FTI Consulting Canada Inc.
1000, Sherbrooke West
Suite 915
Montréal QC H3A 3G4
Canada

Phone : 514.446.5093
www.fticonsulting.com

CANADA | S U P E R I O R C O U R T

PROVINCE OF QUÉBEC | Commercial Division

DISTRICT OF MONTREAL

COURT N^{O} : 500-11-066105-251

DOSSIER N^{O} :

IN THE MATTER OF THE INTERIM RECEIVERSHIP OF:

Canadoil Forge Ltd, a legal person having an address at 3700-1000 De La Gauchetière W Street, Montréal, Québec, H3B 4W5 Canada.

-and-

CFC Canadoil Inc., a Texas corporation having an address at 1717 W. 34th Street, Suite 600-254, Houston, TX, 77018.

Debtors

-and-

FTI CONSULTING CANADA INC.
(Martin Franco, CPA, CIRP, LIT, authorized representative) domiciled for the purpose hereof at 1000, Sherbrooke West, Suite 915, Montréal, Québec, H3A 3G4.

Proposed Interim Receiver

REPORT SUPPORTING THE MOTION FOR THE ISSUANCE OF AN INTERIM RECEIVERSHIP ORDER

The present report (the "**Report**") is being submitted to the Court by FTI Consulting Canada Inc. in its capacity as proposed interim receiver (the "**Proposed Interim Receiver**" or "**FTI**"), in connection with the *Motion for the Issuance of an Interim Receivership Order* dated August 21, 2025 (the "**Motion**") brought by the Royal Bank of Canada (the "**RBC**" or the "**Applicant**").

MANDATE AND QUALIFICATIONS TO ACT

1. The Proposed Interim Receiver has prepared this Report solely for the purpose of providing the Court with information regarding the Motion. The Report should not be used for any other purpose.

2. Unless otherwise indicated, all cash amounts referred to herein are expressed in Canadian dollars. Capitalized terms that are not otherwise defined herein have the meaning given to them in the Motion.

3. FTI is a trustee as defined in section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 (the "BIA"), as amended, and is not subject to any of the restrictions respecting the person who may be appointed as an interim receiver under section 47 of the BIA. FTI has given its consent to act as an interim receiver.

4. As described in more detail below, FTI acts as financial advisor to the Applicant and has invested significant time in trying to understand the business and operations of the Debtors, is familiar with certain of its employees and has acquired an understanding of some of the issues that the Debtors are currently facing. The experienced representative of FTI responsible for conducting this matter is a Licensed Insolvency Trustee and Chartered Insolvency and Restructuring Professional, who have acted in receiverships in Quebec as well as in other provinces in Canada.

INFORMATION AND BACKGROUND ON THE DEBTORS

5. Canadoil Forge Ltd ("**Canadoil**") operates in the manufacture and supply of customized steel pipes and fittings, with its primary market located in the United States and Canada.

6. Canadoil's production and shipment of goods take place at its headquarters, located in the company-owned buildings at 805 Alphonse-Deshaies Boulevard, Bécancour, Québec, G9H 2Y8. It is noteworthy that Canadoil also owns an ancillary facility and a warehouse, situated adjacent to its headquarters, which is registered under land register number 3 294 064.

7. Canadoil's entire workforce, comprising approximately 100 unionized and non-unionized employees, is based in Quebec, with all key functions, including production, operations, sales and accounting, being centralized in the province, thereby establishing it as the hub of the company's business activities.

8. The primary purpose of CFC Canadoil, Inc. ("**CFC**") is to serve as a liaison between Canadoil, a Canadian-based company, and its clients in the United States.

9. The offices and headquarters of CFC are located at 1717 W. 34th Street, Suite 600-254, Houston, TX, 77018. These premises are leased by CFC.

10. CFC has a team of approximately 5 employees, all of whom are based in the state of Texas, United States. CFC's employees are exclusively engaged as sales representatives for Canadoil, facilitating business relationships and transactions between Canadoil and its US-based customers. It is worth noting that CFC has engaged an external accounting firm to provide accounting services, thereby outsourcing its accounting function.

11. Pursuant to its financial advisory mandate, FTI conducted an assessment which revealed that Canadoil's goods are shipped directly from its premises to US-based customers. The sale process involves Canadoil issuing an invoice to CFC for the corresponding goods sold, and subsequently, CFC generates an invoice to facilitate the relationship with Canadoil's US-based clients. Products sold to clients located in Canada are directly shipped and sold by Canadoil.

12. It appears that CFC and Canadoil are operationally and functionally integrated in many aspects.

13. The majority of raw materials are made up of steel plates and are purchased by Canadoil from two main suppliers, Algoma Steel Inc. and Nucor Canada Inc. It is to be noted that some of the raw materials are purchased by CFC from some United States suppliers before being shipped to Canadoil. All raw materials, work-in-progress inventory, and finished goods purchased and sold by the Debtors are stored at Canadoil's production facilities. CFC does not rent or own any warehouse.

