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COURT FILE NUMBER

**25-2731795**

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COM  
May 5, 2021  
Justice Ho

COURT

**COURT OF QUEEN'S BENCH OF ALBERTA**

JUDICIAL CENTRE

**CALGARY**

APPLICANTS

**IN THE MATTER OF THE NOTICE OF INTENTION TO  
FILE A PROPOSAL OF INTERNATIONAL FITNESS  
HOLDINGS INC., INTERNATIONAL FITNESS  
HOLDINGS LP AND WORLD HEALTH NORTH LP**

**KPMG INC., IN ITS CAPACITY AS PROPOSAL  
TRUSTEE**

DOCUMENT

**FIRST SUPPLEMENTAL REPORT OF THE PROPOSAL  
TRUSTEE**

DATE

**May 3, 2021**

ADDRESS FOR SERVICE AND  
CONTRACT INFORMATION OF  
PARTY FILING THIS DOCUMENT:

**PROPOSAL TRUSTEE**

KPMG Inc.  
Suite 3100, Bow Valley Square II  
205 - 5th Ave SW,  
Calgary, Alberta T2P 4B9  
Neil Honess/Cristina Pimienta  
Tel: (403) 691-8014/(403) 691-8406  
[neilhoness@kpmg.ca](mailto:neilhoness@kpmg.ca)  
[cpimienta@kpmg.ca](mailto:cpimienta@kpmg.ca)

**COUNSEL**

Osler, Hoskin & Harcourt LLP  
Suite 2700, Brookfield Place  
225 - 6<sup>th</sup> Avenue S.W.  
Calgary, Alberta TP2 1N2  
Randal Van de Mosselaer  
Tel: (403) 260-7000  
[rvandemosselaer@osler.com](mailto:rvandemosselaer@osler.com)

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[neilhoness@kpmg.ca](mailto:neilhoness@kpmg.ca)  
[cpimienta@kpmg.ca](mailto:cpimienta@kpmg.ca)

**COUNSEL**  
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Neil Honess/Cristina Pimienta

Tel: (403) 691-8014/(403) 691-8406

[neilhoness@kpmg.ca](mailto:neilhoness@kpmg.ca)

[cpimienta@kpmg.ca](mailto:cpimienta@kpmg.ca)

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Osler, Hoskin & Harcourt LLP

Suite 2700, Brookfield Place

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Calgary, Alberta TP2 1N2

Randal Van de Mosselaer

Tel: (403) 260-7000

[rvandemosselaer@osler.com](mailto:rvandemosselaer@osler.com)

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Appendix "A" - Revised Cash Flow Forecast

## ***1. INTRODUCTION***

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1. On April 23, 2021, International Fitness Holdings Inc., International Fitness Holdings LP, and World Health North LP (together the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”), pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended (the “**BIA**”), and KPMG Inc. (“**KPMG**”) was appointed as trustee under the proposal (the “**Proposal Trustee**”).
2. The NOI provides the Company with a stay of proceedings until May 23, 2021 (the “**Initial Stay Period**”).
3. On April 30, 2021, the Company applied to the Court for, *inter alia*, approval of interim financing and an extension of the Initial Stay Period to May 28, 2021. On the afternoon of April 29, 2021, the Province of Alberta announced new COVID restrictions, which directly impacted the Company’s business and necessitated a revision to the Company’s cash flow forecasts. As a result, this hearing was adjourned from April 30, 2021, to May 5, 2021, to allow the Company to update its cash flow forecasts and give the Proposal Trustee an opportunity to review and report on the same.
4. On April 29, 2021, the Proposal Trustee filed its first report (the “**First Report**”) to provide this Honourable Court with the Proposal Trustee’s views on, *inter alia*, the above matters.
5. For further background information on the Company and these proceedings, please refer to the Proposal Trustee’s website at <https://home.kpmg/ca/internationalfitness>.

### **Purposes of the Report**

6. This is the Proposal Trustee’s first supplemental report to the Court (the “**First Supplemental Report**”) and has been prepared for the purpose of providing and commenting on the Company’s revised statement of projected cash flow for the five-week period from April 23, 2021 to May 28, 2021 (the “**Revised Cash Flow Forecast**”), taking into account the impact of additional COVID-19 restrictions announced by the Province of Alberta on April 29, 2021.
7. The First Report and the First Supplemental Report are both prepared for the purposes of the Company’s application originally scheduled for April 30, 2021 and adjourned to May 5, 2021 and should be read together.

8. Any capitalized terms that are not otherwise defined herein shall have the meaning ascribed thereto in the First Report.

