 3, 2023, the DCL Group has experienced a positive net cash flow variance of approximately \$6.4 million compared to the DIP Budget.

DCL Canada’s Cash Flow Results

3.4 Actual receipts and disbursements for the six-week period from December 17, 2022, to January 27, 2023 (the “**Reporting Period**”), as compared to the “Updated Cash Flow Forecast” attached as Appendix “B” to the First Report, are summarized in the following table:

Cash Flow Variance Report			
USD \$000’s			
	Actual	Budget	Variance
Receipts			
Third-party collections	\$ 632	\$ 666	\$ (34)
Intercompany Transfers	1,330	6,557	(5,227)
	1,962	7,223	(5,261)
Disbursements			
Payroll & Benefits	(1,721)	(1,937)	216
Vendor Payments	(1,583)	(6,028)	4,445
Rent, Utilities, Insurance	(170)	(343)	173
Professional Fees	(1,466)	(1,407)	(59)
Freight, Duties & Other	(545)	(1,334)	789
DIP Interest & Fees	-	(32)	32
Total Disbursements	(5,485)	(11,081)	5,596
Net Cash Flow	(3,523)	(3,858)	335
Opening Cash Balance	2,018	326	1,692
Net Cash Flow	(3,523)	(3,858)	335
Revolving Facility draws	2,949	3,532	(583)
Ending Cash Balance	\$ 1,444	\$ -	\$ 1,444

3.5 During the Reporting Period:

- (i) the negative variance in Intercompany Transfers³ of approximately \$5.2 million was due primarily to the positive variance in disbursements, resulting in lower funding requirements for DCL Canada;
- (ii) the positive variance in total disbursements is primarily due to lower than forecast payments to vendors and for freight and duties, resulting from: (a) the scheduled shut down of DCL Canada's three operating facilities during the December holiday period, which was not contemplated in the forecast; (b) the delayed restart of the Ajax Plant (as defined below) due to an equipment malfunction and raw material inventory shortage; and (c) lower than expected manufacturing volume during January and February 2023, due to lower than forecast sales levels and raw material availability. The Monitor understands from DCL Canada's management that the majority of this positive variance is expected to be a permanent savings; and
- (iii) DCL Canada made, with the consent of the Monitor, pre-filing payments totalling approximately \$921,000 to third parties in respect of: (a) goods and services provided to the Applicant prior to the Filing Date; and (b) vendor payments made on behalf of DCL NL (as described in greater detail below). Each such payment

³ "Intercompany Transfers" are, as defined in the First Report, cash transfers made, on a regular basis, between DCL Canada, DCL US and their other affiliates, to fund operating disbursements and to settle open balances as among the parties. As further described in the First Report, Intercompany Transfers represent payments by DCL USA LLC to DCL Canada for: (a) Inventory Sales to DCL USA LLC; (b) the net provision of Shared Services; (c) payments to suppliers of the Applicant's Dutch subsidiary, DCL Corporation (NL) B.V. ("DCL NL"); and (d) any additional funding required to support the Applicant during the CCAA Proceedings to be made by way of Intercompany Loans (each as defined in the First Report), net of amounts transferred by DCL Canada to DCL USA LLC.

was made pursuant to and in accordance with the Amended and Restated Initial Order and with the consent of the Monitor.

- 3.6 As at January 27, 2023, DCL Canada's: (i) cash balance was approximately \$1.4 million; and (ii) direct borrowings were approximately \$2.9 million under the DIP Facility.
- 3.7 As at January 27, 2023, on a consolidated basis, the DCL Group's borrowings under: (i) the DIP Facility were approximately \$16.9 million; (ii) the Prepetition ABL Facility (as defined and described in the Pre-Filing Report) were approximately \$22.7 million;⁴ and (iii) the Prepetition Term Loan were approximately \$90.5 million. The obligations of, and security granted by, DCL Canada in respect of the Prepetition Term Loan are discussed in greater detail later in this Second Report.

Cash Management System

- 3.8 As described in the Pre-Filing Report and the initial affidavit of Scott Davido dated December 20, 2022 (the "**Initial Affidavit**"), DCL Canada was authorized pursuant to the Amended and Restated Initial Order to continue to utilize its existing Cash Management System. The Cash Management System continues to operate in substantially the same manner as it had prior to the commencement of the CCAA Proceedings, subject to certain amendments and modifications that DCL Canada has made to its Cash Management System, with the consent of the Monitor and the DIP Agent, which are more fully described in the Third Davido Affidavit. The Monitor understands that the Applicant and the DIP Agent are working on finalizing further amendments and modifications to the Cash

⁴ As discussed in the Pre-Filing Report, DCL Canada's obligations under the Prepetition ABL Facility were reduced to \$0 prior to the Filing Date.

Management System as described in the Third Davido Affidavit, and the Monitor will provide a further update to the Court, if necessary, at the relevant time.

Intercompany Agreements & Intercompany Account

- 3.9 As described in the Pre-Filing Report, DCL Canada, DCL USA LLC and DCL Canada's European subsidiaries, including DCL NL, formalized the Intercompany Agreements which provide for the continuation of ordinary course operating intercompany transactions during the Restructuring Proceedings. The Intercompany Agreements were approved by the Court pursuant to the Amended and Restated Initial Order.
- 3.10 As further described in the Third Davido Affidavit, the Intercompany Agreements were amended to address the fact that the agreements refer to the payment of only a single supplier of DCL NL by the Applicant (using funding provided by DCL USA LLC), and there are in fact two such suppliers of DCL NL that are paid by the Applicant. Pursuant to the Amended and Restated Initial Order, such minor amendments are permitted with the consent of the Monitor and the DIP Agent. The amendments to the Intercompany Agreements were executed on February 3, 2023, and such consent was provided.
- 3.11 During the Reporting Period, DCL Canada received approximately \$1.3 million from DCL USA LLC in Intercompany Transfers.
- 3.12 As recorded in the DCL Group's intercompany account (the "**Intercompany Account**"), these Intercompany Transfers, together with additional intercompany transactions, can be summarized as follows:

Preliminary Estimate of DCL Canada's Intercompany Account Cumulative Six-Week Period Ended January 27, 2023	USD \$000's
Opening Net Receivable / (Payable) Balance as at the Filing Date	\$ -
Add: Inventory Sales to DCL USA LLC	1,386
Add: Net Shared Services provided to DCL USA LLC	266
Add: Vendor Payments made on behalf of DCL NL	487
Less: Professional Fees paid by DCL USA LLC allocated to DCL Canada	(238)
Less: Intercompany Transfers from DCL USA LLC	(1,330)
Ending Net Receivable / (Payable) Balance as at January 27, 2023	\$ 571

3.13 As set out above, as at January 27, 2023, the Intercompany Account reflected a net receivable balance of approximately \$571,000.⁵

3.14 Given that, in the ordinary course, the Intercompany Account is reconciled on a monthly basis, the table above includes preliminary estimates of such balances and is subject to further review and retroactive adjustment. The Monitor will continue to monitor and report on the Intercompany Account during the CCAA Proceedings, including with respect to any reallocation of amounts outstanding under the DIP Facility as between DCL Canada and DCL US.

4.0 UPDATED CASH FLOW FORECAST

4.1 Following the Events of Default described above and pursuant to the Global Settlement, the DCL Group prepared an updated DIP Budget (the “**Amended DIP Budget**”) in connection with the requested DIP Amendment. One component of the Amended DIP Budget is an updated cash flow forecast for DCL Canada (the “**Updated Cash Flow Forecast**”) for the seven-week period from January 28, 2023, to March 17, 2023 (the

⁵ Pursuant to the Amended and Restated Initial Order, the Court granted DCL USA LLC a charge on DCL Canada's property (other than certain cash collateral with HSBC Bank Canada) as security for any intercompany loan (i.e., when DCL Canada is in a payable position) received by DCL Canada from DCL USA LLC. Similarly, within the Chapter 11 Proceedings, the Chapter 11 Debtors obtained the U.S. Bankruptcy Court's approval of a super-priority administrative claim, which is intended to provide DCL Canada with similar protections when DCL Canada is in a receivable position to any of the Chapter 11 Debtors during the Chapter 11 Proceedings.

“Cash Flow Period”). A copy of the Amended DIP Budget and the Updated Cash Flow Forecast, together with a summary of assumptions, is attached hereto as **Appendix “B”**. A summary of the Updated Cash Flow Forecast is set out in the following table:

Updated Cash Flow Forecast	USD\$000's
Receipts	
Third-party collections	\$ 403
Intercompany Transfers	4,430
	<u>4,833</u>
Disbursements	
Payroll & Benefits	(1,703)
Vendor Payments	(1,134)
Rent, Utilities, Insurance	(514)
Freight, Duties & Other	(1,077)
Professional Fees	(1,969)
DIP Interest & Fees	(35)
	<u>(6,432)</u>
Net Cash Flow	<u>(1,599)</u>
Cash balance, opening	1,444
Net Cash Flow	(1,599)
DIP Facility Draws	6,432
DIP Facility Repayment	(9,306)
Exit Financing / Sale Proceeds (placeholder) ⁶	3,029
Ending Cash Balance	<u>\$ --</u>

4.2 The Monitor notes the following with respect to the Updated Cash Flow Forecast:

- (i) the Cash Flow Period extends to March 17, 2023, the anticipated closing date under the Stalking Horse APA or alternative sale transaction;
- (ii) during the Cash Flow Period, net cash flows (excluding Intercompany Transfers and the “Exit Financing / Sale Proceeds” line item described below) are projected to be negative approximately \$6.0 million, which is projected to be sufficiently

⁶ See discussion note in Section 4.2(iii) herein.

funded by: (a) cash-on-hand; (b) further draws on the DIP Facility, with a peak outstanding amount of approximately \$2.3 million during the pendency of the CCAA Proceedings; and (c) Intercompany Transfers of approximately \$4.4 million; and

- (iii) the “Exit Financing / Sale Proceeds” of \$3.0 million is a placeholder balance only. As required by the DIP Agent, the DCL Group included this placeholder in the DIP Budget to reflect a hypothetical sale transaction closing on or before March 17, 2023, the proceeds of which would be used to repay obligations outstanding under the DIP Facility at that time. This placeholder amount is not indicative or representative of the total proceeds that may be generated by any actual sale transaction involving the DCL Group and the Applicant, nor does it contemplate a proper allocation of such proceeds as between DCL Canada and DCL US.

