

COURT FILE NUMBER

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COURT

COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

APPLICANT 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 COLLISION KINGS GROUP INC., CMD
HOLDINGS INC., EAST LAKE COLLISION LTD., MAYLAND
HEIGHTS COLLISION LTD., SUNRIDGE COLLISION LTD.,
ARROW AUTO BODY LTD., CMD GLASS LTD., ROYAL VISTA
COLLISION LTD., STATHKO INVESTMENTS LTD., 219931
ALBERTA LTD., COLLISION KINGS 3 LTD., NICK'S REPAIR
SERVICE LTD., 10026923 MANITOBA LTD. and BUNZY'S AUTO
BODY LTD.

DOCUMENT

FIRST REPORT OF FTI CONSULTING CANADA INC., IN ITS
CAPACITY AS MONITOR OF COLLISION KINGS GROUP INC.,
CMD HOLDINGS INC., EAST LAKE COLLISION LTD.,
MAYLAND HEIGHTS COLLISION LTD., SUNRIDGE
COLLISION LTD., ARROW AUTO BODY LTD., CMD GLASS
LTD., ROYAL VISTA COLLISION LTD., STATHKO
INVESTMENTS LTD., 219931 ALBERTA LTD., COLLISION
KINGS 3 LTD., NICK'S REPAIR SERVICE LTD., 10026923
MANITOBA LTD. and BUNZY'S AUTO BODY LTD.

February 9, 2024

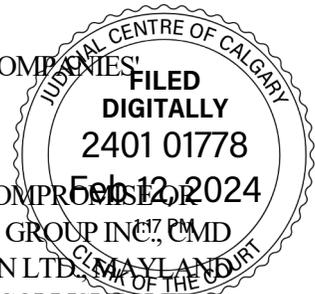
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FIRST REPORT OF THE MONITOR

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INTRODUCTION

1. On February 7, 2024, Collision Kings Group Inc. (“**CKGI**”), CMD Holdings Inc. (“**CMD Holdings**”), East Lake Collision Ltd. (“**East Lake**”), Mayland Heights Collision Ltd. (“**Mayland Heights**”), Sunridge Collision Ltd. (“**Sunridge**”), Arrow Auto Body Ltd. (“**Arrow**”), CMD Glass Ltd. (“**CMD Glass**”), Royal Vista Collision Ltd. (“**Royal Vista**”), Stathko Investments Ltd. (“**Stathko Investments**”), 2199931 Alberta Ltd. (“**219 Alberta**”), Collision Kings 3 Ltd. (“**CK3L**”), Nick’s Repair Service Ltd. (“**Nick’s Repair**”), 10026923 Manitoba Ltd. (“**100 Manitoba**”) and Bunzy’s Auto Body Ltd. (“**Bunzy’s**”) (collectively, the “**Applicants**” or the “**Collision Kings Group**”) were granted an initial order (the “**Initial Order**”) to commence proceedings (the “**CCAA Proceedings**”) under the Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”).

2. The Initial Order granted, among other things, the following relief:
 - a. a stay of proceedings (the “**Stay of Proceedings**”) in favour of the Applicants until February 17, 2024;

 - b. appointed FTI Consulting Canada Inc. as Monitor (the “**Monitor**”) in the CCAA Proceedings;

 - c. approved the procedures for a sales and investment solicitation process (the “**SISP**”). The SISP included a stalking horse purchase agreement (the “**Stalking Horse APA**”) dated January 31, 2024 between the Applicants and Lift Auto Group Operating Corporation (“**Lift**”); and

- d. granted certain court priority charges for individuals identified as critical to the operations and success of these CCAA Proceedings (collectively, the “**CCAA Charges**”).
3. On February 6, 2024, the Applicants filed a notice of application returnable on February 14, 2024, for the following orders:
 - a. an amended and restated Initial Order (the “**ARIO**”) which will provide for:
 - i. a declaration that certain essential suppliers as critical suppliers in accordance with section 11.4 of the CCAA;
 - ii. an increase in the amounts of certain of the CCAA Charges as granted in the Initial Order and granting a fourth-ranking charge against the Applicants’ property for a retention and incentive plan (“**RIP**”);
 - iii. an extension of the Stay of Proceedings until and including March 29, 2024 (the “**Stay Extension**”); and
 - iv. a declaration that pursuant to section 5(5) of the Wage Earner Protection Program Act, S.C. 2005, c. 47, s.1 (“**WEPPA**”) that the Applicants and their former employees meet the criteria established by section 3.2 of the Wage Earner Protection Program Regulations, SOR/2008-222 (the “**WEPP Regulations**”) as of the date of the granting of the Stay Extension and WEPPA Order; and
 - b. a sale approval and vesting order (the “**SAVO**”) approving the Stalking Horse APA and authorizing the Applicants to enter into the transaction contemplated therein,

in the event the Stalking Horse APA is determined to be the Successful Bidder (as defined below).

