

COURT FILE NUMBER

**25-2731795
25-2731797
25-2731799**

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

SECOND REPORT OF THE PROPOSAL TRUSTEE

DATE

May 21, 2021

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

PROPOSAL TRUSTEE

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1. INTRODUCTION

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 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 the above matters.
4. 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, the hearing was adjourned from April 30, 2021, to May 5, 2021, to allow the Company to update its cash flow forecast and give the Proposal Trustee an opportunity to review and report on the same.
5. On May 3, 2021 the Proposal Trustee filed its first supplemental report (the “**First Supplemental Report**”) providing this Honourable Court with the Revised Cash Flow Forecast and the Proposal Trustee’s views on same.
6. On May 5, 2021, this Honourable Court issued an order approving interim financing and an extension of the stay to May 28, 2021 (the “**Initial Order**”). A copy of the Initial Order is attached hereto as **Appendix “A”**.
7. 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

8. The purpose of the second report of the Proposal Trustee (the “**Second Report**” or this “**Report**”) is to provide this Honourable Court with the Proposal Trustee’s views on the following matters:
 - a) The activities of the Company since the date of the First Report;
 - b) The activities of the Proposal Trustee since the date of the First Report;
 - c) A 33-day extension of the stay of proceedings from May 29, 2021 up to and including June 30, 2021 (the “**Second Extension Period**”), as permitted under section 50.4(9) of the BIA;
 - d) The Company’s updated weekly cash flow forecast on a consolidated basis for the period May 14, 2021 to June 30, 2021 (the “**Second Cash Flow Forecast**”) and an amended interim financing agreement (the “**Amended Interim Financing Agreement**”) to reflect the Second Cash Flow Forecast;
 - e) The Company’s reported actual receipts and disbursements for the period April 23, 2021 to May 13, 2021;
 - f) The terms of an asset purchase agreement dated April 23, 2021 (“the **APA**”) between the Company and Spa Lady (West) Inc. (a related non-operating entity, not subject to a NOI) and Ayrfit West Inc., Ayrfit Alberta Inc., and Ayrfit Edmonton Inc. (collectively, the “**Purchasers**”) for the sale of substantially all of the Company’s remaining business (the “**Transaction**”) and the amended asset purchase agreement dated May 20, 2021 (the “**Amended APA**”);
 - g) Sealing the first confidential supplemental report (the “**First Confidential Supplemental Report**”) to be filed by the Proposal Trustee until three months after the closing of the Transaction, or upon further order of the Court; and
 - h) The Proposal Trustee’s recommendations.
9. Disclosure of the information contained in the First Confidential Supplemental Report could cause irreparable prejudice to creditors and other stakeholders. In the event that the Transaction does not close, the Company’s ability to maximize realizations could be severely compromised due to the

appraisal information being in the public domain. As such, the Proposal Trustee seeks a limited sealing order; which would seal the First Confidential Supplemental Report.

Restrictions and Scope Limitation

10. In preparing this Second 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 Proposal Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Proposal 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.
11. 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.
12. 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.
13. Capitalized terms not otherwise defined herein are defined in the Company’s application materials. The Second Report should be read in conjunction with the First Report and the affidavit of Peter Melnychuk dated May 21, 2021 (the “**Third Melnychuk Affidavit**”) as certain information contained in the First Report and the Third Melnychuk Affidavit has not been included herein to avoid unnecessary duplication.
14. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

2. *ACTIVITIES OF THE COMPANY SINCE THE FIRST REPORT*

The Company's Activities

15. The Company's activities since the date of the First Report have included, *inter alia*, the following:
- a) Corresponding with its stakeholders, including employees, customers and landlords in respect of the NOI filing;
 - b) Working with the Purchasers to conclude the outstanding matters in respect of the Transaction and to waive conditions;
 - c) Disclaiming certain leases as described below;
 - d) Engaging in matters relating to the restructuring, including financing and the Transaction;
 - e) Working with the Proposal Trustee to prepare and subsequently update/revise the Company's cash flow projections and weekly variance analyses and working with the Interim Lender in respect of Interim Facility drawings; and
 - f) Reporting its receipts and disbursements.

