



Crowe Soberman Inc.

Crowe Soberman Inc.
Licensed Insolvency Trustee
Member Crowe Global

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Estate File #: 31-2675583

TO THE CREDITORS OF CONFORTI HOLDINGS LIMITED
(hereinafter referred to as the “Company”)

Purpose of the First Reconvened Meeting of Creditors

On March 12, 2021, the Company filed a proposal to their creditors. However, unlike a traditional proposal which provides details of how the Company will attempt to settle their pre-filing obligations, which will then be voted upon at a meeting of creditors, what was filed was a holding proposal (“Holding Proposal”) which sought approval of the creditors for more time to permit the Company and its creditors to reach an agreement that will allow the Company to file a viable proposal (hereinafter referred to as the “Ultimate Proposal”). The dividends payable to the unsecured creditors will be as set out in the Ultimate Proposal.

The Company had originally intended to make a proposal to its creditors on or before December 14, 2020. However, the various lockdown orders and stay-at-home orders that were implemented by the Government of Ontario due to the COVID-19 pandemic, have meant that many of the Company’s most profitable salons were to remain closed for an unknown period, and thus, the uncertainty of the Company’s ongoing operations, complicated the Company’s efforts in developing a proposal to its creditors.

The Proposal Trustee held a meeting of creditors on April 1, 2021 (the “**First Meeting of Creditors**”). The creditors attending the First Meeting of Creditors voted in favour of an adjournment of the meeting to no later than October 29, 2021.

At the reconvened meeting on October 29, 2021 at 2:00pm, the Company will be requesting a further adjournment of the meeting of creditors. The basis for the request is discussed below, as is the Proposal Trustee’s support for it.

Also discussed below is a report on the affairs of the Company since the First Meeting of Creditors.

STALKING HORSE SALE PROCESS

Since the First Meeting of Creditors, the Company was engaged in a court-approved Stalking Horse Sale Process (“**Sale Process**”) that was conducted by the Proposal Trustee. The purpose of the Sale Process was to monetize the real estate owned by the Company, located at 7755 Warden Avenue, Unit 2, Markham, Ontario (the “**Property**”). The Sale Process both ensured a minimum reasonable realization from the Stalking Horse Bidder via the Stalking Horse Asset Purchase Agreement (“**APA**”), and it allowed the market to either confirm the reasonableness of the APA or generate higher offers.

The Stalking Horse Bidder (“**Cicaplus Ltd.**”) is related to the Company and the Stalking Horse APA’s consideration was \$3,531,350 consisting of a \$100,000 cash deposit and an assumption of \$3,431,350 in secured debt owing by the Company to (i) Antonio Conforti, the co-owner and principal of the Company (the “**Antonio Conforti Secured Debt**”) and (ii) Beauty Experts Inc. (“**BEI**”), a company owned by Mr. Conforti (the “**BEI Secured Debt**”).

On July 15, 2021, the Proposal Trustee held an auction in connection with the Sale Process. At the conclusion of the auction, Cicaplus Ltd. was the Successful Bidder, having submitted the highest bid at a consideration of \$6,200,000 which is \$2,668,650 higher than that of the initial Stalking Horse APA. The consideration of \$6,200,000 was a combination of the following:

- I. \$100,000 cash deposit which was paid to the Proposal Trustee upon acceptance of the Stalking Horse APA;
- II. an assumption of:
 - i. the Antonio Conforti Secured Debt totaling \$1,931,350; and
 - ii. the BEI Secured Debt totaling \$1,500,000; and
- III. and a further \$2,668,650 payable in cash to the Proposal Trustee.

Full details of the Sale Process were included in the fifth report of the Proposal Trustee dated August 13, 2021 and are not repeated herein. All of the Proposal Trustee’s prior reports are available at [<https://www.crowe.com/ca/crowesoberman/insolvency-engagements/conforti-holdings-limited>]

ACCOUNTING RE THE SALE OF THE PROPERTY

In order to attempt to protect the interests of creditors, the Proposal Trustee received the net proceeds of disposition of the Property when it closed on September 17, 2021. The following summarizes what was received:

| | \$ |
|--|--------------------|
| Cash received by the Proposal Trustee on disposition of the Property | 2,768,650 |
| Less: Costs of disposition | |
| Commission payable (Note 1) | (248,000) |
| HST on commission | (32,240) |
| Estimated corporate taxes on disposition (Note 2) | <u>(1,540,000)</u> |
| Estimated net proceeds | <u>948,410</u> |

Notes:

- 1 Commission has not yet been paid as it's being disputed by the Company.
- 2 Corporate taxes on the disposition of the Property have been estimated by the Company's accountant to be at the highest rate because it is considered a return on investment (passive income).

MOROCCANOIL, INC.