PURPOSE

4. The purpose of this report (this “**Report**” or the “**First Report**”) is to provide the Court and the Applicants’ stakeholders with information and the Monitor’s comments with respect to the following:
 - a. a summary of the Monitor’s initial activities subsequent to the date of the Initial Order and the Pre-Filing Report;
 - b. the Applicants’ application for and relief requested in the ARIO and the SAVO;
and
 - c. the Monitor’s conclusions and recommendations.

TERMS OF REFERENCE

5. In preparing this report, the Monitor has relied upon certain information (the “**Information**”) including Applicants unaudited financial information, books and records and discussions with senior management of the Collision Kings Group (“**Management**”).
6. Except as described in this report, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.

7. The Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
8. Future oriented financial information reported to be relied on in preparing this report is based on Management's assumptions regarding future events. Actual results may vary from forecast and such variations may be material.
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

INITIAL ACTIVITIES OF THE MONITOR

10. The Monitor's activities since the date of the Pre-Filing Report have included the following:
 - a. ongoing discussions with Management and the Collision Kings Group's legal counsel, MLT Aikins LLP, regarding the Applicants' business and financial affairs;
 - b. retaining Cassels Brock & Blackwell LLP to act as independent legal counsel to the Monitor;
 - c. preparing and issuing notices required under the CCAA and Initial Order including:
 - i. issuing the notices to creditors referenced in paragraph 48 of the Initial Order and posting the notice on the Monitor's website;
 - ii. publishing a notice to creditors in the National Post which will run on February 13 and 20;;

- iii. issuing Form 1 and 2 notices to the Office of the Superintendent of Bankruptcy in the prescribed form as required under section 23(1)(f) of the CCAA;
- d. preparing various documents in preparation of the launch of the SISP on or before February 10, 2024. The documents which the Monitor, in consultation with Management, have been preparing include, but are not limited to:
 - i. a list of interested parties based on the sale and solicitation process run by the Applicants prior to these CCAA Proceedings and other strategic and financial parties known to the Monitor and the Applicants and found through market research;
 - ii. preparing and uploading financial and operational information to the virtual data room; and
 - iii. preparing a solicitation process letter summarizing the opportunity;
- e. reviewing various cash flow statements and financial projections prepared by Management;
- f. attending to a number of telephone and email inquiries from the Applicants' creditors, suppliers and stakeholders; and
- g. preparing this Report.

CRITICAL SUPPLIER

11. The Applicants' are seeking a declaration that Axalta Coating Systems, LLC ("Axalta") is a critical supplier pursuant to Section 11.4 of the CCAA. In the Monitor's view, Axalta

meets the criteria under Section 11.4(1) as it is a supplier of goods to the Company, which are critical to the Applicants' continued operations. In particular, Axalta supplies the Applicants with paint and related supplies and is the only company who can supply the goods for the paint booths installed in the Applicants' auto body shops as each paint booth is designed to work only with the products provided by Axalta.

12. The Monitor is supportive of the Applicants' application for a declaration that Axalta is a critical supplier for the following reasons:
 - a. Axalta is critical for the successful, ongoing operations of the Applicants, without whom the Applicants would be extremely burdened to find a replacement paint provided and to retrofit their existing paint booth infrastructure to accommodate this new supplier;
 - b. Axalta would not be prejudiced as long as they have the option to request reasonable payment terms including cash up front for delivering post-filing goods and services; and
 - c. the Stalking Horse APA includes significant going-concern provisions which would be jeopardized by any interruptions in the Applicants' ability to source paint and related supplies during these CCAA Proceedings.

RETENTION AND INCENTIVE PLAN

13. The Collision Kings Group is seeking the Court's approval of a key employee retention and incentive plan comprised of a base incentive of \$425,000 (the "**Base RIP**") for certain of the Collision Kings Group's management (the "**RIP Employees**"). In addition to the Base RIP additional compensation is contemplated to be paid in the event proceeds from

the SISP and other recoveries exceed a prescribed threshold (the “**Additional RIP**” and collectively, with the Base RIP the “**RIP**”).