### **Restrictions and Scope Limitation**

9. In preparing this First Supplemental Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, unaudited and other financial information and certain records (together, the “**Information**”) prepared by the Company and/or their representatives, and discussions with Company’s management and/or representatives. The Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Trustee has not audited, reviewed 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 (“**CAS**”) pursuant to the Chartered Professional Accountants Handbook, and accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of the Information.
10. Some information referred to in this report may consist of forecasts and projections, which were prepared based on management’s estimates and assumptions. Such estimates and assumptions are, by their nature, not ascertainable, and as a consequence, no assurance can be provided regarding the forecasted or projected results. The reader is cautioned that the actual results will likely vary from the forecasts or projections; even if the assumptions materialize, the variations could be significant.
11. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Company.
12. Capitalized terms not otherwise defined herein are defined in the Company’s application materials. The First Supplemental Report should be read in conjunction with the First Report as certain information contained in the First Report has not been included herein to avoid unnecessary duplication.
13. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

## ***2. REVISED CASH FLOW FORECAST***

---

### **Background**

14. The Company operates 21 fitness clubs in Calgary and Edmonton, as well as spin and CrossFit studios, branded as GYMVMT, HER GYMMVMT, ClubFit and Banker's Hall Club (one location).
15. On the afternoon of April 29, 2021, the Province of Alberta announced additional restrictions on fitness facilities in targeted locations across the province. Targeted areas include Calgary and Edmonton, which are the only markets in which the Company operates.
16. Additional restrictions include the suspension of all indoor fitness for a minimum of two weeks, effective April 30, 2021. Prior to the imposition of these restrictions, the Company had been permitted to operate at a limited capacity as one-on-one training with a trainer or inspector.

### **Revised Cash Flow Forecast**

17. As detailed in the First Report, the Company had prepared a cash flow for the period from April 23, 2021 to May 28, 2021 reflecting the Company's likely performance in light of the COVID-19 restrictions existing at that time (the "**Original Cash Flow**"). The Proposal Trustee's views on the Original Cash Flow were detailed in the First Report.
18. As a result of the additional restrictions announced by the Province of Alberta on April 29, 2021, the Company has prepared a Revised Cash Flow Forecast of its receipts and disbursements for the period from April 23, 2021 to May 28, 2021. The detailed Revised Cash Flow Forecast is attached as **Appendix "A"** to this report and is summarized below:

<b>International Fitness Holdings (Consolidated)</b>	
<b>Revised Cash Flow Forecast</b>	
<b>For the period April 23, 2021 to May 28, 2021</b>	
<b>In CAD\$ Unaudited</b>	<b>Total</b>
<b>Receipts</b>	
Assumed Billings	621,520
Other Receipts	100,000
Total Receipts	721,520
<b>Operating Disbursements</b>	
Refunds	100,000
Wages and Benefits	702,000
Wages and Benefits - Accrual for future payments relating to DIP funded obligations	280,000
GST - Accrual for future payments relating to DIP funded obligations	65,000
Rent & General Expenses	1,413,837
Total Disbursements	2,560,837
<b>Net Cash Flow from Operations</b>	<b>(1,839,318)</b>
DIP Facility Funding	1,839,318
Opening Cash Balance	1,202,083
Less: Wages and Benefits in Arrears (Pre-filing Obligations of Vendor)	(490,000)
Less: GST Accrual (Pre-filing Obligation of Vendor)	(113,980)
Less: Key Supplier AP Payments (Pre-filing Obligations of Vendor)	(210,000)
<b>Ending Cash Balance</b>	<b>388,103</b>

19. The Company has prepared the Revised Cash Flow Statement for the purpose described in the notes, using Probable and Hypothetical Assumptions set out in Notes 1 to 15 of the Cash Flow Statement.
20. Due to the new restrictions announced on April 29, 2021, the Company's fitness club locations will be closed for an undefined period. The Company has made the following adjustments accordingly:
- a) There will be no further collection of membership fees other than those already processed;
  - b) Operating expenses will significantly decrease due to the temporary closure of the locations, and continuing costs will be kept to a minimum; and
  - c) There is a significant decrease in wages and benefits due to a temporary lay-off.
21. The Revised Cash Flow Forecast has an Interim Facility funding request of \$1.8 million, which is consistent with the Original Cash Flow. The Revised Cash Flow Forecast has been discussed with the Interim Lender, and the Interim Lender has confirmed its continued support.

22. The Proposal Trustee has reviewed the Revised Cash Flow Forecast to the standard required by section 50.4(2) of the BIA. Section 50.4(2) requires the Proposal Trustee to review the debtor's cash flow statement as to its reasonableness and to file a report with the Office of the Superintendent of Bankruptcy on the Proposal Trustee's findings. The Canadian Association of Insolvency and Restructuring Professional's Standards of Professional Practice include a standard for proposal trustees fulfilling their statutory responsibilities under the BIA in respect of a proposal trustee's report on the Revised Cash Flow Forecast.
23. Our review consisted of inquiries, analytical procedures, and discussions related to information supplied to us by certain of the Company's management and employees. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Cash Flow Forecast. We have also reviewed the support provided by management of the Company for the probable assumptions, and the preparation and presentation of the Revised Cash Flow Forecast.
24. Based on our review, nothing has come to our attention that causes us to believe that in all material respects:
- a) The hypothetical assumptions are not consistent with the purpose of the Revised Cash Flow Forecast;
  - b) As at the date of this Report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Revised Cash Flow Forecast, given the hypothetical assumptions; or
  - c) The Revised Cash Flow Forecast does not reflect the probable and hypothetical assumptions.
25. Since the Revised Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Revised Cash Flow Forecast will be achieved.
26. The Revised Cash Flow Forecast has been prepared solely for the purpose described on the face of the Revised Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes.