Leases disclaimed

16. The Company has worked with the Purchasers, with the assistance of its advisors and in consultation with the Proposal Trustee, to review all its current leases and determine which premises will be required pursuant to the Transaction. Accordingly, the focus has been on retaining profitable locations and vacating unprofitable locations.
17. The Company has disclaimed a total of eight leases as follows:
- a) On April 30, 2021, leases at St. Albert, Edmonton City Centre and Bay Club;
 - b) On May 7, 2021, leases at West Edmonton Mall and Bankers Hall; and
 - c) On May 12, 2021 leases at Mayfield, Midnapore and Gateway.

18. The Proposal Trustee was consulted about the lease disclaimers. The disclaimed locations had a declining trend in memberships, leading to lower revenues, and were not profitable. Some locations were not viable, and other locations would require significant renovations and investment. The Company does not have enough capital to make such investments and the Purchasers do not wish to continue these leases.
19. The Purchasers and the Company's management team, in conjunction with their respective advisors, have been diligently negotiating with various landlords to reach amended lease agreements in locations that are required moving forward. The Proposal Trustee has been advised that negotiations are still ongoing but are progressing towards amended lease arrangements being finalized by the end of May 2021.
20. Further disclaimers are anticipated, and the Proposal Trustee understands that the Company may make a subsequent application to this Honourable Court for assignment of certain leases. Rent due for post-filing periods is being paid for the disclaimer periods.

3. *ACTIVITIES OF THE PROPOSAL TRUSTEE SINCE THE FIRST REPORT*

21. The Proposal Trustee has undertaken the following activities since the NOI filing:

- a) Sent out the statutory notices within five days of the Company's NOI filing to creditors in accordance with section 50.4(6) of the BIA;
- b) Established and maintained a website where all materials filed with the Court and all orders made by the Court are available to the public;
- c) Assisted the Company with the preparation and subsequent revisions/updates of the Company's cash flow projections, including a review of the underlying assumptions;
- d) Monitored the Company's receipts and disbursements and assisted with ongoing reporting of variances to the Company's cash flow projections;
- e) Implemented procedures to monitor the Company's cash flows and ongoing reporting variances on a weekly basis;
- f) Communicated with creditors, employees and counsel for matters in relation to the NOI proceeding;
- g) Held funds in escrow within the Proposal Trustee's general trust account for the benefit of the Company upon completion of the closing conditions to the Transaction;
- h) Assisted the Company in the preparation of the disclaimer of certain leases; and
- i) Prepared and finalized the First Report, The First Supplemental report, the Second Report and the First Confidential report.

4. **CASH FLOW**

22. On May 18, 2021, the Proposal Trustee received the Second Cash Flow Forecast. The Second Cash Flow Forecast is attached hereto as **Appendix “B”** and is summarized below:

International Fitness Holdings (Consolidated)	
Consolidated cash flow forecast	
For the period May 14, 2021 to June 30, 2021	
In CAD\$ Unaudited	Total
Receipts	
Assumed Billings	140,000
Operating Disbursements	
Wages and Benefits	681,078
Wages and Benefits - Accrual for future payments relating to DIP funded obligations	95,000
Rent & General Expenses	1,993,791
GST	65,000
GST - Accrual for future payments relating to DIP funded obligations	65,000
Total Disbursements	2,899,869
Net Cash Flow from Operations	(2,759,869)
DIP Facility Funding	2,420,563
Opening Cash Balance	1,025,030
Less: Wages and Benefits in Arrears (Pre-filing Obligations of Vendor)	137,289
Less: GST Accrual (Pre-filing Obligation of Vendor)	(56,990)
Less: Key Supplier AP Payments (Pre-filing Obligations of Vendor)	(142,488)
Ending Cash Balance	623,535

23. The Proposal Trustee has reviewed the Second Cash Flow Forecast and notes that the assumptions used for the Second Cash Flow Forecast are similar to the Revised Cash Flow Forecast.
24. Key differences between the Revised Cash Flow Forecast and the Second Cash Flow Forecast are as follows:
- a) The Second Cash Flow Forecast extends the forecast period up to June 30, 2021 to include the entire proposed extension period;
 - b) Timing differences related to certain disbursements such as wages, rent, general expenses and pre-filing obligations;
 - c) Disclaimed lease agreements have been considered in the preparation of the Second Cash Flow Forecast;