On August 20, 2021, Moroccanoil, Inc. ("Moroccanoil"), a contingent creditor of the Company, delivered a motion record challenging the validity of the security in connection with the BEI Secured Debt (the "**Moroccanoil Motion**"). As previously noted, the assumption of the BEI Secured Debt by Cicaplus Ltd. satisfied \$1,500,000 of the consideration in respect of the Sale Process.

Moroccanoil and the Company agreed that Cicaplus Ltd. would deposit \$1,500,000 with its lawyers representing the amount of the BEI Secured Debt, in order to close the transaction for the Property. In the event it is determined that BEI's security is invalid, Cicaplus Ltd. would be required to pay those amounts to the Proposal Trustee as a term of the closing the transaction for the Property. This allowed for the sale approval and vesting order to be granted and approved by the court and the transaction for the Property to close, while allowing the Moroccanoil Motion to be scheduled and heard in an organized manner. The hearing date for the Moroccanoil motion has been scheduled for January 10, 2022 at 10:00am.

The Proposal Trustee will be reviewing the materials filed by each of Moroccanoil and the Company, and will take such further steps, including further review or reporting, as is necessary.

THE COMPANY'S OPERATIONS

At the present time, the Company has 36 locations, which have all been re-opened, however all locations are currently operating at limited capacity. Based on the cash flow projections that were prepared by the Company's management (the "**Cash Flow Projections**"), the Company's operations appear to be viable and are expecting to return to profitability within the coming months. We note that Mr. Conforti has reduced his monthly management fees by 50%. As well, we note that from December 2021 and onwards, the Company does not consider potential Government Subsidies in connection with the COVID-19 Pandemic that may or may not be received by the Company, and notwithstanding, are still expecting the Company's operations to return to profitability by around March 2022. The Cash Flow Projections are attached hereto as Appendix "A".

Between the time of the closing of the sale of the Property and the reconvened meeting of creditors on October 29, 2021, the Company reported to the Proposal Trustee that its cash flow would be negative such that it would require access to further funds for working capital. After review and discussion with the Company, the Proposal Trustee made a limited advance in the amount of \$350,000 on October 8, 2021, to the Company, from the sale proceeds being held by the Proposal Trustee. The Proposal Trustee did so in order to ensure the going concern nature of the Company, which is central to the planned proposal, and which appears to be of interest to the creditors based on voting and feedback received by the Proposal Trustee to date. The Proposal Trustee notes that cash flows of the Company, pursuant to the Cash Flow Projections are expected to be positive for the remainder of 2021.

If the creditors approve the adjournment of the meeting as requested, any further cash flow requirements of the Company during the further adjournment will be met by further advances by the Proposal Trustee from the proceeds of the sale of the Property.

GENERAL

The Trustee will be calling a meeting of creditors on October 29, 2021 at 2:00 p.m. (the "**Creditors' Meeting**") and will recommend that the meeting be adjourned until an Ultimate Proposal may be filed by the Company.

The Company advises that

1. Ontario Government announced the lifting of restrictions on October 25, 2021, the date of this report. However, the Company will not be requiring customers to provide proof of vaccination at this time, because management believes that requiring proof of vaccination would result in an overall net loss of business. Therefore, the stores will maintain their capacity restrictions similar to prior to October 25, 2021;
2. Ontario Government continues to advise of possible further restrictions based on case counts;

3. Loss of hairstylists and customers over the past 17 months since the start of the Covid pandemic

As a result, the Company is of the view that a further adjournment is required so the Company can bring its operations to pre pandemic normalcy, or to otherwise stabilize sufficiently to permit the Company to make meaningful projections of its future income in order to fund part of a Proposal to Creditors.

The Trustee agrees with this assessment. Accordingly, the Trustee recommends to the creditors to vote in favour of adjourning the Creditors' Meeting until the Ultimate Proposal can be filed.

Should you have any questions in advance of the meeting, please contact Daniel Posner at 416-644-8447 or by email at Daniel.posner@crowesoberman.com.

Dated at Toronto, Ontario, this 25th day of October, 2021.

CROWE SOBERMAN INC.
Licensed Insolvency Trustee
Acting in re: the Proposal of
Conforti Holdings Limited, a Company


Per: Hans Rizarri, LIT, CIRP

Appendix “A”

Conforti Holdings Limited
13 week cash flow Projections
For the period October 18, 2021 to January 10, 2022