5.0 GLOBAL SETTLEMENT, STALKING HORSE APA AND BIDDING PROCEDURES

Global Settlement

- 5.1 In the Chapter 11 Proceedings, the DCL Group and its advisors have been in discussions and negotiations with the Official Committee of Unsecured Creditors (the “UCC”) and its advisors with respect to various issues raised by the UCC in connection with the proposed relief sought by DCL US at the Second Day Hearing. As further detailed in the Third Davido Affidavit, the efforts made to resolve these issues with the UCC on a consensual basis and to settle outstanding matters as between the Stalking Horse Bidder and the Sellers (each as defined below) have been successful and are reflected in: (i) amendments to the Original Stalking Horse APA (as defined below); (ii) amendments to the proposed form of

bidding procedures to be sought in connection with the Stalking Horse Sales Process (as defined below); (iii) amendments to the Final DIP Credit Agreement discussed above; and (iv) certain other relief sought by DCL US in the Chapter 11 Proceedings (collectively, the “**Global Settlement**”).

Stalking Horse APA

- 5.2 The objective of the Restructuring Proceedings is to stabilize and maintain the DCL Group’s business and to commence a court-supervised marketing process for the business and assets of the DCL Group (the “**Stalking Horse Sales Process**”).
- 5.3 The Monitor understands that the DCL Group views the entering into of a stalking horse agreement as beneficial to such marketing process and stabilizing to its business and for its employees. In furtherance of such objective, and as required pursuant to the DIP Facility, on December 22, 2022, HIG Colors Holdings and certain of its subsidiaries, including DCL Canada, as sellers (collectively, the “**Sellers**”), entered into an asset purchase agreement dated as of December 21, 2022 with Pigments Holdings, Inc. (an affiliate of the Term Loan Lenders (as defined below)), as purchaser (in its capacity as a stalking horse bidder, the “**Stalking Horse Bidder**”), to acquire substantially all of the Chapter 11 Debtors’ and the Applicant’s assets on the terms and conditions set forth therein (the “**Original Stalking Horse APA**”), as subsequently amended and restated on February 13, 2023 (the “**Stalking Horse APA**”).⁷ A copy of the Stalking Horse APA is attached as Exhibit “D” to the Third Davido Affidavit, and the Original Stalking Horse APA was included as an exhibit to the

⁷ The Original Stalking Horse APA was amended to: (i) reflect the Global Settlement; (ii) clarify the funding mechanics of the Designated Amount (as defined below); (iii) update disclosure schedules; and (iv) to address certain technical matters, as further detailed in the Third Davido Affidavit.

Second Davido Affidavit, which was served on the service list in the CCAA Proceedings on December 23, 2022.

- 5.4 Pursuant to the Order, the Applicant seeks, among other things, the Court's: (i) authorization to enter into the Stalking Horse APA, *nunc pro tunc*; and (ii) approval of the bid made by the Stalking Horse Bidder pursuant to the Stalking Horse APA as the stalking horse bid in the Final Bidding Procedures (the "**Stalking Horse Bid**").
- 5.5 Concurrently with the relief being sought by the Applicant in respect of the Stalking Horse Bid and the Final Bidding Procedures, the DCL Group is seeking approval of the Stalking Horse Bid, to act as the stalking horse bid in the Stalking Horse Sales Process, and the Final Bidding Procedures in the U.S. Bankruptcy Court at a hearing (the "**Second Day Hearing**") scheduled, as of the date of this Second Report, to be heard on February 21, 2023.
- 5.6 The Monitor's understanding of certain key terms of the Stalking Horse APA is summarized below:⁸
- (i) the estimated Purchase Price under the Stalking Horse APA is approximately \$166.2 million to \$170.9 million⁹, comprised of:
 - (a) a credit bid in the amount of \$45 million owing pursuant to the Prepetition Term Loan (the "**Credit Bid**"). The Stalking Horse Bidder may increase the

⁸ The summary is provided for convenience purposes only. Capitalized terms used in this Section 5, but not defined herein shall have the meanings ascribed to them in the Stalking Horse APA.

⁹ This estimated purchase price is based on the DCL Group's most recent financial statements and Amended DIP Budget and is for illustrative purposes only. The actual purchase price on closing may be materially different from the illustrative purchase price range included herein.

amount of the Credit Bid up to the full amount of the Prepetition Term Loan at least three business days prior to the Bid Deadline, or in connection with the Auction (each as defined below);

- (b) the cash amount of approximately \$47.4 million to \$48.1 million, sufficient to repay the DIP Facility and any outstanding Pre-Petition ABL Obligations, and to cash collateralize any outstanding letters of credit, financial assurances or Bank Products (each as defined in the Final DIP Credit Agreement);
- (c) the cash amount of up to \$2.75 million, required to fund the Required Amount¹⁰ to the extent there is insufficient cash on hand and availability under the DIP Facility on Closing; and
- (d) the assumption of the Assumed Liabilities, which is defined to include certain employee, real property lease, post-petition trade obligations and environmental obligations, as well as the Prepetition Term Loan obligations not subject to the Credit Bid, estimated to be approximately \$71 million to \$75 million (approximately \$45.5 million of which relates to the Prepetition Term Loan obligations not subject to the Credit Bid);

¹⁰ “Required Amount” is defined in the Stalking Horse APA as an amount equal to the Professional Fees and Expenses (as defined in the Stalking Horse APA), plus the Designated Amount, plus the CCAA Cash Pool (each as defined below). The Required Amount is to be funded first by the Sellers’ cash on hand and availability under the DIP Facility on Closing. In the event that such cash and availability is insufficient to fund the Designated Amount and the CCAA Cash Pool on Closing, the Stalking Horse Bidder is required to fund such amounts up to \$2.75 million as “Additional Cash Consideration”.

- (ii) the Stalking Horse Bidder will acquire substantially all of the assets and businesses of the Chapter 11 Debtors and the Applicant, including the equity interests of the Applicant's European subsidiaries. The Stalking Horse APA provides for the preservation of the DCL Group's business as a going concern and contemplates the assumption of substantially all of the employees of the Chapter 11 Debtors and the Applicant, other than the Applicant's operations and employees primarily employed at the Applicant's manufacturing facility located at 445 Finley Avenue (the "**Ajax Plant**" or the "**Designated Location**"). As further described in the Third Davido Affidavit, the Monitor understands that, at the time of this Second Report, the manufacturing operations at the Ajax Plant have been discontinued and the Ajax Plant has been placed in a safe and secure idled condition;¹¹
- (iii) Pigments Holdings, Inc. will act as the "stalking horse bidder" in connection with the Stalking Horse Sales Process;
- (iv) the Original Stalking Horse APA provided for (x) various options to the Stalking Horse Bidder in respect of its acquisition of the Designated Location and the operations conducted thereon, and (y) a corresponding amount that would have been made available to the Sellers, as a condition of Closing, to conduct an orderly wind-down of the Sellers after the Closing (the "**Designated Amount**"). The Stalking Horse APA clarifies that, while the Stalking Horse Bidder will acquire the Ajax Plant, the Stalking Horse Bidder will not continue any operations at same, and

¹¹ All remaining unionized employees and two salaried non-unionized employees primarily employed at the Ajax Plant have been temporarily laid off and the remaining 15 salaried employees have been temporarily redeployed to other DCL Canada facilities.

fixes the Designated Amount at \$2.0 million. The Monitor has worked with the Sellers and advisors to the Stalking Horse Bidder to review and assess the Designated Amount of \$2.0 million. In consultation with the Monitor, the Applicant and the Chapter 11 Debtors have determined the allocation of the Designated Amount between the Canadian and U.S. estates, and \$575,000 shall be delivered to the Monitor, on behalf of the DCL Canada (the “**Canadian Designated Amount**”), and \$1,425,000 shall be delivered to the US Sellers. Any excess funds remaining from the Canadian Designated Amount will be transferred to the CCAA Cash Pool;

- (v) the Stalking Horse APA also provides for an amount of \$750,000 to be delivered by the Sellers to the Monitor, to be held for the benefit of the Applicant’s estate, including any costs of administration of the CCAA Proceedings (the “**CCAA Cash Pool**”). As noted above, the CCAA Cash Pool will be increased by any remaining excess funds from the Canadian Designated Amount;
- (vi) as part of the Global Settlement, the Stalking Horse Bidder shall: (a) pay \$500,000, in cash, to a litigation trust for the benefit of certain unsecured creditors of DCL US to be specified in the trust documents establishing the trust (the “**Trust**”); and (b) assign to the Trust certain claims that DCL US may have against equity holders, insiders, sponsors and current and former officers and directors (the “**Representatives**”) of the US Sellers. Any similar claims that the Applicant may have against Representatives of the Applicant will be assigned to the Stalking Horse Bidder and then released;

