



**Report of
KSV Restructuring Inc.
as Proposed Receiver of
G.I. Sportz Inc., Tippmann US Holdco Inc.,
GI Sportz Direct LLC, Tippmann Finance LLC,
Tippmann Sports, LLC and
Mission Less Lethal LLC**

October 9, 2020

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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
No: _____

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE RECEIVERSHIP
OF:

G.I. SPORTZ INC.,
TIPPMANN US HOLDCO INC.,
GI SPORTZ DIRECT LLC,
TIPPMANN FINANCE LLC,
TIPPMANN SPORTS, LLC AND
MISSION LESS LETHAL LLC

Debtors

-and-

GIS Debt Acquisition Partnership

Petitioner

-and-

KSV Restructuring Inc.

Proposed Receiver

REPORT OF
KSV RESTRUCTURING INC.
AS PROPOSED RECEIVER
October 9, 2020

1.0 Introduction

1. This report (“Report”) is filed by KSV Restructuring Inc. (“KSV”) as proposed receiver (the “Receiver”) of the property, assets and undertaking of G.I. Sportz Inc. (“G.I. Canada”) and five of its direct and indirect US subsidiaries, being Tippmann US Holdco Inc. (“Tippmann Holdco”), G.I. Sportz Direct LLC (“G.I. US”), Tippmann Finance LLC (“Tippmann Finance”), Tippmann Sports LLC (“Tippmann Sports”) and Mission Less Lethal LLC (“MLL”) (collectively, the “US Debtors” and together with G.I. Canada, the “Companies”).
2. KSV understands that GIS Debt Acquisition Partnership (“GIS”), the Companies’ principal secured creditor, intends to bring a receivership application before the Superior Court (Commercial Division) of the Province of Quebec, District of Montreal (the “Quebec Court”) for an order (the “Receivership Order”), *inter alia*, placing the Companies in receivership and appointing KSV as Receiver of the Companies’ property, assets and undertakings (the “Canadian Proceedings”). KSV has consented to act as Receiver should the Quebec Court grant the Receivership Order.

3. The proposed Receivership Order, if granted, would also appoint KSV as the Companies' foreign representative. If the Quebec Court grants the Receivership Order, the Receiver intends to immediately file petitions, in its capacity as foreign representative of the Companies, seeking recognition of the Canadian Proceedings as foreign main proceedings under Chapter 15 of title 11 of the United States Code in The United States Bankruptcy Court for The District of Delaware (the "US Court") (the "US Proceedings" and together with the Canadian Proceedings, the "Proceedings").
4. The primary purpose of these Proceedings is to complete a going-concern sale between the Receiver, as vendor, and Kore Outdoor Inc. and Kore Outdoor (US) Inc., affiliates of Fulcrum Capital Partners (Collector) V, LP ("Fulcrum"), the Companies' majority shareholder and an affiliate of GIS, as purchaser (collectively, the "Purchaser"), for substantially all of the Companies' business and assets pursuant to an Asset Purchase Agreement to be entered into, subject to the Quebec Court's approval, between the Receiver and the Purchaser (the "Transaction").
5. Immediately following provisional recognition of the Canadian Proceedings by the US Court, the Receiver intends to bring a motion before the Quebec Court recommending that it approve the Transaction. If the Quebec Court issues an order approving the Transaction, the Receiver intends to immediately seek recognition of that order by the US Court.

1.1 KSV's Prior Mandate

1. On April 30, 2020, KSV¹ was engaged by Fulcrum, in its capacity as the Companies' controlling shareholder, to consider restructuring options for the Companies. KSV's engagement letter contemplates that its mandate will terminate immediately upon its appointment as court officer in any insolvency proceeding involving the Companies, following which KSV's duties and obligations would be governed by statute and by any court order appointing it.
2. In carrying out its prior mandate, KSV obtained background information concerning the Companies' business and operations and performed financial analyses. KSV was cognizant throughout its prior mandate that the Companies are insolvent and that it is likely that it would be appointed as a court officer in these proceedings. The information KSV obtained about the Companies during its prior mandate forms the basis for its recommendations, including concerning the contemplated Transaction.