14. RBC has provided financing to Canadoil under a credit agreement, the balance of which, as of August 14, 2025, amounts to approximately $12 M. The loan is secured by a first-ranking movable hypothec on Canadoil's receivables and inventory and guaranteed by CFC, which also granted a security interest in favor of RBC registered at the Texas UCC.

15. RBC also granted two lease agreements to Canadoil, with a balance of over $637 k as of August 14, 2025.The Fiera Private Debt Fund VI LP and Fiera Private Debt Fund VII LP (the "**Fiera Lenders**") have also provided financing to Canadoil through the issuance of long-term debt. This debt is secured by first-ranking movable and immovable hypothecs, which took as collateral Canadoil's production and storage facilities as well as various equipment and rolling stocks.

16. In recent years, the Debtors have been impacted by a series of events, including a fire at Canadoil's production facility and a strike by unionized production staff, which have exerted considerable pressure on their working capital and ultimately led to a liquidity crisis over the past year. Therefore, the Debtors have experienced significant delays in settling payments with key suppliers and subcontractors. Furthermore, the aforementioned events have caused supply chain disruptions, resulting in a decline in sales.

17. FTI was engaged by RBC to conduct a review of Canadoil's business, including in particular the review of the borrowing base calculation as of May 31, 2025 (the "**BBC**"). The review identified major issues with the BBC as provided by Canadoil to RBC:

    a. First, Canadoil failed to deduct for the purpose of its BBC an amount of $3,339,000 representing arrears payable to the Canada Revenue Agency (the "**CRA**") in connection with unpaid source deductions payable between 2020 and 2023 as well as interest and penalties; and

    b. Second, on July 30, 2025, M. Sozzi, who was joined by his consultant, confirmed to FTI that CFC credited and re-issued invoices to US clients, on a monthly basis, resulting in its receivables remaining "current" for the purpose of the BBC and therefore artificially increasing the borrowing capacity.

18. In addition, we made several necessary adjustments to ensure a more accurate reflection of Canadoil's borrowing capacity, which is based on RBC's collateral assets and considers potential claims that may have priority over the Applicant's interests.

19. Based on our review, we estimate the total borrowing capacity as at May 31, 2025, at $ 4.5 M. With a revolving credit facility balance of $11.8 M at the same date, this results in a borrowing base deficit of $7.3 M before taking into consideration the potential additional adjustments required in connection with the CFC receivables as further described in the Context and findings section below.

20. Over the past few months, it has become apparent that significant additional funds would be required to meet ongoing expenses, including payroll, and to continue purchasing necessary inventory to support future sales. However, despite numerous promises to do so, Canadoil have been unable to secure a refinancing agreement with alternative lenders, notably with the Fiera Lenders, to repay the various debts owed to RBC and replenish the working capital. The Debtors were informed by the Fiera Lenders that they would not be providing any additional financing on July 31, 2025. Absent an immediate injection from their shareholders, the Debtors do not have sufficient liquidity to continue their operations as RBC's advances have all been recalled and were due on August 15, 2025.

21. Furthermore, it appears from the draft financial statements of Canadoil for the financial year ended January 31, 2025, that a transaction with a related party, namely one of Canadoil's directors, was concluded in the past year resulting in an amount of approximately $7 M being remitted to such director. The Debtors have failed to provide information and supporting documents regarding this transaction despite FTI's requests to do so. Under the circumstances, we are of the view that this transaction should be immediately investigated considering its impact on the company's cash flow needs.

22. The appointment of the Proposed Interim Receiver is being sought by RBC, which has served the Debtors with a notice under section 244(1) of the *Bankruptcy and Insolvency Act* on August 19, 2025. The Applicant also served a notice of exercise of hypothecary rights under the *Civil Code of Quebec* with respect to the movable assets over which it holds security on August 19, 2025.

23. The Proposed Interim Receiver believes that, in the current circumstances, the appointment of an interim receiver is both prudent and necessary to protect the Debtors' assets, which serve as collateral for the Applicant's short-term credit facilities, to allow it to complete its review of the Debtors' financial situation in light of additional powers which will force the collaboration of the Debtors and their representatives, and to investigate the circumstances leading to the borrowing base deficit and certain transactions with related parties.

SUBJECT OF THIS REPORT

24. The Proposed Interim Receiver's Report is filed in support of the Motion and is intended to inform the Court on the following matters:

    a) Context and findings;
    b) Summary of the financial situation;
    c) Powers sought and measures that the Proposed Interim Receiver intends to implement;
    d) Administrative charge;
    e) Conclusion.

CONTEXT AND FINDINGS

Context

25. Over the past year, and with an intensification over the last few months, the financial situation of the Debtors has deteriorated at an alarming rate, despite the Bank's ongoing support.