14. In particular, the Additional RIP will provide aggregate compensation to the RIP Employees equal to 4% of the gross proceeds in excess of \$10 million, after all adjustments, resulting from the SISP as well as any other recoveries of the Applicants assets, including but not limited to, collection of accounts receivable, sale of inventory and equipment.
15. The Monitor has reviewed the RIP and is of the view that its terms are reasonable based on the following:
 - a. the Stalking Horse APA includes significant going-concern provisions and the RIP Employees are integral in maintaining operations to a level which will satisfy these provisions;
 - b. the Monitor has reviewed the RIP Employee list and is satisfied that the list is appropriate and not unduly broad;
 - c. the SISP does not consider the engagement of a third party selling agent as the RIP Employees have intimate knowledge of the key players in the auto body repair marketplace and other potentially interested parties who will be approached for solicitations of interest during the SISP. Therefore the cost of having to hire an external sale advisor is being saved;
 - d. the quantum of the RIP is similar to what would typically be paid to a third party selling agent based on the Monitor’s experience in situations comparable to these CCAA Proceedings;

- e. the RIP Employees took salary reductions prior to and during these CCAA Proceedings and have agreed to continue to provide services through these CCAA Proceedings at a reduced salary in order to assist with the Collision Kings Group's liquidity restraints;
- f. the RIP will reduce the possibility of interruptions to operations, will provide stability through these CCAA Proceedings and will increase the likelihood that the Collision Kings Group will successfully complete a restructuring transaction;
- g. the Monitor has consulted with Toronto-Dominion Bank ("**TD Bank**"), as the senior secured lender of the Collision Kings Group, regarding the nature and quantum of the RIP and TD Bank is supportive of the terms of the RIP; and
- h. the Monitor considers the quantum and extent of the RIP to be reasonable in the circumstances.

CCAA CHARGES

RIP CHARGE

- 16. To facilitate the implementation of the RIP, the ARIO contemplates a RIP Charge to secure the payments that become due to the RIP Employees under the RIP.
- 17. For the same reasons provided in support of the RIP, the Monitor believes that implementing a RIP Charge is reasonable in the circumstances of these CCAA Proceedings. These reasons include the necessity of the RIP Employees in maintaining operations and satisfying the going-concern provisions included in the Stalking Horse Bid.

INCREASE TO THE INTERIM FINANCING CHARGE

18. In the Pre-Filing Report, the Monitor supported the Applicants' request for approval of the Interim Facility and the Interim Financing Charge (as defined and set out in the Pre-Filing Report) and the approval of the initial advances under the Interim Facility of \$600,000. As the Monitor anticipated and noted in the Pre-Filing Report, the Applicants are now requesting approval to increase the Interim Financing charge from \$600,000 to \$1.125 million.
19. The Applicants, with the assistance of the Monitor, prepared the Cash Flow Statement to set out the liquidity requirements of the Applicants during the Forecast Period for the 8-weeks ending March 31, 2024. The Cash Flow Statement was attached to the Pre-Filing Report as Appendix "C". The Cash Flow Statement indicated net cash requirements over the Forecast Period of \$0.9 million.
20. The Applicants require increased access to the Interim Facility to, among other things, provide stability, continue certain ongoing operations and to run the SISP. The \$1.125 million Interim Facility will allow sufficient liquidity to the Applicants to operate through to the requested extension of the Stay Period (requested to March 29, 2024). At that time, further information will be available on the status of the SISP, the Applicants' cash position and any additional liquidity needs that may be required.
21. Overall, it is the Monitor's view that the Interim Facility does not materially prejudice any existing stakeholders and that the Interim Facility and the increase in the Interim Financing Charge to \$1.125 million is necessary for the funding of the Applicants' operations and restructuring through the completion of the SISP. Absent the funding available under the Interim Facility, the Applicants would be forced to cease all operations due to a lack of liquidity, likely resulting in a bankruptcy, which would have a substantial and prejudicial negative impact on recoverable value to creditors.

SUMMARY OF RANKINGS OF THE CCAA CHARGES

22. If the proposed changes to the CCAA Charges are granted, they would have the following ranking and quantum:
- a. First – the Administration Charges in the amount of \$500,000;
 - b. Second – the Interim Financing Charge in the amount of \$1.125 million;
 - c. Third – the Directors’ Charge in the amount of \$400,000; and
 - d. Fourth – the RIP Charge in the amount of \$425,000.
23. The Monitor believes that the CCAA Charges, including their proposed quantum and ranking, are required and reasonable in the circumstances of these CCAA Proceedings in order to preserve the going concern operations of the Collision Kings Group and maintain its enterprise value. The Monitor therefore supports the increase of the Interim Financing Charge and the granting of RIP Charge as proposed by the Collision Kings Group.