- d) No revenue was included on the Revised Cash Flow Forecast whereas virtual training sessions collections are included in the Second Cash Flow Forecast, which have been estimated based on actual results over the last few weeks;
 - e) Wages were forecast to be lower due to current staffing levels; and
 - f) Pre-filing obligations for wages and benefits were expected to be paid the week of April 23, 2021, however, due to a timing difference, approximately \$75,000 is expected to be paid the week of May 21, 2021. The amount included in the Second Cash Flow Forecast is offset by approximately \$212,000 collected on the week of May 21, 2021 from the Canada Wage Emergency Subsidy (“CEWS”) not included in the Revised Cash Flow Forecast.
- 25. Overall, the Second Cash Flow Forecast estimates a negative cash flow from operations over the forecast period of \$2.4 million, which will be funded by draws from the available Interim Financing.
- 26. The original Interim Financing Agreement contemplated a maturity date of May 31, 2021 based on the Outside Date as defined in the APA. The Company negotiated with its Interim Lender an Amended Interim Financing Agreement which provides for a later Outside Date of June 30, 2021 (the “**Amended Outside Date**”). The Interim Facility provides a limit of \$10 million which is sufficient to fund the operations until the Amended Outside Date.
- 27. The Proposal Trustee reviewed the Second 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 Trustee fulfilling their statutory responsibilities under the BIA in respect of a Proposal Trustee report on the cash flow forecast.
- 28. Based on the review, nothing has come to the Proposal Trustee’s attention that causes it to believe that in all material respects:
 - a) The hypothetical assumptions are not consistent with the purpose of the Second Cash Flow Forecast;

- b) As of the date of the Second Report, the probable assumptions developed by management are not suitably supported and consistent with plans of the Company or do not provide a reasonable basis for the Second Cash Flow Forecast; or
- c) The Second Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

5. ***VARIANCE ANALYSIS***

29. Below is the variance between forecasted results from the Revised Cash Flow Forecast and actual results for the week ending April 23, 2021 to May 13, 2021 (the “**Variance Period**”):

International Fitness Holdings (Consolidated)			
Cash flow variance analysis for the weeks ended April 23, 2021 to May 13, 2021			
In CAD \$	Actual	Forecast	Variance
Receipts			
Assumed Billings	626,697	621,520	5,177
Other Receipts	115,438	100,000	15,438
Total Receipts	742,135	721,520	20,615
Disbursements			
Refunds	10,166	100,000	(89,834)
Wages and Benefits	319,368	322,000	(2,632)
Rent	433,398	704,488	(271,090)
General Expenses	139,897	150,000	(10,103)
Total disbursements	902,829	1,276,488	(373,659)
Net change in cash from operations	(160,694)	(554,968)	394,274
DIP Facility			
Ongoing DIP Facility Requirement	500,000	554,968	(54,968)
Opening cash	1,202,083	1,202,083	-
Less: Wages and Benefits in Arrears (Pre-filing Obligations of Vendor)	(391,857)	(490,000)	98,143
Less: GST Accrual (Pre-filing Obligation of Vendor)	(56,990)	(113,980)	56,990
Less: Key Supplier AP Payments (Pre-filing Obligations of Vendor)	(67,512)	(210,000)	142,488
Ending Cash/ (Drawings)	1,025,030	388,103	636,927

30. Ending cash balance is \$636,927 higher than forecast due to lower than forecast disbursements in the period to date.
31. The net cash flow from operations during the Variance Period was approximately \$394,274 higher than projected due to lower disbursements as the clubs continue to be closed.
32. The Company estimated Interim Facility drawings of \$554,968, while actual drawings were \$500,000.
33. Key differences in the variance period are mainly due to the following:
- Higher than expected receipts of approximately \$20,615, principally from virtual training sessions which, given the uncertainty of the latest provincial restrictions, had not been originally projected;

- b) Lower than expected refunds and general expenses of approximately \$100,000 due to the closure of additional locations;
- c) A timing difference related to rent payments expected to reverse in the upcoming weeks and included as part of the Second Cash Flow Forecast; and
- d) Pre-filing obligations of the Company for wages and benefits, GST and key supplier payments have been lower than expected by \$297,621 mainly due to a timing difference which will reverse in the following weeks and has been included as part of the Second Cash Flow Forecast.