26. Based on the financial results of the last few months, the cash flow prepared by management, the borrowing base deficit as of May 31, 2025 of over $7.3 M and other defaults under the existing agreements with RBC, the Applicant has requested that Canadoil secure refinancing with a new lender, in order to replenish the working capital, allow the Debtors to continue their short-term operations, and repay the various credit facilities made available to Canadoil by RBC.

27. RBC granted Canadoil time to secure refinancing from the Fiera Lenders or other lenders over the past months; however, nothing has materialized to date.

28. The Proposed Interim Receiver was informed on August 13, 2025, that the Fiera Lenders had issued a letter of default to Canadoil, dated August 1, 2025, and had declined to provide the corporation with new credit facilities. Despite multiple discussions and requests for updates from FTI, since the beginning of its mandate, regarding the refinancing process with Fiera, Mr. Sozzi failed to disclose to FTI the Fiera Lenders' refusal to offer new credit facilities to Canadoil.

29. As mentioned above, the Debtors are currently facing a liquidity crisis. In the absence of new financing and considering the facts uncovered by FTI in the course of its mandate as financial advisor to the Applicant, it is clear that the appointment of an interim receiver and the orders sought are necessary to preserve the value of the Debtors' assets, for the benefit of all stakeholders, as well as to allow the Proposed Interim Receiver to complete its review of the Debtors' financial situation in light of additional powers which will force the collaboration of the Debtors and their representatives, and to investigate the circumstances leading to the borrowing base deficit and certain transactions with related parties.

30. The majority of the value of the Debtors' assets, which serve as collateral for the Applicant's short-term credit facilities, lies in:

    a. The accounts receivable of CFC, which are deposited into a bank account opened with a US financial institution and for which RBC has no control over the use of the deposited funds. Canadoil had very limited if any accounts receivable to collect as of May 31, 2025 and nothing suggests that the situation is different as at the date of this Report.

    b. Canadoil's inventories, which are located in the facilities situated in Bécancour.

    c. Some inventory may be in the possession of third parties in the United States, but FTI does not have sufficient information to confirm the quantity and value of such inventory.

    d. Cash proceeds from the assets charged by RBC's security, including cash in the Debtors' bank accounts.

31. The Debtors are currently managing their cash flow through bank accounts held with financial institutions outside of RBC, namely Bank of Montreal ("**BMO**") and Amegy Bank ("**Amegy**"), which limits the Applicant's visibility and control over the company's cash flows. This lack of control poses a significant risk to the Applicant's short-term credit facilities, as it will necessarily lead to a deterioration of its position.

32. As of August 4, 2025, Mr. Sozzi had provided FTI with the bank statements for the relevant accounts. However, a subsequent request made on August 12, 2025, for updated statements up to August 11, 2025, remains outstanding, with no response received from the Debtors as of the date of this Report. Given the aforementioned facts, the Proposed Interim Receiver is of the opinion that securing these assets is essential to protect the RBC's security position.

33. On August 18, 2025, FTI file a report in support of RBC's *Motion for the Issuance of an Interim Receivership Order* dated August 17, 2025 (the "**Initial Application**").

34. Since the date of the report filed by FTI in support of the Initial Application, FTI did not receive any additional information from the Debtors in response to the outstanding requests.

FTI's understanding of the Debtors' operations and financial situation

35. Through its role as the Applicant's financial advisor, FTI has invested significant time trying to understand the Debtors' business model and financial situation through the following means:

    a. Engaging in discussions with the Debtors regarding their refinancing and restructuring plans, as well as various topics related to FTI's review of the BBC and cash flow;

    b. Obtaining and reviewing the documents received from Canadoil to assess the financial situation of the Debtors;

    c. Conducting a site visit to Canadoil's premises to gain insight into its operations and business model, and to evaluate the status of the Applicant's collateral assets.

36. While the foregoing allowed FTI to gain a general understanding of the Debtors' operations and financial situation, the Debtors' lack of collaboration have made it difficult for FTI to acquire a complete and accurate portrait of the Debtors' operations and financial situation.

Borrowing base calculation

37. Canadoil provided the Bank with its borrowing base calculation until April 30, 2025. However, as the management had not prepared an updated calculation as of May 31, 2025, FTI, in its capacity as financial advisor to the Applicant, subsequently prepared the calculation for that date. FTI confirmed with management that the approach used corresponds to the one used in the previous borrowing base calculations.

38. As outlined above, FTI's review of the BBC identified major issues:

    a. First, Canadoil failed to deduct for the purpose of its BBC an amount of $3,339,000 representing arrears payable to CRA in connection with unpaid source deductions payable between 2020 and 2023 as well as interest and penalties; and

    b. Second, CFC credited and re-issued invoices to US clients, on a monthly basis, resulting in its receivables remaining "current" for the purpose of the BBC and therefore artificially increasing the borrowing capacity.