1.2 Purposes of this Report

1. The purposes of this Report are to:
 - a) provide information about the Companies and the pending receivership proceedings;
 - b) provide evidence that Quebec is the centre of main interest ("COMI") and that the Quebec Court should have principal jurisdiction for these proceedings;

¹ KSV's affiliate, KSV Advisory Inc., was engaged for this advisory mandate. KSV is a wholly-owned subsidiary of KSV Advisory Inc.

- c) discuss a debt assignment transaction between GIS and Bank of Montreal (“BMO”) completed on September 10, 2020, whereby BMO’s debt of approximately \$36.4 million was assigned at a significant discount to GIS (the “Debt Assignment”);
- d) summarize security opinions provided by Canadian and US legal counsel to the Receiver, in respect of GIS’s security in the Province of Quebec and in the States of New York, Delaware and Indiana;
- e) summarize the Administration Charge and the Receiver’s Borrowing Charge (each as defined in Section 5 below); and
- f) recommend that the Quebec Court issue an order appointing the Receiver as foreign representative of the Companies for the purpose of the US Proceedings, approving the Administration Charge and the Receiver’s Borrowing Charge, sealing the Confidential Appendix to this Report and approving the proposed procedural consolidation of the Companies’ receivership proceedings.

1.3 Restrictions

1. In preparing this Report, KSV has relied upon the Companies’ unaudited financial information. KSV has not audited, reviewed or otherwise verified the accuracy or completeness of the information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook.
2. KSV expresses no opinion or other form of assurance with respect to the financial information presented in this Report or relied upon by KSV in preparing this Report. Reliance on the financial information in this Report by any third party for investment or credit purposes shall not be considered sufficient and such parties are strongly advised to perform their own due diligence. KSV shall have no responsibility for any reliance placed on the financial information presented in this Report by any investor, creditor or other stakeholder.
3. Future oriented financial information relied upon in this Report is based upon assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. Future events include consumer, supply chain, governmental and other macro-economic factors resulting from the Covid-19 pandemic. The full impact of Covid-19 is unknown and cannot be determined at this time.

1.4 Currency

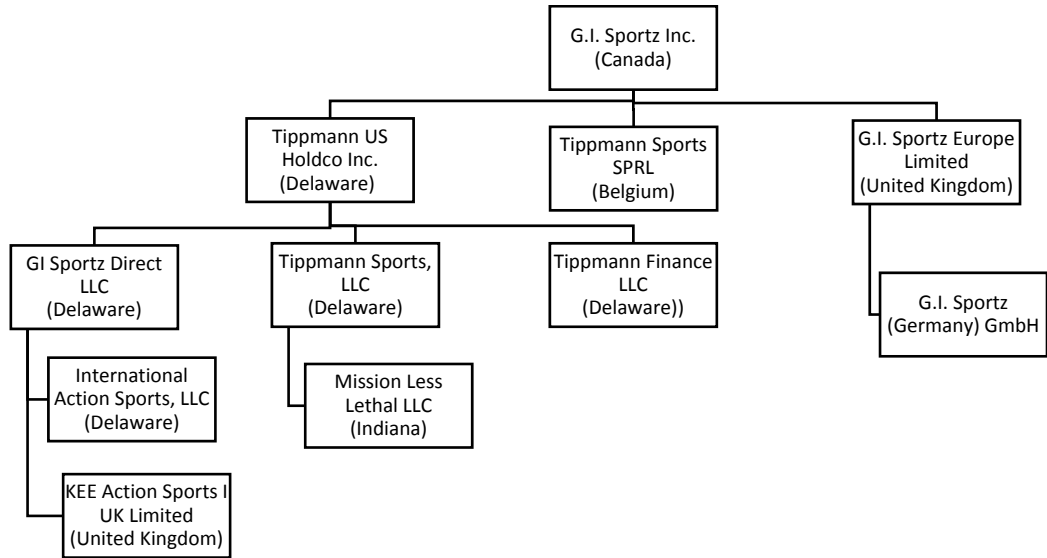
1. Unless otherwise noted, all currency references in this Report are in US dollars.