SALE APPROVAL AND VESTING ORDER

24. The SISP contemplates that bidders who are deemed qualified by the Monitor having met the necessary prerequisites as laid out in the SISP (the “**Qualified Bidders**”) are required to submit a binding bid for the purchase of the property and/or assets of the Applicants to the Monitor by March 8, 2024 (the “**Bid Deadline**”).
25. The SISP includes a Stalking Horse APA which provides for the purchase of all of the property and assets of 219 Alberta, CK3L, Arrow, Sunridge, East Lake, Strathko Investments, Nick’s Repair, 100 Manitoba, Bunzy’s and CMD Holdings (collectively, the “**Vendors**”).

26. Subsequent to the Bid Deadline, the Monitor, in consultation with the Applicants and TD Bank, will review the bids received and select the highest or otherwise best bid (the “**Successful Bid**”). In the event there are no bids received that improve upon the terms and conditions of the Stalking Horse APA, the Stalking Horse APA will be deemed the Successful Bid.
27. In the case where the Stalking Horse APA is deemed the Successful Bid, the Applicants have sought to have a conditional SAVO granted with respect to the Stalking Horse APA, authorizing the Applicants to close the transaction contemplated in the Stalking Horse APA without coming back to Court for further approval. The SAVO would become effective upon the Monitor filing a Monitor’s certificate with the Court that the Stalking Horse APA was the Successful Bid.
28. The granting of the SAVO will allow for the Applicants to close the Stalking Horse APA in an efficient, cost effective and expedited manner following the completion of the SISP.
29. In the Monitor’s view, the approval of the Stalking Horse APA and the conditional SAVO is reasonable and justified given the following:
 - a. the SISP, as approved by this Court, contemplates the marketing of the assets of the Applicants for a reasonable period of time, given the prior marketing process completed by the Applicants and the Applicants’ limited liquidity, which will provide any potentially interested party the ability to provide a superior bid to the Stalking Horse APA or confirm that the Stalking Horse APA represents the best and highest offer for the Vendors;
 - b. TD Bank as the senior secured creditor is supportive of the Stalking Horse APA and conditional SAVO;

- c. There are significant operational benefits of being able to close the Stalking Horse APA quickly rather than facing potential delays associated with an additional hearing if the Stalking Horse APA is the successful bid. The Applicants' have limited liquidity and it is reasonable to avoid the operational costs, risk and professional fees associated an additional application for sale approval; and
 - d. this mechanism has been used in similar circumstances where time is of the essence and liquidity is constrained.
30. The Monitor believes granting of the SAVO is justified and reasonable in the circumstances outlined above.

ASSIGNMENT OF THE ASSUMED CONTRACTS

31. The Stalking Horse APA has a provision which includes the assumption of certain contacts, including certain real property leases for the operating buildings of the Vendors (the “**Assumed Contracts**”). A complete listing of the Assumed Contracts are attached to the Stalking Horse APA in Schedule 1.1(h). The Stalking Horse APA is attached as Exhibit 72 to the Daerden Affidavit.
32. The Applicants are undertaking efforts, in cooperation with Lift, to obtain written consent of the counterparties (“**Landlords**”) to the Assumed Contracts (where consent to an assignment is required) to assign those contracts to Lift pursuant to the Stalking Horse APA.
33. The Monitor expects the discussions between Lift and the Landlords to be constructive and will result in written consents to assign contracts to Lift to be obtained in the event the Stalking Horse APA is the Successful Bid. However, in the event written consents are not obtained, Collision Kings Group expects to rely on the assignment of contract provisions contained in Section 11.3 of the CCAA.

34. In the Monitor's view, the assignment of the Assumed Contracts appears to be appropriate and commercially reasonable in the circumstances when considering the factors referenced in section 11.3 of the CCAA. In particular, the Monitor notes the following factors in the consideration of its approval of the assignment of the Assumed Contracts, which remain subject to this Court's approval:
- a. the Monitor has reviewed and was consulted in the negotiating of the Stalking Horse APA and understands that the Assumed Contracts relate to the real property leases for the buildings which the Vendors operate out of and the assignment of these leases is therefore necessary for the continuation of the Vendors' business operations by Lift;
 - b. the assignment of the Assumed Contracts is a requirement of the Stalking Horse APA;
 - c. the nature of Lift's operations, as the proposed assignee of the Assumed Contracts, is the same as the Vendors and Lift intends to continue with the operations at the leased locations in the same manner as the Vendors have been operating in the past;
 - d. Lift has shown the ability and financial wherewithal to enter into the Stalking Horse APA, which included a substantial cash deposit that has been paid to the Monitor. Lift currently operates 47 other auto body shops across Canada. Additionally, Lift has provided the Monitor, on a confidential basis, financial documentation which supports its financial wherewithal and in the Monitor's view, Lift is in a substantially better financial position than the Collision Kings Group and appear to have the ability to comply with the financial rights and obligations in the Assumed Contracts;