39. Based on our review, we estimate the total borrowing capacity as at May 31, 2025, at $ 4.5 M. With a revolving credit facility balance of $11.8 M at the same date, this results in a borrowing base deficit of $7.3 M, in a best-case scenario. Adjustments will likely need to be made to adjust the BBC downwards in order to account for:

    a. Potential risk of overstatement of the BBC (up to $ 6.5 M) attributed to the designated accounts receivable (CFC) resulting from the *modus operandi* in accordance with which CFC credited clients and issued new invoices which were including in the "current" portion of the accounts receivable aging report, without regard for the actual date on which the invoice was actually issued. We also understand that the goods received that are subject to those invoices were not yet accepted by the various customers; and

    b. Significant discrepancies between the cost indicated in the raw materials inventory listing and the price on the supplier invoice.

<u>Work in progress inventory ("**WIP**")</u>

40. The WIP inventory considered for the BBC includes items that do not meet quality standards and/or client's requirement. These parts would require rework before being able to be sold to clients. Management segregates these items in a separate inventory category so they could sell them on an alternative market outside the normal course of business. FTI adjusted the value of the WIP included in the BBC to exclude these items ($ 919k).

<u>Raw material and finished goods</u>

41. From the samples selected for one of the raw material categories, FTI noted the following:

    a. There were significant discrepancies between the cost per the inventory listing and the price on the supplier's invoice. The discrepancies added to a total amount of $ 191k. If these discrepancies were extrapolated, it would represent a potential overstatement of $ 849k. FTI did not take into consideration this potential overstatement in the BBC since the extrapolation is based on a statistical calculation.

    b. FTI also noted other inconsistencies within the inventory listings received from management. Canadoil attributed these to the accounting system, which does not include a permanent inventory.

42. The finished goods inventory also includes spare parts and inventory that are not meeting quality standards and/or client's requirements. These would need some rework in order to be sold to clients and management keeps these in a separate category of inventory to sell the parts on an alternative market out of the normal course of business. FTI adjusted the value of the finished goods included in the BBC to exclude these items ($ 693k).

43. These findings raise substantial concerns regarding the accuracy and reliability of the financial information provided by the Debtors, which in turn casts doubt on the valuation of the collateral assets securing the Applicant's short-term credit facilities.

<u>Source deductions</u>

44. During its BBC analysis, FTI identified in the financial statements an amount due to CRA for unpaid sources deductions. The amount of unpaid source deductions relates to amounts due for the years 2020 to 2023. As of May 31, 2025, the amount of source deductions payable, including the employer and employee unpaid amounts, is $2.2M, plus applicable interest and penalties of $1.1M.

45. Following a notice of assessment issued by the tax authorities, Management agreed to a payment arrangement with the CRA, dated May 7, 2024, with monthly payments of $80k. FTI obtained an email from the CRA confirming that the first payment of $80k was made in August 2024 but that the subsequent ones were not made by Canadoil.

46. Despite being aware that it was indebted toward the CRA in the amount of $3.3 M for unpaid deductions at source, interest and penalties, Canadoil failed to deduct this potential priority claim from its borrowing base calculation, significantly increasing its borrowing capacity as a result of this omission.

<u>Accounts receivable:</u>

47. A significant portion (98 %) of Canadoil's borrowing capacity on eligible accounts receivable comes from CFC.

48. FTI key findings on the accounts receivable of CFC:

    a. The business relationship between Canadoil and CFC is straightforward: Canadoil manufactures the products, which are then sold to US-based clients through CFC as an intermediary. And, normally, once CFC collects its customers, they pay their payable to Canadoil.

    b. FTI inquired about the fact that approximately 95% of CFC's accounts receivable as at May 31st (and in prior months) were current (under 30 days) while CFC's receivable in the Canadoil books and records was mostly due for more than 90 days (please refer to **Appendix A (under seal)** for CFC's accounts receivable aging reports as at March 31 and May 31, 2025). When asked about this, Mr. Sozzi explained that:

        i. A fire occurred in October 2024, impacting production and resulting in partial deliveries to clients.

        ii. Due to the specificity of the products, the customers wanted to ensure that Canadoil would be able to deliver all the products ordered before agreeing to pay any amount to CFC. Because of CFC's inability to do so at the time (because of the fire), customers turned to other suppliers to fulfill their orders.

        iii. According to CFC's management, numerous customers told CFC that the partially delivered orders that were billed and delivered would only be paid if they were able to use the goods received. CFC's management has failed to provide any support to FTI to confirm the foregoing, even partially.

        iv. FTI has not been able to determine the number of invoices affected by this situation as a result of a lack of information provided by the Debtors and, consequently, has not been able to calculate the necessary adjustment to the BBC. However, it's obvious that the borrowing capacity on the eligible designated accounts receivable is overstated and has been since at least March 2025.