6. *PROPOSED TRANSACTION*

34. In September of 2020, the Company engaged MNP Corporate Finance Inc. (“MNP”) to undertake a strategic review of options for the Company, including a sale of the Company’s assets (the “**Marketing Process**”), in order to maximize value for all stakeholders, which steps included:
- a) Preparing a confidentiality agreement, a confidential information memorandum (“**CIM**”), a club overview package, a financial databook, and a comprehensive financial model;
 - b) Performing analyses and developing a list of potential purchasers of the Company’s assets;
 - c) Contacting 120 potential purchasers; and
 - d) Providing non-disclosure agreements, confidential information memorandums and access to an electronic data room to 25 potentially interested parties.
35. A total of four parties submitted letters of interest for the purchase of the Company’s assets by the November 11, 2020 deadline (collectively, the “**Interested Parties**”). Negotiations with Interested Parties continued from November 12, 2020 to February 24, 2021, resulting eventually in the Transaction and the APA.
36. Attached as an appendix to the First Confidential Supplemental Report is the MNP report detailing the strategic process.

7. THE ASSET PURCHASE AGREEMENT

37. On April 23, 2021 the Company entered into an APA with the Purchasers, the APA was amended on May 20, 2021. A copy of the Amended APA (with the purchase price and other confidential information redacted) is attached as part of the Third Melnychuk Affidavit.
38. The Proposal Trustee has prepared the First Confidential Supplemental Report which includes a complete copy of the MNP report, including the CIM. The Proposal Trustee is seeking to have the First Confidential Supplemental Report sealed by order of the Court so as to maintain the competitive nature of the Marketing Process in the event the Amended APA does not close for any reason.
39. The terms and conditions of the Amended APA are further detailed in the First Confidential Supplemental Report, which, upon approval by this Honourable Court, will transfer title to the Purchased Assets from the Company to the Purchasers.
40. The material terms of the Amended APA are detailed in the First Confidential Supplemental Report but include:
- a) Operation by the Purchasers of certain locations going forward;
 - b) Purchase by the Purchasers of all equipment at all current locations of the Company on the NOI date, as detailed on schedule 2.1(b) of the Amended APA;
 - c) Purchase by the Purchasers of all inventories, accounts receivable, IP Assets, deposits, prepaid expense, all goodwill, the list of email addresses of members and the Purchased Contracts;
 - d) Payment by the Purchasers of consideration including a cash purchase price, the Secured Promissory Note, Purchaser Consideration Shares and the value of Assumed Liabilities (including the Interim Financing), all as defined in the Amended APA, which are assumed by the Purchasers; and
 - e) A reduction in the Purchase Price to reflect amounts drawn under the Interim Financing facility.

41. The Amended APA is not conditional on financing and includes a limited number of closing conditions, which the Proposal Trustee believes to be reasonable and achievable.
42. The Purchasers are acquiring the Purchased Assets on an “as is, where is” basis.
43. Upon Court approval of the Transaction, if granted, the Company will immediately commence work to address the closing conditions with a view to closing the Transaction as soon as possible. The Proposal Trustee will receive (in trust for and on behalf of the Company) the Closing Cash Payment, as defined in the Amended APA, in immediately available funds in respect of the Transaction.
44. Additionally, a number of employees may retain ongoing employment as a result of the Transaction that would otherwise lose employment if the Transaction did not occur.

Proposal Trustee’s Observations

45. Given the lack of available funding in order to continue operations as a going concern, the only alternative to the Transaction is a liquidation of the Company’s assets through a bankruptcy proceeding.
46. In order to consider the reasonableness of the Transaction, the Proposal Trustee reviewed a report (the “**Appraisal**”) prepared by Century Appraisals on February 4, 2021 providing its opinion of the Fair Market Value, the Orderly Liquidation Value, and the Forced Liquidation Value of the Company’s assets. A copy of the Appraisal is included in the First Confidential Supplemental Report. The Appraisal contains confidential information which, if made public, would adversely affect any subsequent marketing efforts if the Transaction does not close for any reason.
47. The Proposal Trustee has prepared a schedule comparing the potential recoveries in a liquidation scenario to the net realizations under the Transaction (the “**Liquidation Analysis**”), which is included in the First Confidential Supplemental Report. As detailed in the Liquidation Analysis, the net realizations under the Transaction exceed the potential recoveries under a bankruptcy filing.
48. In respect of the Transaction, the Proposal Trustee has reviewed the key factors which the Court is required to consider pursuant to section 65.13(4) of the BIA. The Proposal Trustee is satisfied that these factors are met, specifically:

- a) Section 65.13(4)(a) - The Proposal Trustee is of the view that the Marketing Process was reasonable and appropriate in the circumstances. The Company's assets were broadly exposed to the market of potential purchasers and the APA was rigorously negotiated between all parties, including respective legal counsel;
- b) Section 65.13(4)(b) - The Proposal Trustee agrees that the process leading up to the Transaction was appropriate in the circumstances. MNP was engaged and the Marketing process was undertaken in a thorough and professional matter;
- c) Section 65.13(4)(c) - As will be set out in detail in the First Confidential Supplemental Report, the Transaction, if closed, will result in the highest value for the stakeholders of the Company, as only one offer was received and net overall realizations thereunder are anticipated to be in excess of a liquidation under a bankruptcy proceeding;
- d) Section 65.13(4)(d) - The two major secured creditors, Canadian Imperial Bank of Commerce and TriFit, support the transaction;
- e) Section 65.13(4)(e) - In the circumstances, the Transaction represents the greatest benefit to all stakeholders (including employees, landlords, etc.) as it results in a certain degree of business continuity; and
- f) Section 65.13(4)(f) - In the Proposal Trustee's view, the consideration provided for under the Transaction is reasonable and fair, considering the offers received, the current economic environment, and the fair market value of the assets being sold.

8. *PROPOSAL TRUSTEE'S RECOMMENDATIONS*

49. Based on the Proposal Trustee's review of the Company's operations and restructuring efforts as of the date of the Second Report, the Proposal Trustee is of the view that:

- a) Pursuant to section 50.4(9) of the BIA, the Company appears to be acting in good faith and with due diligence;
- b) The Proposal Trustee is of the view that the Company's creditors will not be materially prejudiced by the Second Extension; and
- c) The Proposal Trustee is supportive of the Company's application.

This Report is respectfully submitted this 21st 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”
INITIAL ORDER

COURT FILE
NUMBERS 25-2731795
25-2731797
25-2731799

COURT COURT OF QUEEN'S BENCH OF
ALBERTA

JUDICIAL CENTRE CALGARY

MATTER

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL UNDER THE *BANKRUPTCY AND INSOLVENCY ACT*,
R.S.C. 1985, c. B-3, AS AMENDED, OF

INTERNATIONAL FITNESS HOLDINGS INC.

INTERNATIONAL FITNESS HOLDINGS LP

WORLD HEALTH NORTH LP

APPLICANTS INTERNATIONAL FITNESS HOLDINGS INC., INTERNATIONAL
FITNESS HOLDINGS LP and WORLD HEALTH NORTH LP

DOCUMENT **ORDER**

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

STIKEMAN ELLIOTT LLP

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File No.: 137923-1006

**Counsel for the Applicants, International Fitness Holdings Inc.,
International Fitness Holdings LP and World Health North LP**

DATE ON WHICH ORDER WAS PRONOUNCED: May 5, 2021

NAME OF JUDGE WHO MADE THIS ORDER: The Honourable Madam Justice L.B. Ho

LOCATION OF HEARING: Calgary, via Webex



55337

UPON the Application of International Fitness Holdings Inc., International Fitness Holdings LP and World Health North LP (collectively, the **"Applicants"**); **AND UPON** reading the Order; **AND UPON** reading the Affidavit of Peter Melnychuk sworn on April 26, 2021 (the **"Melnychuk Affidavit"**); **AND UPON** reading the supplemental Affidavit of Peter Melnychuk sworn on May 4, 2021; **AND UPON** reading the First Report of KPMG Inc., in its capacity as proposal trustee of IFH (the **"Proposal Trustee"**) dated April 27, 2021; **AND UPON** reading the First Supplemental Report of the Proposal Trustee dated May 3, 2021; **AND UPON** hearing submissions by counsel for the Applicants and any other counsel or other interested parties present,

IT IS HEREBY ORDERED THAT:

1. The time for delivery of the Application and supporting materials is hereby abridged and service is deemed to be good and sufficient;
2. Capitalized terms not otherwise defined in this Order shall have the meaning set forth in the Melnychuk Affidavit;
3. The Stay Period is hereby extended for an additional period of five (5) days (i.e. until May 28, 2021);
4. The Applicants are hereby authorized to obtain and borrow under a debtor-in-possession credit facility from First Canadian Cardio-Fitness Clinics Ltd. (the **"DIP Lender"**) in an amount of up to \$10,000,000.00 (the **"DIP Facility"**) in accordance with the terms of the DIP Term Sheet attached as Exhibit "E" to the Melnychuk Affidavit (the **"DIP Term Sheet"**);
5. The Applicants are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the **"Definitive Documents"**), including such documents already granted to the DIP Lender, as are contemplated by the DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the Applicants are hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the DIP Term Sheet and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order;

6. The DIP Lender is hereby granted, and is entitled to the benefit of, a charge over the Applicants' current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**") in order to secure the performance and payment of all obligations described in the DIP Facility (the "**DIP Charge**");
7. The following professionals are hereby granted a priority charge over the Applicants' Property to secure the payment of their respective fees and disbursements incurred in connection with these proceedings up to an amount of \$300,000.00: (i) the Proposal Trustee; and (ii) the Proposal Trustee's counsel (the "**Administration Charge**");
8. The Applicants shall indemnify their current and future directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicants following the NOI Filing Date, except to the extent that, with respect to any director or officer, the obligation or liability was incurred as a result of the director's or officer's gross negligence or willful misconduct;
9. The current and future directors and officers of the Applicants are granted a charge over the Applicants' Property securing the payment of the amounts for which the Applicants may be called upon to indemnify its current and future directors and officers, acting in such capacity following the NOI Filing Date, when and if D&O insurance coverage is denied or insufficient, in an amount up to \$600,000.00 (the "**D&O Charge**", and together with the DIP Charge and the Administration Charge, the "**Charges**");
10. Notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the D&O Charge, and (b) the Applicants' current and future directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 11 of this Order;
11. The priority ranking of the Charges shall be as follows:
 - a) Administration Charge;

- b) DIP Charge; and
 - c) D&O Charge;
12. The filing, registration or perfection of the Charges shall not be required, and the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect;
 13. Subject to paragraph 14 of this Order, the Charges shall constitute a charge on the Applicants' assets and such Charges shall rank in priority to all other security interests, trust, liens, charges and encumbrances and claims of secured creditors, statutory or otherwise (collectively "**Encumbrances**") in favour of any person;
 14. Notwithstanding paragraph 13 hereof, the DIP Charge shall at all times rank subordinate to any "Permitted Priority Liens" (as such term is defined in the DIP Term Sheet) against the Applicants' assets;
 15. Except as otherwise expressly provided for herein, or as may be approved by the Court, the Applicants shall not grant any Encumbrances over any assets that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicants obtain the prior written consent of the beneficiaries of the Charges or further order of this Court;
 16. The Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (the "**Chargees**") thereunder shall not otherwise be limited or impaired in any way by:
 - a) the pendency of these proceedings and the declarations of insolvency made in this Order;
 - b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications;
 - c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA;

- d) the provisions of any federal or provincial statutes; or
 - e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) that binds the Applicants, and notwithstanding any provision to the contrary in any Agreement: (i) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents in respect thereof shall create or be deemed to constitute a new breach by the Applicants of any Agreement to which it is a party; (ii) none of the Chargees shall have any liability to any person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and (iii) the payments made by the Applicants pursuant to this Order and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct or other challengeable or voidable transactions under any applicable law;
17. Any interested person may apply to this Court on notice to any other party likely to be affected for an order to allocate the Charges amongst the various assets of the Applicants;
18. Any party to these proceedings may serve any court material in these proceedings by emailing a PDF or other electronic copy of such materials to counsel’s email addresses as recorded on the Service List to be maintained by the Proposal Trustee, and the Proposal Trustee shall post a copy of all prescribed materials on its website;
19. Any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.