2.0 Background

1. The Companies manufacture and distribute paintballs, markers and related accessories. Paintball is played in large groups of people and in teams. As a result, the Covid-19 pandemic has had a significant negative impact on the Companies due to US and Canadian government policies mandating social distancing. The Companies' operations effectively ceased between March and July 2020 and only resumed in August, with Covid-19 continuing to present a risk to the business.
2. G.I. Canada's business was acquired out of an insolvency process in 2010 by Richmond Italia, a prominent professional paintball player. Mr. Italia indirectly owns 20.76% of G.I. Canada. Since Fulcrum's acquisition in 2015 of G.I. Canada, the business grew through expansion of its product offering and by acquisition. The Companies' current corporate organizational chart is set out in Section 2.1 below.
3. The Companies serve a global customer base of over 3,000 paintball fields and stores. G.I. Canada is recognized as a global leader in the manufacturing of high-quality paintballs. G.I. Canada markets its paintball products to individuals at all levels of play, from entry level to competitive play market segments.
4. G.I. Canada is able to produce over four billion paintballs annually by using 22 soft-gel encapsulation machines, nearly four times as many machines as its next closest competitor. It sells its paintballs, gear, accessories and markers worldwide to both paintball fields and mass market channels, including to Walmart, Dick's Sporting Goods and Academy Sports & Outdoors.
5. Fulcrum, an affiliate of GIS, is the Companies' majority shareholder by virtue of its 53.8% interest in G.I. Canada. On September 10, 2020, GIS acquired BMO's secured debt of approximately \$36.4 million at a substantial discount pursuant to the Debt Assignment.
6. On September 14, 2020, GIS demanded repayment of the loan and issued a Notice of Intention to Enforce Security pursuant to Section 244 of the *Bankruptcy and Insolvency Act* ("BIA"). GIS has also provided the Companies with *Prior Notice of the Exercise of the Hypothecary Right of Sale by Judicial Authority* under the *Civil Code of Quebec* ("Civil Code") of its intention to sell by judicial authority and seek the appointment of a receiver. KSV understands that the notice periods under the BIA and the Civil Code have elapsed.
7. Subject to obtaining court approval in Canada and the US, the Transaction will see substantially all of the Companies' business and assets in Canada and the US sold to the Purchaser on a going-concern basis. For reasons that will be provided in a subsequent report, the Receiver supports the Transaction.

2.1 Organizational Chart

- The Companies' corporate organizational chart is provided below.



- The business of each entity is as follows:

- G.I. Canada is the parent and main operating company in the group. G.I. Canada employs 140 employees in Quebec, representing approximately 60% of the Companies' total workforce of 235 employees. The workforce is not unionized and it does not maintain any pension plans.

G.I. Canada operates from leased premises in Montreal, Quebec, which serves as the Companies' head office and main production facility. The landlord is an entity owned by Mr. Italia. Mr. Italia is a shareholder of the Companies and of the Purchaser.

- G.I. US is a Delaware company which operates as a distributor of paintball products throughout the US. It employs 78 employees in the US.
- Tippmann Sports was acquired in 2013. It operates from leased premises in Indiana. G.I. US employs the individuals involved in Tippmann Sports' operations. "Tippmann" is a well-known paintball marker and accessory brand. Tippmann Sports' products are manufactured from a leased production facility in Fort Wayne, Indiana.
- MLL offers "Less Lethal" products under the *Mission Less Lethal* brand. Less Lethal products include carbon dioxide powered launchers and non-lethal rounds typically used for crowd control or other less lethal alternatives primarily sold to government, law enforcement agencies and private security providers. MLL's launchers are manufactured at the Companies' leased production facility in Fort Wayne, Indiana.