    c. FTI obtained the detailed accounts receivable aging reports of CFC as at May 31, 2025. FTI assessed the accuracy of the accounts receivable by selecting a sample of invoices and requested the supporting documentation, including invoices, proof of delivery and proof of payment (if applicable).

        i. Management confirmed that some invoices selected by FTI were paid by the client after May 31, 2025. However, FTI was not able to reconcile the amount of the payment with the amount per the invoices.

        ii. The Company failed to provide external proof of delivery for most of the selected invoices. Management explained that as it relates to CFC, no documents are produced/exchange with the freight company. FTI has doubts as to the accuracy of this affirmation considering that, in its experience, freight companies do normally provide supporting documentation.

d. FTI received multiple versions of CFC’s accounts receivable aging as at May 31, 2025. The first version was showing a balance of $9.9 M.

  i. From the initial version of the aging, FTI selected a sample of 25 invoices, of which two of them totaling $ 387k were subsequently found to have been voided by CFC.

  ii. FTI subsequently received two revised versions of the aging, with the most recent one showing a balance of $8.6 M, which represents a negative variance of more than $1.3 M when compared to the original one received. The discrepancy between the first and third versions of the aging are attributed to two primary factors:

   - Invoices that were double-counted;
   - Invoices for which payments were received prior to May 31, 2025, and were therefore not supposed to be part of the initial aging.

49. The foregoing findings raise substantial concerns regarding the accuracy and reliability of the financial information provided by the Debtors to RBC, which information has been attested by an officer of Canadoil. The misrepresentations made by Canadoil to RBC suggest that no information provided by the Debtors should be taken as accurate until evidence to the contrary is provided. They also make it difficult for FTI, at this time and with the limited collaboration received from the Debtors, to accurately value the collateral assets securing the Applicant's short-term credit facilities.

Lack of transparency and Canadoil’s failure to provide FTI with adequate documentation

50. FTI made multiple requests to Canadoil for a weekly cash flow forecast covering a minimum period of 13 weeks. Despite these requests, Canadoil's management failed to provide an acceptable cash flow forecast with adequate supporting documentation:

  a. On August 4, 2025, FTI sent preliminary questions to Canadoil regarding the cash flow information received from Mr. Sozzi on August 1, 2025.

  b. Canadoil provided some responses on August 5, 2025, but these were incomplete and inconclusive.

  c. FTI followed up with a request for additional documentation on August 12, 2025, which remains unanswered as of the date of this Report.

  d. FTI therefore has limited visibility as to the actual cash flow needs of the Debtors and has not been able to review and assess the underlying hypothesis.

51. As noted in this Report, Mr. Sozzi and Canadoil's management have consistently failed to provide clear and timely information and updates on the corporation's financial situation, despite multiple requests. This lack of transparency has hindered FTI's ability to perform its mandate as the Applicant’s financial advisor.

  a. The most recent bank statements received from Canadoil for accounts outside of RBC are dated August 4, 2025. Despite requests for updated statements, the Debtors have not provided them.

  b. Mr. Sozzi failed to inform FTI and the Applicant that the Fiera Lenders had declined Canadoil's request for new credit facilities, a significant development that should have been disclosed.

  c. Due to the insufficient documentation provided by CFC, FTI is unable to determine the accurate amount of accounts receivable to include in the BBC, which further complicates the financial assessment.

  d. The cash flow forecast provided by Mr. Sozzi is incomplete and lacks supporting documentation to substantiate the assumptions underlying the projected financial information. FTI's questions regarding the cash flow, sent directly to Mr. Sozzi and Canadoil's management, remains unanswered as of the date of this Report.

e. Canadoil and its management failed to provide FTI with information and documentation supporting the payments made to Mr. Sozzi in the course of the financial year ended January 31, 2025, totaling approximately $7 M. FTI requested this information on July 31, 2025.

f. No information has been provided to FTI regarding the June 2025 BBC, which explains why the BBC is only at May 31, 2025, despite the fact that we are currently mid-August.

g. All information obtained by FTI since its involvement followed multiple requests and follow-ups, thereby delaying FTI's analysis.

52. FTI has prepared a summary of its exchanges with the Debtors in connection with the information and documents requested, which summary is attached hereto as **Appendix C**.

SUMMARY OF THE FINANCIAL SITUATION

53. FTI has reproduced in **Appendix B (under seal)** the balance sheet of Canadoil as of May 31, 2025, as well as the cumulative financial results as of that same date (collectively, the "**Canadoil's Financial Statements**"). We have also included the financial results for Canadoil's 2025 and 2024 financial years.

54. FTI made multiple requests to management to obtain CFC's financial statements but was informed that the financial statements had not yet been prepared and were therefore unavailable for sharing.