- e. the assignment of the Assumed Contracts does not prejudice any of the lessors as the Stalking Horse APA contemplates that any cure costs with respect to the Assumed Contracts are to be paid by the Vendors prior to the closing of the transaction; and
 - f. the Vendors, in conjunction with Lift, have been working diligently and in good faith to obtain consent from the counterparties to the Assumed Contracts, where it is required.
35. Accordingly, the Monitor does not have any reason to believe that Lift will be unable to preform its rights and obligations under the Assumed Contracts and is in support of the assignment of the Assumed Contracts.

EXTENSION OF THE STAY OF PROCEEDINGS

36. The Monitor has considered the Applicants' application for the extension of the Stay of Proceedings to March 29, 2024, and has the following comments:
- a. with an increase to the Interim Facility (as requested above) the Applicants are projected to have sufficient available liquidity to fund it obligations and the costs of the CCAA Proceedings during the term of the proposed extension of the Stay of Proceedings;
 - b. there will be no material prejudice to the Applicants' creditors and other stakeholders as a result of the extension of the Stay of Proceedings;
 - c. the Applicants are acting in good faith and with due diligence;
 - d. the overall prospects of the Applicants effecting a viable restructuring will be enhanced by the extension of the Stay of Proceedings; and

- e. the length of the proposed Stay of Proceedings of approximately 2 months is reasonable given the timelines described in the SISP. Such extension is also necessary to allow the Applicants to run the SISP and close the Stalking Horse APA in the event it is the Successful Bid.

WEPPA DECLARATION

- 37. Section 5(1) of the WEPPA provides that an individual is eligible to receive payment under that Act if, among other things, (i) the individual is owed eligible wages by a former employer; (ii) the former employer is subject to proceedings under the CCAA; and (iii) a court determines under subsection 5(5) that criteria prescribed by regulation are met.
- 38. Section 5(5) of WEPPA provides that, on application by any person, a court under the CCAA may determine that a former employee meets criteria prescribed by regulation. Section 3.2 of the WEPP Regulations provides that “for purposes of subsection 5(5) of the *WEPPA*, a court may determine whether the former employer is the former employer of all of whose employees in Canada have been terminated other than any retained to wind down its business operations.”
- 39. At the commencement of the CCAA Proceedings, the Applicants had approximately 120 employees across all of the Applicant entities. The Stalking Horse APA contemplates the sale of the Vendors, however if no other transaction stems from the SISP, the operations of Mayland Heights, CMD Glass and Royal Vista would be wound down. Further, the Stalking Horse APA contemplates that only certain of the employees of the Vendors will be retained as part of the Stalking Horse APA.
- 40. At the date of this Report, it is unclear how many employees which will be terminated either as a result of the wind down of their respective employers operations or as a result of their position not being taken on as part of a transaction resulting from the SISP

(collectively, any employees terminated during these CCAA Proceedings are hereafter referred to as the “**Terminated Employees**”).

41. The Monitor is of the view that the Terminated Employees meet the criteria prescribed in the WEPP Regulations. Given that it is unclear, at the date of this Report, which employers the Terminated Employees may relate to, the Monitor supports the Applicants’ request for a declaration that all Applicants are declared to be former employers according to section 5(5) of the WEPPA. For further clarity, only the Terminated Employees would be considered eligible for WEPPA and any employees whose employment is continued as part of the Stalking Horse APA or another going-concern transaction which may result from the SISP would not be considered eligible for WEPPA.
42. As such, the Monitor supports the Applicants request for a declaration that the Applicants are former employers for the purposes of section 5(5) of the WEPPA.
43. Labour Program Employment and Social Development Canada is on the Service List for these CCAA Proceedings and was served with the Applicants’ materials for the February 14, 2024 application.

CONCLUSIONS AND RECOMMENDATIONS

44. The Monitor is of the view that the relief requested by the Applicants pursuant to the ARIO and the SAVO are necessary, reasonable and justified in the circumstances.
45. Accordingly, the Monitor respectfully recommends that this Court grant the following orders;
- a. the ARIO; and
 - b. the SAVO.

All of which is respectfully submitted this 9th day of February 2024.

FTI Consulting Canada Inc.,
in its capacity as Monitor of
the Collision Kings Group
and not in its personal or corporate capacity



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