- (vii) the Stalking Horse Bidder also has various rights to exclude certain assets and liabilities at prescribed times under the Stalking Horse APA. As an example, under the Stalking Horse APA, prior to the Closing Date, the Stalking Horse Bidder has rights to designate for assumption, or partial assumption, the Applicant's Canadian Pension Plans. The Monitor will provide a further update to the Court at the relevant time once the Stalking Horse Bidder has delivered to the Sellers any notices of such designations;
- (viii) the entry into the Stalking Horse APA is conditional upon, among other things, the Court and the U.S. Bankruptcy Court approving each of the Stalking Horse APA and the Final Bidding Procedures in the CCAA Proceedings and the Chapter 11 Proceedings, respectively, and includes termination rights in favour of the Stalking Horse Bidder, if: (a) the Exit Costs, which is defined as priority claims arising under section 503(b)(9) of the Bankruptcy Code, exceed \$2.9 million; (b) the amount necessary to conduct an orderly wind down of the Sellers exceeds the Designated Amount; and (c) the Select Assumed Liabilities, which is defined to include Cure Costs and certain assumed taxes, unpaid employee obligations, accrued and unpaid pension contribution amounts, and accrued and unpaid rent and utility services amounts, exceed \$6.5 million. The Monitor is reviewing the analysis prepared by the Sellers of their anticipated estimated Exit Costs and Select Assumed Liabilities and has been advised by the Sellers that the Sellers do not anticipate that these termination rights will be exercisable by the Stalking Horse Bidder;
- (ix) no allocation of the Stalking Horse Bidder's Purchase Price as among the U.S. and Canadian Purchased Assets is contained in the Stalking Horse APA. However, as

further described below, pursuant to the Final Bidding Procedures, the Stalking Horse Bidder or any other bidder can be required to allocate their respective purchase price as among the U.S. and Canadian purchased assets if the bidding exceeds the Chapter 11 Debtors' and the Applicant's pre-filing secured debt; and

- (x) the Stalking Horse APA does not include a termination or break fee, or an expense reimbursement, that would be payable if the Sellers closed an alternate transaction.

Bidding Procedures

- 5.7 As discussed in the First Report, in September 2022, certain entities within the DCL Group engaged TM Capital Corp. ("**TM Capital**") to act as their investment banker.
- 5.8 As part of the Stalking Horse Sales Process, the DCL Group and TM Capital have developed a bidding process designed to maximize the value of the assets and business of DCL US and DCL Canada through a competitive bidding and auction process (the "**Final Bidding Procedures**").
- 5.9 Pursuant to the Order, the Applicant seeks, among other things, the Court's: (i) approval of the Final Bidding Procedures in the CCAA Proceedings; and (ii) declaration that the Stalking Horse Bid is a "Qualified Bid" under the Final Bidding Procedures.
- 5.10 The Stalking Horse APA will act as the Stalking Horse Bid and will be subject to better and higher offers that may be received during the Stalking Horse Sales Process. Pursuant to the Final Bidding Procedures, the Chapter 11 Debtors and the Applicant will offer for sale their entire business (a "**Whole Company Bid**"), as well as consider other investment or other transactions, including non-overlapping bids from multiple bidders and non-overlapping bids submitted by the same bidder, for discrete or groups of assets or business

units, each on a standalone basis. Individual standalone bids will not be considered a Qualified Bid unless one or more complimentary standalone bids are also submitted, such that when combined, they provide for value in excess of the Bid Threshold (as defined below).

5.11 The Final Bidding Procedures are described in the Third Davido Affidavit and are attached to the proposed Order. Key terms and dates include the following:

- (i) all qualified bids (a “**Qualified Bid**”) must be received by no later than March 10, 2023 at 5:00 p.m. Eastern Time (the “**Bid Deadline**”);
- (ii) a Qualified Bid must meet certain criteria as specified in the Final Bidding Procedures, including but not limited to: (a) clearly state which assets and which liabilities and obligations the bidder is agreeing to assume; (b) clearly state the purchase price, identifying separately any cash and non-cash components (credit-bids and assumed liabilities) which, in the case of a Whole Company Bid, shall be no less than the Stalking Horse APA’s Purchase Price, plus the Minimum Overbid (as defined in the Final Bidding Procedures) amount of \$2.25 million (together, the “**Bid Threshold**”); (c) be an unconditional bid and may not be submitted on a basis that is conditioned on financing, internal approvals or further due diligence; (d) be irrevocable and accompanied by an executed asset purchase agreement and accompanying schedules, including a redline of changes made to the Stalking Horse APA; and (e) be accompanied by a cash deposit in the amount of 10% of the bidder’s purchase price;

- (iii) DCL US and DCL Canada, in consultation with the Consultation Parties (as defined in the Final Bidding Procedures), will determine which bids are Qualified Bids and notify each potential bidder by March 12, 2023 at 5:00 p.m. Eastern Time;
- (iv) if one or more Qualified Bids, in addition to the Stalking Horse Bid, are received by the Bid Deadline, DCL US and DCL Canada may conduct an auction on March 13, 2023 at 10:00 a.m. Eastern Time at the offices of King & Spalding LLP in New York (the “**Auction**”);
- (v) the Auction, if any, shall continue until DCL US and DCL Canada designate, in their reasonable business judgment, after consultation with the Consultation Parties, one or more bid(s) to be the highest or otherwise best bid(s) (each, a “**Successful Bid**”, and each such bidder, a “**Successful Bidder**”);
- (vi) if no Qualified Bids, other than the Stalking Horse Bid, are received by the Bid Deadline, the Auction will be cancelled, and the Stalking Horse APA will be designated as the Successful Bid;
- (vii) the Chapter 11 Debtors would then seek the approval of the Successful Bid from the U.S. Bankruptcy Court and the Applicant would then seek the approval of the Successful Bid from the Court, in each case, on March 16, 2023;
- (viii) the Monitor is included as a Consultation Party such that the Chapter 11 Debtors and the Applicant shall consult with the Monitor to the extent that they are making a determination or taking any action, or in connection with any other matter, related to the Final Bidding Procedures or at the Auction, if any. The process set forth in

the Final Bidding Procedures in respect of the Applicant and its assets shall be conducted under the oversight of the Monitor; and

- (ix) if an Auction is conducted, the bidder with the second-best bid (as determined by DCL US and DCL Canada, in consultation with the Consultation Parties) shall be required to serve as the Backup Bidder (as defined in the Final Bidding Procedures). If the Successful Bidder fails to consummate its transaction, DCL US and DCL Canada may select the Backup Bidder as the Successful Bidder.

5.12 The Monitor considered the following in assessing the Stalking Horse APA, the Stalking Horse Sales Process and the Final Bidding Procedures, and in supporting the relief sought by the Applicant pursuant to the Order in connection therewith:

- (i) the Monitor is of the view that the Stalking Horse Sales Process and the Final Bidding Procedures are commercially reasonable and have been designed to maximize value through a competitive bidding and potential auction process, and provide greater certainty of a going concern outcome for the business given the Stalking Horse APA should such process not produce a superior result;
- (ii) in the event that a bid is submitted that exceeds the aggregate amount of the Chapter 11 Debtors' and the Applicant's pre-filing secured debt, such bid shall, if requested by the Monitor, include a purchase price allocation as between the U.S. assets and the Canadian assets, such that the Applicant and the Monitor can consider any potential recoveries and/or the impact of the bid on the unsecured creditors of the Applicant;

- (iii) the Monitor is of the view that, at the conclusion of the Stalking Horse Sales Process, the Applicant's assets and business will have been adequately marketed, and potential bidders will have been provided with sufficient time to perform diligence and prepare and submit a Qualified Bid, given: (a) the Pre-Filing Marketing Process which commenced in September 2022 (as defined and described in Pre-Filing Report) and targeted a select group of parties that were identified by TM Capital and the DCL Group as the most likely acquirors of the DCL Group's business; and (b) the continuation and expansion of the sales process following the commencement of the Restructuring Proceedings on December 20, 2022, which included TM Capital contacting over 150 potential purchasers regarding the opportunity. In addition, the Monitor has discussed the Stalking Horse Sales Process with TM Capital, and the Monitor understands that TM Capital views the timelines in the Stalking Horse Sales Process as appropriate based on its interactions with potential bidders;
- (iv) as discussed above, the Second Day Hearing for approval of, among other things, the Final Bidding Procedures as part of the Chapter 11 Proceedings is scheduled to be heard by the U.S. Bankruptcy Court on February 21, 2023. The Monitor understands that no objections have been filed with the U.S. Bankruptcy Court in connection with the Second Day Hearing. As the Chapter 11 Debtors and the Applicant are seeking approval of the same Final Bidding Procedures, the Monitor has been advised by counsel to DCL Canada that any changes to the Final Bidding Procedures in the Chapter 11 Proceedings that are applicable to the Applicant,

including with respect to dates, will also be incorporated as part of the Final Bidding Procedures in the CCAA Proceedings; and

- (v) the Monitor does not believe the creditors of DCL Canada would be materially prejudiced by the Stalking Horse APA, the Stalking Horse Sales Process or the Final Bidding Procedures.