Justice of the Court of Queen's
Bench of Alberta

APPENDIX “B”

SECOND CASH FLOW FORECAST

International Fitness Holdings (Consolidated)
Cash Flow Projection - DIP Funding Forecast
23-Apr-21 to 30-Jun-21

		Actual Week 1	Actual Week 2	Actual Week 3	Projection Week 4	Projection Week 5	Projection Week 6	Projection Week 7	Projection Week 8	Projection Week 9	Projection Week 10	
For the week ending, In CAD	Notes	30-Apr-21	7-May-21	14-May-21	21-May-21	28-May-21	4-Jun-21	11-Jun-21	18-Jun-21	25-Jun-21	30-Jun-21	Total
Opening Cash Balance		1,202,083	1,510,009	1,477,105	1,025,030	561,346	623,535	623,535	623,535	623,535	623,535	1,202,083
Less: Wages and Benefits in Arrears (Pre-filing Obligations of Vendor)	1	-	(182,276)	(209,581)	137,289							(254,568)
Less: GST Accrual (Pre-filing Obligation of Vendor)	2	(56,990)			(56,990)							(113,980)
Less: Key Supplier AP Payments (Pre-filing Obligations of Vendor)	3	(30,816)	(32,729)	(3,967)	(142,488)							(210,000)
NOI Filing Date Net Cash Position	4	1,114,277	1,295,004	1,263,557	962,841	561,346	623,535	623,535	623,535	623,535	623,535	623,535
DIP Facility												
DIP Facility True-up Payment	5	-	-	-	-	-	-	-	-	-	-	-
Ongoing DIP Facility Requirement	6	-	-	500,000	284,772	455,601	305,047	380,047	280,047	445,047	270,000	2,920,563
Total DIP Facility Funding		-	-	500,000	284,772	455,601	305,047	380,047	280,047	445,047	270,000	2,920,563
Receipts												
Assumed Billings	7	325,446	242,578	58,673	20,000	20,000	20,000	20,000	20,000	20,000	20,000	766,697
Other Receipts	8	78,005	32,702	4,731	-	-	-	-	-	-	-	115,438
Total Receipts		403,451	275,280	63,404	20,000	20,000	20,000	20,000	20,000	20,000	20,000	882,135
Operating Disbursements												
Refunds	9	-	10,166	-	-	-	-	-	-	-	-	10,166
Wages and Benefits	10	-	-	319,368	(48,923)	230,000	80,000	155,000	55,000	155,000	55,000	1,000,446
Wages and Benefits - Accrual for future period payments relating to DIP funded obligations	11	-	-	-	-	-	-	-	-	-	95,000	95,000
GST	12	-	-	-	-	-	-	-	-	65,000	-	65,000
GST - Accrual for future period payments relating to DIP funded obligations	13	-	-	-	-	-	-	-	-	-	65,000	65,000
Rent & General Expenses	14, 15	7,719	83,013	482,563	755,190	183,412	245,047	245,047	245,047	245,047	75,000	2,567,086
Total Disbursements		7,719	93,179	801,931	706,267	413,412	325,047	400,047	300,047	465,047	290,000	3,802,698
Net Cash Flow from Operations		395,732	182,101	(738,527)	(686,267)	(393,412)	(305,047)	(380,047)	(280,047)	(445,047)	(270,000)	(2,920,563)
Net Cash Flow After DIP Funding		395,732	182,101	(238,527)	(401,495)	62,189	-	-	-	-	-	-
Ending Cash Balance		1,510,009	1,477,105	1,025,030	561,346	623,535	623,535	623,535	623,535	623,535	623,535	623,535

Notes

- Consists of payroll in arrears for one week pre filing (includes wage subsidies)
- Standard GST remittance accrual relating to prior period obligations
- Payments relating to AP outstanding with key suppliers as at filing date
- NOI Filing Date Net Cash Position of \$623,535
- DIP true-up payment to cover interim period funded by NOI Filing Date Net Cash
- Actual / Implied DIP facility funding requirement
- Based on actual / projected billings
- Consists of payments collected in-club and other miscellaneous point of sale transactions
- Refunds relating to the week of May 7th billings
- Standard wages and benefits (includes wage subsidies)
- Accrual to capture obligations of current entity relating to wages earned pre Outside Date but paid post Outside Date
- Standard projected GST remittances
- Accrual to capture GST obligations of current entity concerning amounts incurred pre Outside Date but paid post Outside Date
- Based on one full month (May) rent payment for all clubs; negotiated rent thereafter
- 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