55. FTI has not subjected the information contained in Canadoil's Financial Statements to an examination in accordance with generally accepted auditing or attestation standards or the standards for financial and prospective information published by the Chartered Professional Accountants of Canada. Consequently, FTI cannot express an opinion or any other form of assurance as to the accuracy, fairness, or completeness of Canadoil's Financial Statements.

a. It is to be noted that Canadoil's financial results as of:

i. January 31, 2025, are based on the draft audited financial statements received from the external auditor of the company; and

ii. January 31, 2024, are based on the audited financial statements.

56. The analysis of Canadoil's Financial Statements as presented reveals the following items:

a. Canadoil's financial information for the 4-month period ended May 31, 2025, shows a net loss of 260 k$, which confirms the insufficient profitability of Canadoil to cover its short-term obligations.

b. The historical yearly financial results as of January 31, 2025 ("**Fiscal 2025**"), and January 31, 2024, reveal net earnings of $3.9 M and a net loss of $116 k, respectively. Notwithstanding the net earnings reported in Canadoil's financial statements for the fiscal year ended January 31, 2025, the following key points can be inferred:

i. The financial results for the Fiscal 2025, indicate a decline in revenue of $5.7 M, from $37.5 M in 2024 to $31.8 M in 2025.

ii. Notwithstanding the net income of $3.9 million reported in Fiscal 2025, the statement of cash flows reveals that the liquidities generated from the operations had a negative impact of about $5.1 M on cash and cash equivalents. This negative variance is primarily attributable to:

- Non-cash proceeds totaling $14.1 M, resulting from the sale of engineering services in exchange for an intangible asset (licence) and a deposit on fixed assets (equipment still not received).

- A reduction of cash caused by the reduction of the amount due to a director of 7.1 M$.

- The Debtors have failed to provide information and supporting documents regarding these transactions despite FTI's requests to do so.

c. The working capital as at May 31, 2025, shows a deficit of approximately $ 1.2 M before considering the interest and penalties ($ 1.2 M) that are payable to CRA for unpaid sources deductions (please refer to the context and findings section above for more details).

d. Furthermore, as of May 31, 2025, Canadoil had no room for maneuver with regards to authorized bank advances under the bank coverage calculation. In fact, these advances were approximately $11.8 M, while the authorized amount under the bank coverage calculation as of May 31, 2025, was approximately $4.5 M, resulting in a coverage deficit of $7.3 M, at best. As indicated earlier in this Report, we do not have any visibility on the BBC for the month of June nor July.

e. As of May 31, 2025, Canadoil and CFC maintained deposits with other financial institutions, specifically Amegy (US-based) and BMO, totaling $165 k and $123 k, respectively, which were not included in the BBC. By August 4, 2025, the combined balance of these accounts had decreased to $111 k. As of the date of this Report, we have no visibility on how much is held in these bank accounts.

f. In summary, the financial statements present a precarious and alarming financial situation.

POWERS SOUGHT AND MEASURES THAT THE PROPOSED INTERIM RECEIVER INTENDS TO IMPLEMENT

57. The Proposed Interim Receiver requests the authorization to exercise the powers listed in the draft order appointing an interim receiver (Exhibit P-1 of the Motion), which include, in particular, the powers to:

a. control the Debtors' receipts and disbursements in any accounts at any financial institution (collectively, the "**Accounts**"), including, but not limited to, viewing access to all online banking relating to the Accounts, provided that in the event that any expenses are prefunded by the Debtors' shareholders, the Interim Receiver shall approve the payment of such expenses by the Debtors;

b. investigate, monitor, exercise control over and, to the extent that the Interim Receiver deems necessary, take possession of, the Debtors' Property, including, but not limited to, the Accounts (where such accounts have been used by the Debtors to deposit amounts payable to the Debtors, including accounts receivables), the Debtors' inventory and the Debtors' accounts receivable;

c. access all the accounting records of the Debtors, as well as to any document, contract, register of any nature or kind whatsoever, wherever they may be situated, including in the possession of third parties, and regardless of the medium on which they may be recorded (the Records), wherever they may be located, make copies of all the Records necessary or useful to the execution of the Proposed Interim Receiver's functions and compel any third party in possession of such Records or of additional documents, as the Proposed Interim Receiver sees fit, to provide the same to the Proposed Interim Receiver;

d. to review and have access to any and all financial information pertaining to the Debtors and the Property, including bank statements, financial records and accounts at any financial institution, and data available through any accounting system or software;

e. engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Proposed Interim Receiver's powers and duties;

f. take all actions required and necessary to ensure the protection and preservation of the Debtors' Property;

g. to issue *subpoenas* to (i) examine under oath Giacomo Sozzi, any director, officer, consultant or representative of the Debtor, as well as any other person having knowledge of the business, operations, assets and financial situation of the

Debtors, or (ii) provide and allow copies to be made of any written documents relating to the business, operations, assets and financial situation of the Debtors and/or any payments or advances made by the Debtors; and

h. to open any required bank account, on such terms and conditions as it shall determine, with any Canadian chartered bank, or other financial institutions, including banks in the United States, for the purpose of collecting any amount payable to the Debtors.