Security Review

- 5.13 As the Stalking Horse APA contemplates a Credit Bid of the term loan (the “**Prepetition Term Loan**”) incurred pursuant to that certain credit agreement dated as of April 6, 2018, among, the Applicant and certain other members of DCL Group, as borrowers, the Term Loan Agent (as defined below) and the lenders party thereto (the “**Term Loan Lenders**”) (as amended, the “**Prepetition Term Loan Credit Agreement**”), the Monitor requested that its counsel, Osler, Hoskin & Harcourt LLP (“**Osler**”), conduct an independent review of the security granted by the Applicant in respect of the Prepetition Term Loan.
- 5.14 As further described in the Initial Affidavit, pursuant to the fourth amendment to the Prepetition Term Loan Credit Agreement dated as of December 16, 2021 (the “**Fourth Amendment**”), Holdings was added as a borrower thereunder in order to facilitate an internal restructuring of the Prepetition Term Loan which, in essence, resulted in a transfer of \$67 million of the Prepetition Term Loan that was owed by the Applicant, prior to the amendment, to Holdings. The Monitor understands that the Fourth Amendment was entered into by Virtus Group, LP (as predecessor in interest to Delaware Trust Company), in its capacity as administrative agent and collateral agent under the Prepetition Term Loan

(the “**Term Loan Agent**”), at the request of the Applicant and its U.S. affiliates in order to achieve certain tax efficiencies.

5.15 Prior to the Fourth Amendment, the Monitor understands that the total principal amount of approximately \$78.5 million was owed by the Applicant in respect of the Prepetition Term Loan.

5.16 Following the Fourth Amendment, the Monitor understands that, as of March 31, 2022, the total principal amount due on the Prepetition Term Loan was approximately \$90.5 million, owing as follows:

- (i) approximately \$11.6 million owing by the Applicant;
- (ii) approximately \$11.9 million owing by the US Borrower (a U.S. entity); and
- (iii) approximately \$67 million owing by Holdings (a U.S. entity).

5.17 As security for the Prepetition Term Loan, at the time the Prepetition Term Loan was advanced, the Applicant granted to the Term Loan Agent, among other things: (i) a general security interest in all of its present and after acquired personal property, subject to customary exclusions, pursuant to the Canadian Security Agreement dated as of April 6, 2018; and (ii) a charge on the Applicant’s owned real properties municipally known as 435 and 445 Finley Avenue, Ajax, Ontario and 199 New Toronto St., Etobicoke, Ontario, pursuant to a Debenture dated June 6, 2018, and related real property charges (collectively, the “**Prepetition Term Loan Security Documents**”).

5.18 Osler has conducted a review of such security and has provided the Monitor with a written opinion that sets forth Osler’s view that, subject to the qualifications, assumptions,

limitations and discussions set forth therein, the security granted by the Applicant to the Term Loan Agent in respect of the Prepetition Term Loan pursuant to the Prepetition Term Loan Security Documents constitutes valid and enforceable security, securing the obligations of the Applicant and Holdings, in each case, as against the Applicant in the Province of Ontario in accordance with such security's respective terms,¹² and that the necessary registrations have been made in the Province of Ontario in order to perfect or evidence such security. A copy of Osler's opinion shall be made available by the Monitor to any interested party upon request.

6.0 ACTIVITIES OF THE MONITOR SINCE THE DATE OF THE FIRST REPORT

6.1 Since the date of the First Report, the activities of the Monitor have included the following:

- (i) engaging in discussions with the DCL Group and its legal counsel and financial advisors regarding the Restructuring Proceedings;
- (ii) attending regular update calls with TM Capital regarding the Stalking Horse Sales Process;
- (iii) assisting the Applicant with the completion of the Stalking Horse APA and the Final Bidding Procedures;
- (iv) assisting the DCL Group with the review and calculation of the Designated Amount;

¹² The opinion assumes the enforceability of documents and their interpretation in instances where the governing law of the applicable credit document is not the Province of Ontario.

- (v) assisting the Applicant with arranging for an appraisal and other assessments of the Designated Location;
- (vi) assisting DCL Canada with communications to employees, suppliers, including critical suppliers, and other parties;
- (vii) monitoring receipts, disbursements, purchase commitments and the Intercompany Account, including the review of payments made;
- (viii) responding to inquiries from stakeholders, including addressing questions or concerns of parties who contacted the Monitor on the hotline number or email account established by the Monitor for the CCAA Proceedings;
- (ix) posting non-confidential materials filed with the Court to the Case Website; and
- (x) with the assistance of its legal counsel, preparing this Second Report.

7.0 CONCLUSIONS AND RECOMMENDATIONS

- 7.1 For the reasons set out in this Second Report, the Monitor is of the view that the relief requested by the Applicant is reasonable in the circumstances and respectfully recommends that the Court grant the Order.

All of which is respectfully submitted to this Court this 16th day of February, 2023.

**ALVAREZ & MARSAL CANADA INC.,
solely in its capacity as Monitor of
DCL Corporation and not in its personal or corporate capacity**

Per: 

Josh Nevsky
Senior Vice-President

Per: 

Stephen Ferguson
Senior Vice-President

APPENDIX “A”

**FIRST REPORT OF THE MONITOR
DATED DECEMBER 27, 2022
(without appendices)**

Court File No.: CV-22-00691990-00CL

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 DCL CORPORATION

FIRST REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

DECEMBER 27, 2022

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APPENDICES

Appendix “A” – Pre-Filing Report (without appendices)

Appendix “B” – Updated Cash Flow Forecast

1.0 INTRODUCTION

- 1.1 On December 20, 2022 (the “**Filing Date**” or “**Petition Date**”), DCL Corporation (“**DCL Canada**” or the “**Applicant**”) obtained an initial order (the “**Initial Order**”) from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings commenced thereby are referred to herein as the “**CCAA Proceedings**”.
- 1.2 DCL Canada is a subsidiary of its U.S. parent, H.I.G. Colors Inc. (“**Colors**”), a direct wholly-owned subsidiary of the ultimate corporate parent, H.I.G. Colors Holdings, Inc. (“**Holdings**” and, together with Colors and its direct and indirect subsidiaries, including the Applicant and its subsidiaries, the “**DCL Group**”).
- 1.3 The CCAA Proceedings were commenced as part of a larger coordinated restructuring of the DCL Group. On the Petition Date, Holdings and certain of its U.S.-based subsidiaries (collectively, “**DCL US**” or the “**Chapter 11 Debtors**”) ¹ each filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code (the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Bankruptcy Court**”, and such proceedings, the “**Chapter 11 Proceedings**”, and together with the CCAA Proceedings, the “**Restructuring Proceedings**”). On December 22, 2022, the U.S. Bankruptcy Court granted a number of “first day orders” in the Chapter 11 Proceedings.
- 1.4 Alvarez & Marsal Canada Inc. (“**A&M**”), in its capacity as proposed monitor, filed the Pre-Filing Report of the Proposed Monitor dated December 20, 2022 (the “**Pre-Filing**”).

¹ The Chapter 11 Debtors are: Holdings, Colors, DCL Holdings (USA), Inc., DCL Corporation (USA) LLC (“**DCL USA LLC**”), DCL Corporation (BP), LLC, and Dominion Colour Corporation (USA).

Report”). The Pre-Filing Report and other Court-filed documents in the CCAA Proceedings are available on the Monitor’s case website at: www.alvarezandmarsal.com/DCLCanada (the “**Case Website**”).² A copy of the Pre-Filing Report (without appendices) is also attached hereto as **Appendix “A”**.

1.5 The Initial Order, among other things:

- (i) appointed A&M as monitor of the Applicant (in such capacity, the “**Monitor**”);
- (ii) granted a stay of proceedings in respect of the Applicant until and including December 30, 2022 (the “**Stay Period**”) and extended the stay of proceedings to include the DCL USA LLC Inventory (as defined in the Pre-Filing Report) which is situated in Canada; and
- (iii) granted the Administration Charge, the DIP Charge and the Directors’ Charge (each as defined in the Initial Order).

1.6 The purpose of this first report (this “**First Report**”) is to provide the Court with information, and where applicable, the Monitor’s views, on:

- (i) updates regarding the CCAA Proceedings since the granting of the Initial Order, including with respect to the Stalking Horse APA and the Final DIP Credit Agreement (each as defined below);
- (ii) the Applicant’s updated cash flow forecast;

² Materials filed in connection with the Chapter 11 Proceedings are available at: <https://cases.ra.kroll.com/DCL>

- (iii) the relief sought by the Applicant pursuant to the proposed amended and restated Initial Order (the “**Amended and Restated Initial Order**”), including with respect to:
 - (a) approving the Final DIP Credit Agreement;
 - (b) approving the Intercompany Agreements and granting the Intercompany Charge (each as defined below), and sealing the unredacted copies of the Intercompany Agreements attached to the Second Davido Affidavit (as defined below);
 - (c) authorizing the Applicant to make certain pre-filing payments to Critical Suppliers (as defined below);
 - (d) approving the Applicant’s engagement of TM Capital Corp. (“**TM Capital**”) as investment banker;
 - (e) extending the Stay Period until and including March 17, 2023; and
 - (f) increasing the quantum of the Administration Charge, the DIP Charge and the Directors’ Charge, and extending the DIP Charge over the DCL USA LLC Inventory;
- (iv) the activities of the Monitor since the Filing Date; and
- (v) the Monitor’s conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this First Report, A&M, in its capacity as Monitor, has been provided with and has relied upon unaudited financial information and the books and records prepared by DCL Canada and the DCL Group (including information prepared by the Applicant's and the Chapter 11 Debtors' chief restructuring officer ("CRO") and restructuring advisor, Ankura LLC ("Ankura")) and has held discussions with management, the CRO, Ankura and the DCL Group's Canadian and U.S. restructuring legal counsel (collectively, the "Information"). Except as otherwise described in this First Report, in respect of DCL Canada's cash flow forecast:

- (i) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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 Canadian Auditing Standards ("CASs") pursuant to the *Chartered Professional Accountants Canada Handbook* (the "CPA Handbook") and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- (ii) some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

2.2 Future oriented financial information referred to in this First Report was prepared based on DCL Canada's and the Chapter 11 Debtors' estimates and assumptions. Readers are

cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 This First Report should be read in conjunction with the affidavit of Mr. Scott Davido, sworn December 20, 2022 (the “**Initial Davido Affidavit**”) and the affidavit of Mr. Scott Davido, sworn December 23, 2022 (the “**Second Davido Affidavit**”), each filed in support of the Applicant’s application for relief under the CCAA. Capitalized terms used but not defined in this First Report shall have the meanings given to such terms in the Initial Davido Affidavit and the Second Davido Affidavit, as applicable.