This Report is respectfully submitted this 3<sup>rd</sup> day of May 2021.



**KPMG Inc.**

**In its capacity as Proposal Trustee of International Fitness Holdings Inc.,  
International Fitness Holdings LP and World Health North LP  
and not in its personal or corporate capacity**

Per: Neil Honess  
Senior Vice President

**APPENDIX “A”**

**REVISED CASH FLOW FORECAST**

International Fitness Holdings (Consolidated)  
Cash Flow Projection - DIP FUNDING APPROVAL  
23-Apr-21 to 28-May-21

For the week ending, In CAD	Notes	Week 1	Week 2	Week 3	Week 4	Week 5	Total
		30-Apr-21	07-May-21	14-May-21	21-May-21	28-May-21	
<b>Opening Cash Balance</b>		<b>1,202,083</b>	<b>794,340</b>	<b>434,810</b>	<b>388,103</b>	<b>388,103</b>	<b>1,202,083</b>
Less: Wages and Benefits in Arrears (Pre-filing Obligations of Vendor)	1	(490,000)					(490,000)
Less: GST Accrual (Pre-filing Obligation of Vendor)	2	(113,980)					(113,980)
Less: Key Supplier AP Payments (Pre-filing Obligations of Vendor)	3	(210,000)					(210,000)
<b>NOI Filing Date Net Cash Position</b>	<b>4</b>	<b>388,103</b>					<b>388,103</b>
<b>DIP Facility</b>							
DIP Facility True-up Payment	5	-	-	-	-	-	-
Ongoing DIP Facility Requirement	6	-	-	554,968	429,675	854,675	1,839,318
<b>Total DIP Facility Funding</b>		<b>-</b>	<b>-</b>	<b>554,968</b>	<b>429,675</b>	<b>854,675</b>	<b>1,839,318</b>
<b>Receipts</b>							
Assumed Billings	7	306,237	315,283	-	-	-	621,520
Other Receipts	8	100,000	-	-	-	-	100,000
<b>Total Receipts</b>		<b>406,237</b>	<b>315,283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>721,520</b>
<b>Operating Disbursements</b>							
Refunds	9	-	100,000	-	-	-	100,000
Wages and Benefits	10	-	-	322,000	150,000	230,000	702,000
Wages and Benefits - Accrual for future period payments relating to DIP funded obligations	11	-	-	-	-	280,000	280,000
GST	12	-	-	-	-	-	-
GST - Accrual for future period payments relating to DIP funded obligations	13	-	-	-	-	65,000	65,000
Rent & General Expenses	14, 15	-	574,813	279,675	279,675	279,675	1,413,837
<b>Total Disbursements</b>		<b>-</b>	<b>674,813</b>	<b>601,675</b>	<b>429,675</b>	<b>854,675</b>	<b>2,560,837</b>
<b>Net Cash Flow from Operations</b>		<b>406,237</b>	<b>(359,530)</b>	<b>(601,675)</b>	<b>(429,675)</b>	<b>(854,675)</b>	<b>(1,839,318)</b>
<b>Net Cash Flow After DIP Funding</b>		<b>406,237</b>	<b>(359,530)</b>	<b>(46,707)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Ending Cash Balance</b>		<b>794,340</b>	<b>434,810</b>	<b>388,103</b>	<b>388,103</b>	<b>388,103</b>	<b>388,103</b>

Notes

1. Consists of payroll in arrears for one week pre filing
2. Standard GST remittance accrual relating to prior period obligations
3. Payments relating to AP outstanding with key suppliers as at filing date
4. NOI Filing Date Net Cash Position of \$388,103
5. DIP true-up payment to cover interim period funded by NOI Filing Date Net Cash
6. Implied DIP facility funding requirement
7. Based on projected billings
8. Consists of payments collected in-club and other miscellaneous point of sale transactions
9. Refunds relating to the week of May 7th billings
10. Standard wages and benefits
11. Accrual to capture obligations of current entity relating to wages earned pre Outside Date but paid post Outside Date
12. Standard projected GST remittances
13. Accrual to capture GST obligations of current entity concerning amounts incurred pre Outside Date but paid post Outside Date
14. Based on one full month (May) rent payment for disclaimed clubs; negotiated rent for clubs operated on an ongoing basis
15. Ongoing up-front payments to suppliers critical to ongoing operations

**Note:** Professional fees have not been projected and are assumed to be paid out of cash proceeds generated from the sale transaction