- e) G.I. Sportz Europe Limited (“G.I. UK”) and G.I. Sportz (Germany) GmbH (“G.I. Germany”) are the European sales and distribution arm of the Companies. G.I. UK and G.I. Germany employ six and 10 employees, respectively.
 - f) Tippmann Finance and Tippmann Holdco are inactive companies. KEE Action Sports I UK Limited, Tippmann Sports Europe, SPRL and International Action Sports LLC are also inactive and are in the process of being dissolved.
3. In addition to the Companies’ two manufacturing facilities in Montreal, Quebec and Fort Wayne, Indiana, the Companies have nine distribution centres throughout North America and Europe, as well as a network of 25 third-party distribution partners.

3.0 Financial Information

3.1 Balance Sheet

1. The Companies’ consolidated balance sheet as at August 31, 2020 is presented below.

Description	US\$000s
<u>Assets</u>	
Cash	10,321
Accounts receivable	7,541
Inventory	13,116
Prepaid expenses and other	2,435
Machinery and equipment	6,860
Intangible assets	2,534
Total Assets	<u>42,807</u>
<u>Liabilities and Equity</u>	
Bank indebtedness	36,063
Accounts payable and accrued liabilities	7,039
Income taxes payable	(1,184)
Export Development Corporation loan	2,638
Paycheck Protection Program loan	1,163
Vendor Take Back Notes	2,943
Total Liabilities	<u>48,662</u>
Shareholders’ Equity/(deficiency)	<u>(5,855)</u>
Total Liabilities and Shareholders’ Equity	<u>42,807</u>

2. Other than cash, the Companies’ working capital assets are its inventory (book value of approximately \$13 million), which is principally comprised of paintball, marker and airsoft products, and accounts receivable owing from various customers, including paintball field operators, specialty stores and mass market retailers. As at August 31, 2020, the book value was approximately \$7.5 million.
3. The Companies’ long-term assets are primarily comprised of machinery and equipment located at production facilities in Montreal and Indiana, and intangible assets, including goodwill, patents and trademarks.

4. The Companies' August 31, 2020 balance sheet reflects negative equity of approximately \$6 million, reflecting accumulated losses of more than \$45 million since January 1, 2018, as discussed in Section 3.5 below.

3.2 Creditors

3.2.1 GIS

1. As at August 31, 2020, GIS was owed approximately \$36.1 million under the credit facilities it acquired from BMO pursuant to the Debt Assignment (the "Senior Credit Facility"). The amount owing as at the date of this Report is approximately \$29.4 million, before interest and costs which continue to accrue. Cash on hand was applied to reduce the amount owing under the Senior Credit Facility.
2. A redacted version of the Debt Assignment Agreement is attached to the Affidavit filed by GIS in support of its receivership application. An unredacted version is attached as Confidential Appendix "1" to this Report. The Receiver recommends that the unredacted version of the Debt Assignment Agreement be filed with the Quebec Court on a confidential basis and remain sealed until further order of the Quebec Court. This will preserve the confidentiality of the amount paid by GIS to BMO in order to address the risk that the availability of this information may negatively impact future recoveries if the Transaction is not completed. The Receiver does not believe that any stakeholder will be prejudiced if the information is sealed at this time.
3. In anticipation of these proceedings, and as part of its diligence on the Companies and the Transaction, KSV retained and instructed independent Canadian and US legal counsel to review the security held by GIS. The results of those opinions are summarized below.
 - a) **Quebec:** Lapointe Rosenstein Marchand Melançon LLP reviewed the security held by GIS in Quebec and issued an opinion providing that, subject to customary assumptions and qualifications contained therein, the security granted under the Senior Credit Facility is valid and enforceable against G.I. Canada's assets in Quebec.
 - b) **Delaware:** Young Conaway Stargatt & Taylor, LLP reviewed the security held by GIS in Delaware and issued an opinion providing that, subject to customary assumptions and qualifications contained therein, the security granted under the Senior Credit Facility is valid and enforceable against the Companies' assets in Delaware.
 - c) **New York and Indiana:** Kramer Levin Naftalis & Frankel LLP reviewed the security held by GIS in the States of New York and Indiana and issued an opinion providing that, subject to customary assumptions and qualifications contained therein, the security granted under the Senior Credit Facility is valid and enforceable against the Companies' assets in New York and Indiana.
4. Copies of the security opinions can be made available to the Quebec Court should it wish to review them.