2.4 Unless otherwise stated, all monetary amounts contained in this First Report are expressed in U.S. dollars (“**USD**”).

3.0 UPDATES SINCE THE INITIAL ORDER

Stalking Horse APA

3.1 The objective of the Restructuring Proceedings is to stabilize and maintain the DCL Group’s business and to commence a court-supervised marketing process for the business and assets of the DCL Group. The Monitor understands that the DCL Group views the entering into of a stalking horse agreement as beneficial to such marketing process and stabilizing to its business and for its employees. In furtherance thereof, and as required pursuant to the DIP Facility (as defined below), on December 21, 2022, the Chapter 11 Debtors and the Applicant, as sellers (the “**Sellers**”), and a nominee of the term loan lenders to DCL Canada and DCL US (the “**Term Loan Lenders**”), as purchaser (the “**Purchaser**”), entered into an asset purchase agreement (the “**Stalking Horse APA**”),

which is intended to serve as the “stalking horse” agreement in the process contemplated by the revised bidding procedures filed by DCL US in the Chapter 11 Proceedings (the “**Revised Bidding Procedures**”).

3.2 The Stalking Horse APA and the Revised Bidding Procedures remain subject to approval of the Court and the U.S. Bankruptcy Court in the Restructuring Proceedings. Copies of the Stalking Horse APA and the Revised Bidding Procedures are attached as Exhibit “E” and “F”, respectively, to the Second Davido Affidavit. The Monitor understands that the Applicant intends to return to Court for additional relief, including the approval of the Stalking Horse APA, as a stalking horse agreement, and the granting of an order approving the Revised Bidding Procedures (the “**Bidding Procedures Order**”), in mid-January 2023. The Monitor will file a report with the Court in advance of such hearing setting forth its views on the terms of the Stalking Horse APA and the Revised Bidding Procedures.

3.3 Although the Monitor is in the process of reviewing the terms of the Stalking Horse APA, the Monitor notes that the Stalking Horse APA contemplates, among other things:

- (i) the potential acquisition of substantially all of the assets of DCL US and DCL Canada for consideration that includes, in part, a “credit bid” of a portion of the prepetition term loan held by the Term Loan Lenders and the repayment in full of the obligations outstanding under the DIP Facility and the ABL Credit Facility; and
- (ii) various wind-down reserve amounts, the applicability of which will depend on the locations and assets that may be designated by the Purchaser as excluded from the sale transaction, if any. The Monitor notes that the Stalking Horse APA provides the Sellers with the ability, in consultation with the Monitor, to review and adjust

such wind-down reserve amounts; provided that, the Purchaser may elect to terminate the Stalking Horse APA within the ten-day period that follows receipt of any such adjustment notice from the Sellers. The Monitor intends to work with the Sellers to review and finalize the wind-down reserve amounts in the Stalking Horse APA.

DIP Facility

- 3.4 On December 22, 2022, the Applicant and DCL US also finalized and executed the final senior secured, super-priority debtor-in-possession credit agreement (the “**Final DIP Credit Agreement**”, and the facility provided thereunder, the “**DIP Facility**”).^{3,4}
- 3.5 Pursuant to the Amended and Restated Initial Order, the Applicant seeks approval of the Final DIP Credit Agreement.
- 3.6 The revisions reflected in the Final DIP Credit Agreement are described in the Second Davido Affidavit and primarily address matters relating to the execution of the Stalking Horse APA. In addition, the Final DIP Credit Agreement adjusted the DIP Milestones, which establish the key milestone dates for the Restructuring Proceedings. The revised DIP Milestones can be summarized as follows:

³ This Section of this First Report should be read in conjunction with the discussion of the DIP Facility included in Section 6 of the Pre-Filing Report. The Monitor reviewed a substantially final form draft of the credit agreement in preparing the Pre-Filing Report, but such form was prepared prior to the execution of the Stalking Horse APA.

⁴ The Monitor notes that the Applicant’s European subsidiaries also entered into the Final DIP Credit Agreement as guarantors; however, DCL NL’s signature page to the Final DIP Credit Agreement appears to have been inadvertently omitted from the compiled Final DIP Credit Agreement attached to the Second Davido Affidavit.

DIP Milestones ⁵	<ul style="list-style-type: none">• On or before February 7, 2023, each Bankruptcy Court shall have entered one or more orders, each in form and substance acceptable to Agent, approving the DIP Asset Purchase Agreement and the Bidding Procedures Order and providing, among other things, that qualifying bids shall be due by no later than March 10, 2023.• On or before March 9, 2023, the Loan Parties shall have filed a motion (the “Canadian Sale Motion”) seeking approval of the Sale Transaction and entry of the Sale Order, pursuant to and in accordance with the CCAA, which Canadian Sale Motion (including all deadlines contained therein) shall be satisfactory to Agent.• On or before March 14, 2023, Loan Parties shall have commenced the auction (if there is more than one qualifying bid) for the Sale Transaction, and, in accordance with the Bidding Procedures Order applicable thereto, shall have selected the winning bid(s) for the Sale Transaction at the conclusion of such auction.• On or before March 16, 2023, each Bankruptcy Court shall have entered the Sale Order with respect to the results of the auction, and with the proceeds to be applied to the obligations under the DIP ABL Credit Facility sufficient to repay such obligations in full in cash.• On or before March 17, 2023, Loan Parties shall have consummated the Sale Transaction, pursuant to the DIP Asset Purchase Agreement entered into among Loan Parties and the winning bidder(s) at the auction.• On or before March 17, 2023, the Loan Parties shall make Payment in Full (as defined in the Final US Financing Order) of all Obligations under the DIP ABL Credit Facility and the Pre-Petition ABL Credit Facility (to the extent still outstanding). <p><i>The above is a summary and not a comprehensive list</i></p>
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3.7 Further to the discussion in the Pre-Filing Report, the Monitor continues to be of the view that the revised DIP Milestones, which the Monitor understands have been brought forward due to the execution of the Stalking Horse APA, are on balance reasonable in the circumstances. The Monitor intends to work with the Applicant and the DIP Agent to ensure that proper service of materials for the Canadian sale approval hearing is made and, if necessary, will provide a further update to the Court at the relevant time.

⁵ Capitalized terms used in this table but not otherwise defined have the meaning attributed to them in the Final DIP Credit Agreement.

3.8 Accordingly, the Monitor supports the Applicant’s request for approval of the Final DIP Credit Agreement.

4.0 UPDATED CASH FLOW FORECAST

4.1 After entering into the Stalking Horse APA and revising the DIP Milestones, DCL Canada prepared an updated cash flow forecast (the “**Updated Cash Flow Forecast**”) for the 13-week period from December 17, 2022 to March 17, 2023 (the “**Cash Flow Period**”). A copy of the Updated Cash Flow Forecast, together with a summary of assumptions, is attached hereto as **Appendix “B”**. A summary of the Updated Cash Flow Forecast is set out in the following table:

Updated Cash Flow Forecast	USD\$000’s
Receipts	
Third-party Collections	957
Intercompany Transfers	17,369
	<u>18,326</u>
Disbursements	
Payroll & Benefits	(3,909)
Vendor Payments	(12,745)
Rent, Utilities, Insurance	(768)
Freight, Duties & Other	(2,944)
Professional Fees	(2,666)
DIP Interest & Fees	(49)
Other	(163)
KEIP	(40)
	<u>(23,284)</u>
Net Cash Flow	<u>(4,958)</u>
Cash Balance, Opening	326
Net Cash Flow	(4,958)
DIP Facility Draws	6,544
DIP Facility Repayment	(6,544)
Exit Financing / Sale Proceeds (placeholder) ⁶	4,632
Ending Cash Balance	<u>--</u>

⁶ See discussion note in Section 4.2(iii) herein.