58. In this context, the Proposed Interim Receiver intends to secure the collateral assets of the Applicant while in parallel acquire the necessary financial and operational information required on an urgent basis, including as to whether there is a viable business to be preserved, in order for the Applicant to make an informed decision on the next steps which will need to be taken in respect of the Debtors.

59. It is the intention of the Proposed Interim Receiver to forthwith upon the issuance of the Proposed Order to seek to meet with the directors, officers and shareholders of the Debtors in order to (i) understand the short-term liquidity needs (ii) their intentions with regards to the operations and (iii) their intentions with regards to the funding of the operations, including payroll. The Proposed Interim Receiver will determine the measures that will need to be implemented in the short term based on the result of the foregoing discussions.

60. The Proposed Interim Receiver intends to preserve, to the extent possible, the operations of the Debtors without deteriorating the Applicant's position. It is therefore possible that without an injection from the shareholders to fund the operations and payroll in the short-term, the Proposed Interim Receiver will need to proceed with the temporary layoff of the employees.

61. The Proposed Interim Receiver is of the opinion that the granting of the aforementioned powers, as more fully described in the draft order appointing an interim receiver, is just and reasonable in the circumstances.

62. The Proposed Interim Receiver is also of the opinion that it's appointment and the powers that will be conferred upon it will not prejudice the rights of other creditors to the extent that their claims would be more at risk than in the event of the Debtors' bankruptcy.

ADMINISTRATIVE CHARGE

63. The Applicant is requesting, in the Motion, the granting of a charge on the assets to secure the fees, expenses, and disbursements incurred by the professionals ("**Administration Charge**") in the context of these proceedings under the BIA, up to a maximum amount of $ 300,000. The requested Administration Charge would take priority over all existing charges and over any deemed trust in favor of the Crown affecting or relating to the Debtors' assets, provided that on the assets over which the Fiera Lenders hold valid and opposable security, the Administration Charge would rank after (i) any conventional security granted by Canadoil in favor of the Fiera Lenders and (ii) any Court-ordered charge granted as part of any CCAA or BIA proceedings initiated by the Fiera Lenders.

64. It is respectfully submitted that the Administration Charge is reasonable in the circumstances, is limited to what is necessary, and should be granted in accordance with the relief sought in the Motion.

CONCLUSION

65. The Proposed Interim Receiver is of the opinion that it is necessary to appoint an interim receiver in light of the circumstances mentioned previously.

66. FTI is not subject to any of the restrictions regarding who can be appointed as an interim receiver and is of the opinion that it possesses all the necessary qualifications to act as an interim receiver.

67. The Proposed Interim Receiver fully supports the relief sought in the Motion.

68. The Proposed Interim Receiver is available to provide any additional information that the court may need to consider the Motion.

Dated in Montreal, this 27th day of August 2025.

FTI CONSULTING CANADA INC.
Licensed Insolvency Trustee

Patrick Fillion, CPA,
Managing Director

FTI CONSULTING CANADA INC.
Licensed Insolvency Trustee

Martin Franco, CPA, CIRP, LIT
Senior Managing Director

APPENDIX A – UNDER SEAL

APPENDIX B – UNDER SEAL

APPENDIX C – Summary of Exchange of Information

Appendix C
Summary of Exchange of Information

FTI was mandated by RBC in order to *inter alia*: (i) review the Debtors' 13-week cash flow and the related assumptions and provide a report to RBC in respect of same, (ii) review the latest borrowing base calculation of Canadoil, (iii) review potential priority claims and review RBC's security position.

Since its appointment as financial advisor to RBC, FTI has been unable to obtain the information required in order to adequately fulfill its mandate. While FTI has been able to estimate the borrowing base capacity of Canadoil as of May 31, 2025, , this estimate is limited by the fact that it has no visibility on the validity on CFC's receivables – representing approximately 98% of the Debtors' receivables – as well as on the inventory and therefore FTI cannot provide RBC with the visibility requested as to its security position. Furthermore, FTI has not received any financial information from the Debtors for the period after May 31, 2025, which is highly problematic given that RBC's position necessarily varies from month to month given the nature of the collateral.

FTI has been unable to verify any of the assumptions underlying the cash flow provided by the Debtors on August 1, 2025. Notwithstanding the foregoing, it is apparent from such cash flow that the Debtors intend to fund their operations with the accounts receivable to be collected, if any, which could necessarily deteriorate RBC's position.

While certain information has been provided to FTI by the Debtors, it is fair to state that there was a significant lack of collaboration from the Debtors, namely in light of the important delays required to provide fragments of information, the absence of conclusive supporting documents, the absence of response to basic information requests which should not require significant time and resources to collect and communicate (i.e copies of invoices, external bills of lading, copies of bank statements, etc.). Finally, we note that other than limited responses to questions in connection with the cash flow, FTI has not received any material information from the Debtors since July 20, 2025.