3.2.2 Export Development Canada

1. On or around September 1, 2016, G.I. Canada issued a secured debenture to Export Development Canada (“EDC”) in the principal amount of \$2.5 million (the “EDC Debenture”). As at August 31, 2020, the Companies’ obligations owing under the EDC Debenture totaled approximately \$2.64 million, plus interest and costs which continue to accrue. The amounts owing to EDC are secured by substantially all of the Companies’ business and assets.
2. Pursuant to a Subordination Agreement dated September 13, 2018, the EDC Debenture is subordinated to the credit facility acquired by GIS from BMO under the Debt Assignment.
3. EDC also has a 9.72% equity interest in G.I. Canada.
4. EDC will be served with GIS’ receivership application materials.

3.2.3 Other

1. Other than GIS and EDC, creditors with registered security interests in certain of the Companies’ assets are reflected in the table below.

Creditor	Registration Date	Asset
BMO	September 10, 2020	BMO holds a registration in respect of the cash collateral securing a \$60,000 MasterCard facility (the “BMO Security”)
Paccar Financial Services Ltd.	July 29, 2015 and July 29, 2016	Two motor vehicles
Xerox Canada Ltd.	December 28, 2015	Photocopier

3.2.4 Unsecured Creditors

1. The book value of the Companies’ trade payables totaled approximately \$2.7 million as at August 31, 2020, which is broken down by entity in the table below.

Entity	0 – 30 Days	31 – 60 Days	61 – 90 Days	91+ Days	Total
GI Canada	642,672	(13,078)	58,645	411,372	1,099,611
GI US	873,645	77,767	65,442	(196,163)	820,691
Tippmann Sports	732,016	12,461	(2,054)	25,613	768,036
MLL	-	493	-	(2,218)	(1,725)
Total	2,248,333	77,643	122,033	238,604	2,686,613

2. The table below reflects that the ten largest vendor balances represent approximately \$1.55 million (56%) of the total accounts payable as at August 31, 2020.

Vendor	Company	Accounts Payable (\$)
G-Shang Metal Corporation	GI US	419,673
Indorama Ventures PTA Montreal LP	GI Canada	318,298
Dow Chemical Canada ULC	GI Canada	193,042
IMCD Canada Limited	GI Canada	146,152
Wise Industrial Company Limited	Tippmann Sports	91,837
Worlite Industry Co. Ltd.	GI US	85,632
On Time Transport	GI Canada	82,900
Tippmann Arms Co. LLC	Tippmann Sports	75,149
Ascent Global Logistics International	GI US	70,325
Hangzhou Silver Bird Sporting Goods	Tippmann Sports	69,116
Total		1,552,124

3. In addition to vendor obligations listed in the table, the Companies' August 31, 2020 internal financial statements also reflect approximately \$2.5 million of accrued payables owing for inventory that was either in transit or received but the corresponding invoice was not yet posted in the payables system.
4. The Companies also have the obligations summarized below.

a) Vendor Take Back Notes ("VTB Notes")