4.2 The Monitor notes the following with respect to the Updated Cash Flow Forecast:

- (i) as further described in the Pre-Filing Report, the Intercompany Transfers of \$17.4 million are forecast payments made by DCL USA LLC to DCL Canada for: (a) Inventory Sales to DCL USA LLC; (b) the net provision of Shared Services; (c) amounts owing by DCL Canada's Dutch subsidiary, DCL NL, to a single supplier, which amounts are paid by DCL Canada but funded by DCL USA LLC; and (d) for any additional funding required to support the Applicant during the CCAA Proceedings to be made by way of Intercompany Loans (each as defined in the Pre-Filing Report). As described in greater detail below, it is proposed that amounts advanced as Intercompany Loans will be provided the benefit of the Intercompany Charge in the CCAA Proceedings;
- (ii) during the Cash Flow Period, net cash flows (excluding Intercompany Transfers and the "Exit Financing / Sale Proceeds" line item described below) are projected to be negative approximately \$22.3 million, which is projected to be sufficiently funded by: (a) cash-on-hand; (b) draws on the DIP Facility, with a peak outstanding amount of approximately \$3.5 million during the pendency of the CCAA Proceedings; and (c) Intercompany Transfers of approximately \$17.4 million; and
- (iii) the "Exit Financing / Sale Proceeds" line item of approximately \$4.6 million is a placeholder balance only. As required by the DIP Agent, the DCL Group included this placeholder in the DIP Budget to reflect a hypothetical sale transaction closing on or before March 17, 2023, the proceeds of which would be used to repay obligations outstanding under the DIP Facility at that time. This placeholder

amount is not indicative or representative of the total proceeds that may be generated by any actual sale transaction involving the DCL Group (including the Applicant), nor does it contemplate a proper allocation of such proceeds as between DCL Canada and DCL US.

5.0 AMENDED AND RESTATED INITIAL ORDER

Intercompany Agreements

- 5.1 A comprehensive overview of the ordinary course intercompany transactions that occur within the DCL Group was included in the Pre-Filing Report. As described therein, a requirement of the DIP Facility was for DCL Canada and DCL USA LLC to formalize certain intercompany arrangements pursuant to two intercompany agreements, being the US/Canada intercompany agreement between the Applicant and DCL USA LLC and the European intercompany agreement between the Applicant, DCL USA LLC and the European subsidiaries, DCL UK and DCL NL (collectively, the “**Intercompany Agreements**”). The Intercompany Agreements provide for the Operating Intercompany Transactions (as defined and described in the Pre-Filing Report) to continue in the normal course during the Restructuring Proceedings.
- 5.2 As part of the Amended and Restated Initial Order, in connection with these intercompany arrangements, the Applicant is seeking the approval of the Court to enter into the Intercompany Agreements and the granting of the Intercompany Charge (discussed in greater detail below). In addition, the Applicant is seeking the granting of a limited sealing order to protect certain pricing information included in the Intercompany Agreements. The

Monitor supports the granting of such relief as reasonable in the circumstances given the commercially sensitive nature of such pricing information to the Applicant.

Pre-Filing Payments to Critical Suppliers

- 5.3 DCL Canada intends to pay for goods and services supplied as contemplated in the Updated Cash Flow Forecast. As part of the Amended and Restated Initial Order, DCL Canada is requesting the Court's authorization to, with the consent of the Monitor, pay certain critical suppliers (the "**Critical Suppliers**") for goods or services supplied to DCL Canada prior to the Filing Date if, in the opinion of the Applicant, following consultation with the Monitor, such payment is necessary to maintain the uninterrupted operations of the Applicant's business on trade terms that are satisfactory to the Applicant.
- 5.4 The Monitor considered the following to assess the reasonableness of the above requested relief:
- (i) the intended outcome of these CCAA Proceedings is to complete the sale transaction contemplated by the Stalking Horse APA, or a similar transaction that may result from the process to be conducted pursuant to the Revised Bidding Procedures. As such, to minimize disruption to the Applicant's business, which could potentially impact a going concern outcome, the Monitor is of the view that the payment of certain pre-filing amounts is reasonable in the circumstances;
 - (ii) the DIP Budget (including the Updated Cash Flow Forecast), as approved by the DIP Agent, provides for the payment of certain pre-filing payments to Critical Suppliers; and

- (iii) the Monitor's consent will be required before any such proposed payment may be made.

Engagement of TM Capital

- 5.5 Colors has engaged TM Capital for itself and other members of the DCL Group to act as investment banker and sale advisor pursuant to an engagement letter dated September 6, 2022 (the "**TM Capital Engagement Letter**"). As described in the Pre-Filing Report, TM Capital was assisting the DCL Group with the Pre-Filing Sale Process and will now be continuing those marketing efforts in connection with the process contemplated by the Revised Bidding Procedures.
- 5.6 The TM Capital Engagement Letter was described in the Initial Davido Affidavit and was attached thereto as Exhibit "M". As described in the Initial Davido Affidavit, the fees associated with the engagement of TM Capital are comprised of monthly retainer payments and a transaction fee to be calculated based on a percentage of total consideration.
- 5.7 Pursuant to the Amended and Restated Initial Order, the Applicant is seeking the approval of the TM Capital Engagement Letter, including that the Applicant be authorized and directed to pay its pro-rata share of the fees and expenses therein, including the monthly retainer payments and any transaction fees, as such amounts are determined in consultation with the Monitor. The Monitor understands that TM Capital's fees will be paid by DCL USA LLC, and with an appropriate allocation of such fees to DCL Canada, with such allocation to be made in consultation with the Monitor. The Monitor is of the view that the fees provided for in the TM Capital Engagement Letter are reasonable in the circumstances given, among other things, the fees and expenses found in similar engagements on

comparable cross-border restructuring transactions and that the Applicant will only be responsible for its pro-rata share of such fees.

Extension of the Stay Period

5.8 Pursuant to the Initial Order, the Stay Period is set to expire on December 30, 2022. The Applicant is seeking an extension of the Stay Period until and including March 17, 2023.

5.9 The Monitor supports the Applicant's motion to extend the Stay Period for the following reasons:

- (i) it will provide the Applicant with the stability to continue to operate in the ordinary course;
- (ii) the Applicant is projected to have sufficient liquidity through to the end of the proposed extended Stay Period; and
- (iii) the Applicant continues to act in good faith and with due diligence.

6.0 COURT-ORDERED CHARGES

6.1 The Initial Order granted the Administration Charge, the DIP Charge and the Directors' Charge over the Applicant's property and assets (the "**Property**") (other than certain excluded collateral as set out below) (collectively, the "**Charges**").

6.2 As described in the Pre-Filing Report, DCL Canada advised at the time of the CCAA application that it intended to seek increases to certain Charges at the comeback hearing as each Charge under the Initial Order was limited to the extent reasonably necessary for the initial 10-day Stay Period.

Administration Charge

- 6.3 The Initial Order provides for the Administration Charge over the Property (other than the cash collateral held by HSBC Bank Canada (the “**HSBC Cash Collateral**”)) in an amount not to exceed \$175,000 in favour of the Monitor, counsel to the Monitor and Canadian counsel to DCL Canada. The Applicant is seeking to increase the Administration Charge to \$1.1 million.
- 6.4 The Monitor assisted the Applicant in the calculation of the Administration Charge and is of the view that the increased amount of the charge is reasonable and appropriate in the circumstances, having regard to the nature of the proceedings, potential work involved at peak times, and the size of charges approved in similar CCAA proceedings.

DIP Charge

- 6.5 The Initial Order provides for the DIP Charge over the Property (other than the Excluded Collateral⁷) as security for the outstanding obligations of the Applicant under the DIP Facility, in an amount not to exceed \$4 million.
- 6.6 In the Amended and Restated Initial Order, the Applicant is seeking: (i) to allow the DIP Charge to increase to the full amount of any obligations of the DCL Group under the DIP Facility; and (ii) to extend the DIP Charge over the DCL USA LLC Inventory to secure the obligations of DCL USA LLC under the DIP Facility.⁸ The Monitor understands that, pursuant to the interim order entered by the U.S. Bankruptcy Court on December 22, 2022 (the “**US Interim DIP Order**”), which, among other things, approved the DIP Facility in

⁷ As described in the Initial Davido Affidavit, Excluded Collateral is comprised of (i) the real property of the Applicant; (ii) the HSBC Cash Collateral; and (iii) the De Lage Landen Collateral.

⁸ As at November 30, 2022, the value of the DCL USA LLC Inventory was approximately \$17.9 million.

the Chapter 11 Proceedings on an interim basis, the U.S. Bankruptcy Court requested that the Court provide aid and assistance in extending the charge in favour of the DIP Agent over the DCL USA LLC Inventory located in Canada to secure the obligations of DCL USA LLC under the DIP Facility.⁹ A copy of the US Interim DIP Order is attached as Exhibit “C” to the Second Davido Affidavit.

- 6.7 The Monitor is of the view that the Applicant’s request is appropriate and reasonable in the circumstances.

Directors’ Charge

- 6.8 The Initial Order provides that DCL Canada will indemnify its directors and officers against obligations and liabilities that they may incur in their capacity as directors and officers of the Applicant from the commencement of the CCAA Proceedings, except to the extent that any obligation or liability was incurred as a result of gross negligence or wilful misconduct. The Initial Order provides for the Directors’ Charge over the Property (other than the HSBC Cash Collateral), in the amount of CAD\$1 million, in favour of the Applicant’s directors and officers for that indemnity. The Applicant is seeking to increase the Directors’ Charge to CAD\$1.7 million.
- 6.9 DCL Canada’s directors and officers will only be entitled to the benefit of the Directors’ Charge to the extent they do not have coverage under DCL Canada’s directors’ and officers’ insurance policy or to the extent such coverage is insufficient to pay any indemnified amounts.

⁹ See paragraph 5.17 of the US Interim DIP Order.