Appendix A

| | The Week of: | | | | | | | | | | | | | |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 18-Oct | 25-Oct | 01-Nov | 08-Nov | 15-Nov | 22-Nov | 29-Nov | 06-Dec | 13-Dec | 20-Dec | 27-Dec | 03-Jan | 10-Jan | Total |
| Cash-in | | | | | | | | | | | | | | |
| Salons Revenue (Note 1) | 426,768 | 426,768 | 449,160 | 449,160 | 449,160 | 449,160 | 523,486 | 553,217 | 553,217 | 532,358 | 480,211 | 480,211 | 6,326,091 | |
| Misc. Revenue (Note 2) | 5,103 | 5,103 | 7,910 | 7,910 | 7,910 | 7,910 | 11,373 | 12,758 | 12,758 | 10,571 | 5,103 | 5,103 | 112,271 | |
| CEWS | - | - | 60,889 | - | - | - | - | - | - | - | - | - | 60,889 | |
| CERS | - | - | 20,372 | - | - | - | - | - | - | - | - | - | 20,372 | |
| Total Cash-in | 431,871 | 431,871 | 457,070 | 536,330 | 457,070 | 457,070 | 534,859 | 565,975 | 565,975 | 565,975 | 542,929 | 485,314 | 485,314 | 6,519,622 |
| Cash-out | | | | | | | | | | | | | | |
| Rent | - | - | 323,850 | - | - | 399,231 | - | - | 493,718 | - | - | - | - | 1,216,799 |
| Payroll | 264,952 | 213,384 | 213,384 | 224,580 | 224,580 | 224,580 | 224,580 | 261,743 | 276,609 | 276,609 | 266,179 | 240,105 | 3,187,892 | |
| CRA Source Deductions | 54,642 | 40,543 | 40,543 | 42,670 | 42,670 | 42,670 | 42,670 | 49,731 | 52,556 | 52,556 | 52,556 | 50,574 | 45,620 | 610,001 |
| Accounts payable (Corp) | 3,952 | 3,952 | 4,083 | 4,083 | 4,083 | 4,083 | 3,969 | 3,952 | 3,952 | 3,952 | 3,952 | 3,952 | 3,952 | 51,935 |
| Salon operation expenses | 40,221 | 54,712 | 57,108 | 57,108 | 57,108 | 57,108 | 62,311 | 63,564 | 63,564 | 62,104 | 58,453 | 58,453 | 765,378 | |
| Management Fee | - | - | - | 28,250 | - | - | - | - | 28,250 | - | - | - | - | 56,500 |
| Rent for Head Office | - | - | 5,650 | - | - | 5,650 | - | - | 5,650 | - | - | - | - | 16,950 |
| Professional Fees | 43,843 | - | 14,502 | 14,502 | 14,502 | 14,502 | 14,502 | 14,034 | 14,034 | 14,034 | 12,940 | 10,206 | 191,338 | |
| EHT | - | - | 19,000 | - | - | 19,000 | - | - | 19,000 | - | - | - | - | 59,000 |
| Merchant/Bank Fees | 6,402 | 6,402 | 6,737 | 6,737 | 6,737 | 6,737 | 7,852 | 8,298 | 8,298 | 8,298 | 7,985 | 7,203 | 94,891 | |
| HST Payment | - | 65,000 | - | - | - | 101,789 | - | - | 107,537 | - | - | - | - | 274,326 |
| Total Cash-out | 414,011 | 383,992 | 665,857 | 368,680 | 377,930 | 349,660 | 862,107 | 401,322 | 466,262 | 419,012 | 1,023,050 | 396,568 | 386,540 | 6,515,011 |
| Net Cash inflow (outflow) | 17,860 | 47,879 | (208,788) | 169,649 | 79,139 | 107,389 | (327,247) | 164,653 | 99,713 | 146,963 | (480,121) | 88,746 | 98,774 | 4,611 |
| Opening cash | 1,101,885 | 1,119,745 | 1,167,624 | 958,836 | 1,128,485 | 1,207,625 | 1,315,014 | 987,767 | 1,152,420 | 1,252,133 | 1,399,097 | 918,976 | 1,007,722 | 1,101,885 |
| Net Cash (Deficit) | 17,860 | 47,879 | (208,788) | 169,649 | 79,139 | 107,389 | (327,247) | 164,653 | 99,713 | 146,963 | (480,121) | 88,746 | 98,774 | 4,611 |
| Closing cash | 1,119,745 | 1,167,624 | 958,836 | 1,128,485 | 1,207,625 | 1,315,014 | 987,767 | 1,152,420 | 1,252,133 | 1,399,097 | 918,976 | 1,007,722 | 1,106,496 | 1,106,496 |

Notes:

- 1 Projections for Salons Revenue for the year 2022, are based on the Company's operations in the year 2019, under the assumption that all Covid related restrictions will be lifted.
- 2 This amount consists of projections for online sales.

CERTIFICATION

THE PURPOSE of this Statement of Projected Cash flow is to provide creditors with sufficient information to make an informed decision regarding the Proposal, and to fully disclose to the Trustee and the Official Receiver, the state of Conforti Holdings Limited financial affairs. This Statement of Projected Cash flow is prepared pursuant to the requirements of sections 50.4(2)(a) and 50(6)(a) of the Bankruptcy and Insolvency Act and solely for that purpose.

Dated this 25th day of October, 2021.

Per: Antoni Conforti - authorized representative

CROWE SOBERMAN INC.
Licensed Insolvency Trustee
Acting in re: Proposal of Conforti Holdings Limited

Per: Hans Bizarri, CA, CPA, LIT, CIRP