In February 2017, G.I. UK, a subsidiary of G.I. Canada, acquired Manic Paintball Europe LLP and Dark Sports Limited (UK) and G.I. Germany, a subsidiary of G.I. UK, acquired MAXS GmbH. As consideration, G.I. UK and G.I. Germany issued promissory notes to the vendors totaling approximately \$2.94 million. The notes are payable on the fifth anniversary of the transaction (being February 2022). G.I. Canada guaranteed the VTB Notes.

b) Paycheck Protection Program ("PPP") loan

PPP is a program established by the US federal government to provide assistance for small businesses as a result of the Covid-19 pandemic. In April 2020, G.I. US applied for, and received, a PPP loan of approximately \$1.16 million. The Receiver understands that the PPP loan owing by G.I. US is unsecured and remains outstanding as at the date of this Report.

3.3 Income Statement

1. The table below summarizes the Companies' consolidated operating results for its fiscal years ended December 31, 2018 and 2019 and for the eight-month period ending August 31, 2020.

	2020 (eight months) (unaudited)	2019 unaudited)	2018 (audited)
Sales	38,584	71,849	80,443
Cost of sales	(26,380)	(48,341)	(53,373)
Gross margin	12,204	23,508	27,070
Gross margin (%)	31.6%	32.7%	33.7%
Operating expenses	(11,351)	(26,024)	(25,103)
EBITDA	853	(2,516)	1,967
Interest	(1,894)	(2,493)	(2,223)
Depreciation and other	(1,412)	(9,709)	(29,007) ²
Income taxes/recovery	448	860	118
Net profit/(loss)	(2,005)	(13,858)	(29,145)

2. The Companies' operating results reflect, *inter alia*:
 - a) losses since January 1, 2018 total approximately \$45 million;
 - b) losses have continued in the current fiscal year, in part due to the Covid-19 pandemic crisis; and
 - c) since 2018, the Companies have generated negative or negligible EBITDA, which has not been sufficient to service the Companies' debt.

4.0 Center of Main Interest

1. The Receiver is of the view that Montreal is the COMI for the Companies for the following reasons:
 - a) essentially all of the Companies' strategic decision-making and management functions occur in Montreal. The North American operations, including those of the US Debtors, are managed from G.I. Canada's registered office in Montreal, Quebec;
 - b) G.I. Canada has entered into the majority of the Companies' significant contracts and agreements, including the credit agreements with BMO (since assigned to GIS), and has guaranteed the Companies' leases in the US;

² In fiscal 2018, the Companies recorded a \$23.2 million goodwill and intangible asset impairment charge.

- c) the majority of the principals, directors and officers of each of the Companies, including the US Debtors, are Canadian residents, including the majority of the boards of directors. While the CEO is a US resident living in Florida, he often attends at the head office, including for Board meetings. Prior to the Covid-19 pandemic, the CEO spent approximately half of each month at the Montreal head office. The CEO also maintains an office at the head office;
 - d) meetings of the Boards of Directors for each of the Companies are typically convened or chaired in Canada;
 - e) As at the date of this Report, G.I. Canada is the principal obligor on all of the Companies' secured debt;
 - f) the principal secured creditor, GIS, is Canadian and the only other material secured creditor, EDC, is also Canadian;
 - g) all of the paintball inventory, the Company's main product line, is manufactured by G.I. Canada in Quebec. Paintball sales represented 50% of the Companies' annual revenue for the fiscal year ended December 31, 2019;
 - h) the majority of the Companies' administrative functions, including general accounting, financial reporting, budgeting and cash management, is performed by G.I. Canada;
 - i) the Company's human resource function is centralized and managed by G.I. Canada;
 - j) the Companies' main bank accounts are located at a BMO branch in Montreal, Quebec. All of the US Debtors have property and/or bank accounts in Quebec and the treasury management function is centralized at the head office in Montreal, Quebec; and
 - k) the US Debtors are funded by G.I. Canada using a cash management process it coordinates and controls.
2. Each of the US Debtors is a guarantor of the secured obligations owing to GIS, and accordingly, the US Debtors are each insolvent. As well, as noted above, each of the US Debtors has recently opened bank accounts in Canada with nominal deposits and therefore each meet the definition of an "insolvent person" under the BIA. Accordingly, the Quebec Court has the jurisdiction to appoint a receiver over those entities.
3. The Receiver is also of the view that the contemplated cross-border proceeding provides a centralized, fair and cost-efficient process to reorganize the business of the Companies as opposed to concurrent and separate processes in Canada and the US under their respective reorganization legislation.