6.10 The Monitor assisted the Applicant in the calculation of the proposed increase in the Directors' Charge, taking into consideration the amount of the Applicant's payroll, vacation pay, statutory employee obligations and sales tax liabilities. The primary components of the proposed CAD\$1.7 million charge are approximately: (i) CAD\$600,000 for employee salary and wages, taking into consideration the Applicant's payroll cycles; (ii) CAD\$300,000 for accrued vacation pay; (iii) CAD\$700,000 for ongoing sales tax remittance obligations; and (iv) CAD\$100,000 for other statutory employee obligations. The Monitor is of the view that the increased amount of the Directors' Charge is appropriate and reasonable in the circumstances.

Intercompany Charge

6.11 As described in the Pre-Filing Report, the Applicant is seeking a Court-ordered charge over the Property (other than the HSBC Cash Collateral) (the "**Intercompany Charge**") in favour of DCL USA LLC in the aggregate amount of any Intercompany Loan.

6.12 In the Monitor's view, the Intercompany Charge is required and reasonable in the circumstances, given the intention of the DCL Group to continue ordinary course Operating Intercompany Transactions during the Restructuring Proceedings and the anticipated need for DCL USA LLC to provide funding to DCL Canada during the pendency of the CCAA Proceedings.

6.13 The Monitor also understands that, pursuant to the US Interim DIP Order, to the extent the Applicant has an intercompany claim against any Chapter 11 Debtor on account of money, goods or services provided by the Applicant to such Chapter 11 Debtor after the Petition Date, such intercompany claim shall be entitled to an administrative expense priority under

the Bankruptcy Code in the Chapter 11 Proceedings (the “U.S. Administrative Claim”).¹⁰ The U.S. Administrative Claim is intended to provide the Applicant with additional protection in event that amounts are owing by the Chapter 11 Debtors to the Applicant relating to the Inventory Sales or the provision of net Shared Services.

Priority of Charges

6.14 The priorities of the Charges, the ABL Pre-Filing Security and the Term Loan Security on the ABL Priority Collateral, as between them, are proposed to be as follows:

Proposed Charges & Priorities		
1. Administration Charge		\$1.1 million
2. DIP Charge		<i>as described above</i>
3. ABL Pre-Filing Security	<i>as described in the Pre-Filing Report</i>	
4. Term Loan Security	<i>as described in the Pre-Filing Report</i>	
5. Intercompany Charge (if any)		<i>as described above</i>
6. Directors' Charge		CAD\$1.7 million

6.15 The priorities of the Charges, the ABL Pre-Filing Security and the Term Loan Security on the Term Loan Priority Collateral, as between them, are proposed to be as follows:

Proposed Charges & Priorities		
1. Administration Charge		\$1.1 million
2. Term Loan Security	<i>as described in the Pre-Filing Report</i>	
3. DIP Charge		<i>as described above</i>
4. ABL Pre-Filing Security	<i>as described in the Pre-Filing Report</i>	
5. Intercompany Charge (if any)		<i>as described above</i>
6. Directors' Charge		CAD\$1.7 million

¹⁰ See paragraph 2.6(b) of the US Interim DIP Order.

7.0 ACTIVITIES OF THE MONITOR SINCE THE FILING DATE

7.1 Since the Filing Date, the activities of the Monitor have included the following:

- (i) engaging in discussions with the DCL Group and its legal counsel and financial advisors regarding the Restructuring Proceedings and the Stalking Horse APA;
- (ii) assisting DCL Canada with communications to employees, suppliers, Critical Suppliers, and other parties;
- (iii) assisting DCL Canada in implementing an appropriate accounting cut-off to ensure proper determination of pre- and post-filing obligations and liabilities;
- (iv) activating the Case Website and coordinating the uploading of Court-filed documents thereon;
- (v) completing and coordinating the noticing requirements pursuant to paragraph 44 of the Initial Order, including:
 - (a) arranging for publication of notice of the CCAA Proceedings, in the prescribed form, in *The Globe and Mail (National Edition)* on December 30, 2022 and January 3, 2023;
 - (b) posting the Initial Order to the Case Website on December 20, 2022; and
 - (c) arranging for notices of the CCAA Proceedings to all known creditors having a claim against the Applicant of more than CAD\$1,000;

- (vi) activating the Monitor's toll-free number and email account for the CCAA Proceedings, and responding to creditor and other inquiries received through those contact points;
- (vii) completing the statutory filings pursuant to Section 23 of the CCAA, including filing the requisite forms (Form 1 and Form 2) with the Office of the Superintendent of Bankruptcy (Canada); and
- (viii) with the assistance of its legal counsel, preparing this First Report.

8.0 CONCLUSIONS AND RECOMMENDATIONS

8.1 For the reasons set out in this First Report, the Monitor respectfully recommends that the Court grant the Amended and Restated Initial Order containing the relief requested by the Applicant.

All of which is respectfully submitted to this Court this 27th day of December, 2022.

**ALVAREZ & MARSAL CANADA INC.,
solely in its capacity as Monitor of
DCL Corporation and not in its personal or corporate capacity**

Per: 

Josh Nevsky
Senior Vice-President

Per: 

Stephen Ferguson
Senior Vice-President

APPENDIX "B"

**AMENDED DIP BUDGET
UPDATED CASH FLOW FORECAST**

Consolidated DIP Budget																	
#	Week Number Detail	Actual	Actual	Actual	Actual	Actual	Actual	1	2	3	4	5	6	7	Actual	Forecast	
		12/17 12/23	12/24 12/30	12/31 1/6	1/7 1/13	1/14 1/20	1/21 1/27	1/28 2/3	2/4 2/10	2/11 2/17	2/18 2/24	2/25 3/3	3/4 3/10	3/11 3/17	6-week Total	7-Week Total	13-week Total
1. Receipts:																	
2.	Sales Receipts	6,311	5,123	4,338	4,217	4,879	4,366	4,356	4,585	4,649	4,657	4,478	4,582	4,573	29,234	31,879	61,113
3.	Inventory Drawdown	-	-	-	-	-	-	-	-	-	250	250	-	-	-	500	500
4.	HST Rebates	-	-	-	-	-	-	-	819	-	-	270	-	-	-	1,089	1,089
5.	Other	-	2	0	58	-	2	930	-	-	-	-	-	-	61	930	991
6.	Exit Financing / Sale Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	47,692	-	47,692	47,692
7.	Total Receipts	6,311	5,125	4,338	4,275	4,879	4,367	5,286	5,404	4,649	4,907	4,998	4,582	52,265	29,295	82,090	111,385
8. North America Operating Disbursements																	
9.	Payroll & Benefits	(776)	(856)	(494)	(935)	(498)	(1,025)	(330)	(1,028)	(330)	(1,231)	(263)	(961)	(263)	(4,584)	(4,406)	(8,990)
10.	Pre-Petition Payables	(247)	-	(667)	(619)	(955)	(1,542)	(1,505)	(1,505)	(1,505)	(534)	(55)	-	-	(4,029)	(5,103)	(9,132)
11.	Vendor Payments	-	(329)	(669)	(1,237)	(894)	(323)	(1,225)	(1,225)	(1,125)	(1,125)	(1,125)	(1,125)	(1,125)	(3,451)	(8,075)	(11,526)
12.	Utilities	-	-	(19)	(25)	(2)	-	(56)	(161)	(148)	(104)	(110)	(161)	(148)	(47)	(889)	(936)
13.	Rent	-	-	(41)	(7)	(1)	(26)	(296)	(1,559)	-	-	(673)	(400)	(231)	(76)	(3,159)	(3,235)
14.	Insurance	-	-	-	(98)	-	-	(90)	(300)	-	(87)	(3)	-	-	(98)	(479)	(577)
15.	Freight, Duties & Other	(118)	(116)	(669)	(334)	(350)	(803)	(629)	(1,017)	(568)	(876)	(623)	(1,028)	(618)	(2,391)	(5,360)	(7,751)
16.	Capex	-	-	-	(76)	-	(33)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(109)	(347)	(456)
17.	Total NA Operating Disbursements	(1,142)	(1,301)	(2,558)	(3,331)	(2,700)	(3,753)	(4,180)	(6,844)	(3,725)	(4,007)	(2,901)	(3,725)	(2,435)	(14,785)	(27,818)	(42,603)
18.	International Op. Disbursements	(1,207)	(1,090)	(566)	(605)	(1,491)	(1,239)	(1,729)	(1,401)	(1,208)	(1,287)	(1,777)	(839)	(769)	(6,199)	(9,011)	(15,209)
19.	Total Operating Disbursements	(2,349)	(2,391)	(3,124)	(3,936)	(4,191)	(4,992)	(5,910)	(8,245)	(4,934)	(5,294)	(4,678)	(4,564)	(3,204)	(20,984)	(36,828)	(57,812)
20. Non-Operating Disbursements																	
21.	Professional Fees	-	-	(270)	(2,974)	(263)	(778)	(1,430)	(2,643)	(992)	(457)	(746)	(1,404)	(787)	(4,286)	(8,459)	(12,745)
22.	DIP Interest Payment / Fees	-	-	(314)	-	-	-	(264)	-	-	-	(298)	-	-	(314)	(562)	(876)
23.	Adequate Protection	-	-	-	-	-	(1,265)	(316)	(316)	(316)	(316)	(316)	(316)	(316)	(1,265)	(2,214)	(3,478)
24.	Other Non-Operating Outflows	-	-	-	-	-	-	(900)	-	-	-	-	-	-	-	(900)	(900)
25.	UST Fees	-	-	-	-	-	-	(75)	-	-	-	-	-	(500)	-	(575)	(575)
26.	Total Non-Op. Disbursements	-	-	(584)	(2,974)	(263)	(2,043)	(2,011)	(3,935)	(1,308)	(774)	(1,360)	(1,721)	(1,603)	(5,864)	(12,710)	(18,575)
27.	Net Cash Flow	3,962	2,734	630	(2,636)	425	(2,668)	(2,635)	(6,776)	(1,593)	(1,160)	(1,040)	(1,702)	47,458	2,447	32,551	34,998
28. Cash Roll forward:																	
29.	Beginning Balance	6,870	6,355	7,462	9,341	6,778	7,754	7,103	-	-	-	-	-	-	6,870	7,103	6,870
30.	(+) Inflows	6,311	5,125	4,338	4,275	4,879	4,367	5,286	5,404	4,649	4,907	4,998	4,582	52,265	29,295	82,090	111,385
31.	(-) Disbursements	(2,349)	(2,391)	(3,708)	(6,911)	(4,454)	(7,036)	(7,920)	(12,180)	(6,242)	(6,067)	(6,038)	(6,285)	(4,807)	(26,848)	(49,539)	(76,387)
32.	(+/-) ABL Draws / (Sweeps)	(4,893)	(1,348)	1,350	110	497	2,004	(4,468)	6,776	1,593	1,160	1,040	1,702	(47,458)	(2,279)	(39,654)	(41,933)
33.	(+/-) Other/FX	415	(278)	(101)	(37)	54	12	-	-	-	-	-	-	-	65	-	65
34.	Ending Balance	6,355	7,462	9,341	6,778	7,754	7,103	-	7,103	0	0						
35. Revolver Summary:																	
36.	Beginning Balance	41,933	37,040	35,692	37,042	37,152	37,649	39,654	35,186	41,962	43,555	44,715	45,755	47,458	41,933	39,654	41,933
37.	(+) Draw	1,300	-	2,731	5,620	2,948	4,342	7,920	12,180	6,242	6,067	6,038	6,285	4,807	16,941	49,539	66,479
38.	(-) Paydown	(6,193)	(1,348)	(1,381)	(5,510)	(2,450)	(2,338)	(12,388)	(5,404)	(4,649)	(4,907)	(4,998)	(4,582)	(52,265)	(19,220)	(89,193)	(108,412)
39.	Ending Balance	37,040	35,692	37,042	37,152	37,649	39,654	35,186	41,962	43,555	44,715	45,755	47,458	-	39,654	-	-
40.	Maximum Available	55,000	55,000	55,000													
41.	(-) Existing reserves	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	-	-	-
42.	(-) LOC	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(900)	-	-	-
43.	Maximum Available, net of reserves	53,800	53,800	53,800													
44.	Eligible Collateral	53,778	49,215	48,994	51,030	50,487	50,736	51,003	50,718	50,379	50,033	49,937	49,880	49,832	-	-	-
45.	(-) Carve Out	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(1,500)	(500)	-	-	-	-
46.	(-) Administrative Charge	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	(1,100)	-	-	-
47.	(-) Inventory Adjustment	-	-	-	-	-	-	(160)	(160)	(160)	(160)	(160)	(160)	(160)	-	-	-
48.	Eligible Collateral, net of reserves	50,178	45,615	45,394	47,430	46,887	47,136	47,243	46,958	46,619	46,273	47,177	48,120	49,832	-	-	-
49.	ABL Availability	50,178	45,615	45,394	47,430	46,887	47,136	47,243	46,958	46,619	46,273	47,177	48,120	49,832	-	-	-
50.	Less: Loan Balance	37,040	35,692	37,042	37,152	37,649	39,654	35,186	41,962	43,555	44,715	45,755	47,458	-	-	-	-
51.	Excess Availability (excl. Cash)	13,138	9,923	8,352	10,278	9,237	7,482	12,057	4,996	3,064	1,558	1,421	662	49,832	-	-	-