The table below summarizes the exchange of documents and information between FTI and the Debtors since the execution of the engagement letter on June 25, 2025.

Date	Event	FTI Comments	Applicable Debtor
2025-06-25	Execution of FTI engagement letter.		
2025-07-04	Initial meeting between FTI and the Debtors. FTI provides the Debtors with a list of information and documents that it will need to complete its mandate on June 30, 2025		Canadoil CFC
2025-07-14	FTI starts receiving fragments of information from the Debtors. FTI reviewed the documentation received and sent a list of questions on the same day.		Canadoil CFC
2025-07-18	Mr. Sozzi provides FTI with the initial version of the account receivable aging requested initially on June 30, 2025.		CFC
2025-07-20	FTI requests samples to perform standard testing of CFC's accounts receivable. FTI requests samples for 25 accounts receivable (out of approximately 100). The information requested from the Debtors in connection with the selected accounts receivables is limited to: invoice, proof of delivery and proof of payment (bank statement) from the client.	The only information received by FTI in connection with this request amounted to two (2) invoices, both of which were voided, internal proof of delivery as well as bank statements. Considering the financial manipulation by CFC of its invoices, FTI requested a confirmation in writing from clients that they intended to pay the invoices even if they were only partially delivered, as represented by the Debtors to FTI. FTI could not reconcile the amounts indicated on the bank statements with the amount of the invoices	CFC

		provided. Mr. Sozzi provided his reconciliation of the payments with the invoices. There were discrepancies which prevented FTI from being able to confirm that payments were in fact made in respect of the invoices referred to by Mr. Sozzi. Further, the proof of payment provided by Mr. Sozzi were for invoices that had not been selected by FTI for its testing of the accounts receivable again of CFC. Mr. Sozzi provided FTI with internal documents confirming delivery. FTI could not accept the internal documents provided and requested external documents to ensure reliability. No external documents were provided by Mr. Sozzi. The Debtors have failed to provide any further information in connection with CFC's accounts receivable, despite follow ups made on July 21, 22, 23, 24 and 30, 2025. FTI notes that it has received three (3) different versions of the accounts receivable aging from CFC, raising further questions as to the validity of the information being provided.	
2025-07-24	FTI requests information in connection with the US Forged Ring (related entity) account receivable in the amount of $2.145M. The Debtors inform FTI that the receivable was set off with an amount owing to US Forged Ring for a deposit in connection with a licence and equipment purchase.	As of the date hereof, FTI understands that the set-off of this account receivable occurred in connection with the transaction which ultimately resulted in the payment of approximately $7.1M made to Mr. Sozzi.	Canadoil

	FTI requests supporting documents in connection with the equipment purchase and licence.		
2025-07-25	The Debtors respond to FTI's request regarding US Forged Rings, referring FTI to the draft financial statements.	No documents were provided as requested by FTI and the note in the draft financial statements contain no details other than "in consideration for an amount due to a director and accounts receivable".	Canadoil
2025-07-31	FTI requests information in connection with an amount of approximately $7.1M paid to Mr. Sozzi. Information requested included bank statements and journal entries as well as a description of the nature of the amount.	As of the date hereof, FTI has not received any information from the Debtors in connection with this request. FTI questions the timing of the payment in the context where the Debtors were facing a liquidity crisis.	Canadoil
2025-08-01	Reception of the Debtors' Cash Flow (Second Version).	FTI has been unable to verify any of the assumptions underlying the Cash Flow provided by the Debtors given that the information requested to do so was either (i) not provided or (ii) inconclusive. See below comments.	Canadoil CFC
2025-08-04	List of questions submitted by FTI to the Debtors in connection with the Cash Flow.		Canadoil CFC
2025-08-05	Responses received by FTI to a limited number of questions on the Cash Flow.	The responses received did not address the substantive questions that FTI has in connection with the Cash Flow and the underlying assumptions.	Canadoil CFC
2025-08-06	Meeting between FTI and the Debtors to discuss the assumptions underlying the Cash Flow.	The Debtors represented to FTI that the additional information would be provided by Canadoil's controller upon his return from vacation in the week of August 11, 2025.	Canadoil CFC
2025-08-12	Follow up with Canadoil's controller upon his return from vacation.	No information has been provided to FTI as of the date hereof, despite the assurance that it would be	Canadoil CFC

		provided upon the controller's return from vacation during the week of August 11, 2025.	
2025-08-12	FTI requests the bank statements for the BMO accounts (Canadoil) and the Amegy Bank of Texas account (CFC) which have not been provided since August 4, 2025.	RBC and FTI requested that bank statements be provided on a daily basis to provide RBC with visibility as to the collection of receivables and cash position of the Debtors. No bank statement has been received since August 4, 2025.	Canadoil CFC