5.0 Funding of these Proceedings

1. As at the date of this Report, the Companies have approximately \$5.4 million of cash in their bank accounts. These funds are intended to be used to fund Canadian and US operations during these proceedings and the costs of these proceedings. The cash is subject to the security of GIS and funding is in its discretion.
2. The Receivership Order does not contemplate the Receiver opening new bank accounts to control receipts and disbursements. It is contemplated that the Companies will continue to use their existing bank accounts and cash management system in Canada and the US. The Receiver believes this is appropriate because: (a) GIS, the principal economic stakeholder, has consented to this arrangement; (b) it will limit the operational disruption caused by opening new bank accounts in the name of the Receiver; and (c) it will reduce the administrative burden on management and costs involved for the Receiver to control the Companies' receipts and disbursements in Canada and the US. The Receiver intends to monitor the bank account activity throughout the Proceedings.
3. The proposed Receivership Order contemplates two charges on the Companies' business and assets:
 - a) a \$750,000 charge in favour of the Receiver and its counsel, as security for payment of their respective fees and disbursements, which shall form a first charge on the Companies' property (the "Administration Charge"), other than the BMO Security. The Receiver's Charge is customary in Canadian receivership proceedings to protect the professionals involved for their fees and costs if for any reason they are not paid during the proceeding. Given that the receivership proceedings are brought in Quebec, the Transaction documents are governed by Ontario law and the intention is to seek recognition of the Canadian Proceedings in the US, the Receiver has retained Quebec, Ontario and US Counsel. None of the professionals involved in these proceedings has received a retainer; and
 - b) a \$1 million charge to secure any funding provided by GIS during these proceedings (the "Receiver's Borrowing Charge"). Pursuant to the Receivership Order, any such advances, if required, are to be secured by a charge subordinate only to the Administration Charge and the BMO Security, and evidenced by the issuance of Receiver's Certificates by the Receiver. As at the date of this Report, it is not contemplated that funding under the Receiver's Borrowing Charge will be required.
4. The Receiver is of the view that both of these charges are reasonable and appropriate as they are consistent with the model receivership order and will facilitate the orderly administration of these proceedings.

6.0 Procedural Consolidation

1. The proposed Receivership Order contemplates that the Canadian Proceedings will be procedurally consolidated into one file with the Quebec Court.

2. The Receiver believes this is appropriate as it will assist to streamline the Canadian Proceedings, avoid duplicative materials filed in six separate Quebec Court files and provides for the Canadian Proceedings to be administered in a cost-efficient manner.

7.0 Conclusion and Recommendation

1. Based on the foregoing, the Receiver respectfully recommends that the Quebec Court make an order granting the relief detailed in Section 1.2 (f) of this Report.

* * *

All of which is respectfully submitted,

KSV Restructuring Inc.

**KSV RESTRUCTURING INC.,
IN ITS CAPACITY AS THE PROPOSED COURT-APPOINTED RECEIVER OF
G.I. SPORTZ INC., TIPPMANN US HOLDCO INC., GI SPORTZ DIRECT LLC,
TIPPMANN FINANCE LLC, TIPPMANN SPORTS, LLC AND MISSION LESS LETHAL LLC
AND NOT IN ITS PERSONAL CAPACITY**