DCL Corporation

Updated Cash Flow Forecast

(Unaudited, \$ in 000s US Dollars)

Canada DIP Budget

Week Number		1	2	3	4	5	6	7	Forecast
Detail	Notes	1/28 2/3	2/4 2/10	2/11 2/17	2/18 2/24	2/25 3/3	3/4 3/10	3/11 3/17	7-Week Total
Receipts:									
Sales Receipts	1	66	56	62	61	68	50	40	403
Intercompany Transfers	2	299	1,182	641	712	573	1,023	-	4,430
Exit Financing / Sale Proceeds	3	-	-	-	-	-	-	3,029	3,029
Total Receipts		365	1,238	703	773	641	1,073	3,070	7,862
Canada Operating Disbursements									
Payroll & Benefits	4	(134)	(479)	(134)	(412)	(67)	(412)	(67)	(1,703)
Vendor Payments	5	(257)	(257)	(257)	(131)	(82)	(75)	(75)	(1,134)
Utilities	6	(53)	(57)	(44)	-	(53)	(57)	(44)	(310)
Rent	7	(15)	-	-	-	(15)	-	-	(30)
Insurance	8	(87)	-	-	(87)	-	-	-	(174)
Freight, Duties & Other	9	(60)	(181)	(76)	(143)	(159)	(281)	(176)	(1,077)
Canada Operating Disbursements		(607)	(974)	(511)	(773)	(377)	(825)	(362)	(4,428)
Non-Operating Disbursements									
Professional Fees	10	(649)	(264)	(193)	-	(249)	(248)	(367)	(1,969)
DIP Interest Payment / Fees	11	(19)	-	-	-	(16)	-	-	(35)
Total - Non-Op. Disbursements		(668)	(264)	(193)	-	(264)	(248)	(367)	(2,003)
Net Cash Flow		(910)	-	(0)	-	-	-	2,341	1,431
Cash Roll forward:									
Beginning Balance		1,444	-	0	(0)	(0)	(0)	0	1,444
(+) Inflows		365	1,238	703	773	641	1,073	3,070	7,862
(-) Disbursements		(1,274)	(1,238)	(703)	(773)	(641)	(1,073)	(729)	(6,432)
(+/-) ABL Draws / (Sweeps)		(534)	-	-	-	-	-	(2,341)	(2,874)
(+/-) Other/FX		-	-	-	-	-	-	-	-
Ending Balance		-	0	(0)	(0)	(0)	0	-	0
DIP Facility Summary:									
Beginning Balance		2,874	2,341	2,341	2,341	2,341	2,341	2,341	2,874
(+) Draw		1,274	1,238	703	773	641	1,073	729	6,432
(-) Paydown		(1,808)	(1,238)	(703)	(773)	(641)	(1,073)	(3,070)	(9,306)
Ending Balance		2,341	2,341	2,341	2,341	2,341	2,341	-	-

Updated Cash Flow Forecast Assumptions

DCL Corporation Updated Cash Flow Forecast for the period ending March 17, 2023

Disclaimer

In preparing this cash flow forecast (the "Forecast"), DCL Corporation (the "Applicant" or "DCL Canada") has relied upon unaudited financial information and has not attempted to further verify the accuracy or completeness of such information. The Forecast includes assumptions discussed below with respect to the requirements and impact of a filing under the Companies' Creditors Arrangement Act ("CCAA"). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved will vary from the Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

The Forecast is presented in thousands of U.S. dollars. Receipts and disbursements denominated in Canadian currency have been converted into U.S. dollars at an exchange rate of US\$1.00:C\$0.74.

Notes

1) Sales Receipts

Sales Receipts are forecast based on Monteith's accounts receivable during the period, adjusted for certain collection timing assumptions.

2) Intercompany Transfers

Intercompany Transfers includes inflows from DCL USA LLC, either: (a) as payment for Inventory Sales to DCL USA LLC or for the provision of Shared Services; or (b) as additional funding to support DCL Canada by way of Intercompany Loans.

3) Exit Financing / Sale Proceeds

Exit Financing / Sale Proceeds of \$3.0 million is a placeholder balance only. At the requirement of the DIP Lender, the DCL Group included this placeholder in the DIP Budget to reflect a hypothetical sale transaction and that such proceeds would be used to repay obligations outstanding under the DIP Facility at that time. This placeholder is not representative of any actual sale transaction, nor does it contemplate a proper allocation of valuation between DCL Canada and DCL US.

4) Payroll & Benefits

Payroll and Benefits are forecast based on current manufacturing run-rates and include salaries, wages and benefits.

5) Vendor Payments

Vendor Payments include trade, non-trade, and maintenance vendors, forecast based on purchasing requirements, adjusted for certain timing assumptions.

6) Utilities

Utilities forecast based on current manufacturing run rates, adjusted for certain timing assumptions.

7) Rent

Rent includes disbursements for the DCL Head Office and the Mississauga Plant.

8) Insurance

Insurance includes the Applicant's monthly premium payments.

9) Freight, Duties & Other

Freight, Duties and Other include disbursements for freight, customs and excise duties, commissions related to Monteith and other fixed overhead expenses.

10) Professional Fees

Disbursements include the Applicant's Canadian counsel, the Monitor and its legal counsel, the DIP Lenders' Canadian counsel and financial advisor, and the Term Loan Lenders' Canadian counsel.

11) DIP Interest Payment / Fees

DIP Interest Payments are forecast based on projected drawings under the DIP Facility by the Applicant only.

**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
DCL CORPORATION**

Court File No.: CV-22-00691990-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**
Proceeding commenced at Toronto

SECOND REPORT OF THE MONITOR

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