

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF ALFACON SOLUTIONS LIMITED OF THE TOWN OF
MILTON, IN THE PROVINCE OF ONTARIO

AFFIDAVIT OF WOJCIECH KARWALA
(SWORN OCTOBER 31, 2018)

I, WOJCIECH KARWALA, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY AS FOLLOWS:

1. I am a Senior Manager, Special Loans and Advisory Services, with Royal Bank of Canada (“**RBC**”) and, as such, have knowledge of the matters deposed to in this affidavit. Where the information set out in this affidavit is based upon information which I have received from others, I have stated the source of that information and believe it to be true.
2. This affidavit is sworn in response to the motion brought by Alfacon Solutions Limited (“**Alfacon**”), including the affidavit of John Murdoch (“**Murdoch**”) sworn October 30, 2018 (the “**Murdoch Affidavit**”) and the First Report to the Court of the proposal trustee (the “**Proposal Trustee**”), MNP Ltd., dated October 30, 2018 (the “**First Report**”), for, among other things, an order extending the time for filing a proposal by Alfacon in this proceeding and approving a sale and investment solicitation process (the “**SISP**”) to be undertaken by Alfacon in consultation with its proposal trustee, MNP Ltd. (the “**Proposal Trustee**”).
3. As set out in greater detail below, RBC opposes the relief sought by Alfacon on the basis that Alfacon’s proposed method of funding its operations during the course of the SISP

requires that RBC postpone and subordinate its first-ranking security interest in Alfacon's accounts receivable which would be prejudicial to the Bank and is, thus, unacceptable. As a result, Alfacon will not have the necessary funding to fund its operations without using its accounts receivable which will result in erosion of the value of RBC's security position.

4. As set out in the Murdoch Affidavit, RBC acted as Alfacon's operating lender pursuant to a credit agreement dated October 9, 2014, as amended (the "**Credit Agreement**"). With the exception of security registrations registered by certain equipment lessors, RBC has a first-ranking security interest as against Alfacon's inventory, equipment and accounts, among other collateral.
5. Alfacon and RBC entered into a forbearance agreement in April 2018, which agreement was extended in July 2018 (the "**Forbearance Agreement**"), pursuant to which RBC agreed to forbear from enforcing its security notwithstanding that Alfacon was in default under the terms of the Credit Agreement.
6. RBC issued a demand for repayment and a Notice of Intention to Enforce Security under the *Bankruptcy and Insolvency Act* (Canada) to Alfacon on September 27, 2018 after Alfacon breached the terms of the Forbearance Agreement. Alfacon subsequently filed a Notice of Intention to Make a Proposal (the "**NOI**") on October 2, 2018. Alfacon was indebted to RBC in the amount of approximately \$2,158,586 as at the date of the filing of the NOI.
7. Alfacon seeks, among other things, the extension of the time to file a proposal in its NOI proceeding, which is currently set to expire on November 2, 2018, until December 15, 2018 and the Court's approval of the SISP. As set out in the Murdoch Affidavit, Alfacon believes that the SISP will likely involve a sale of its business and the purpose of the SISP is to identify one or more financiers, purchasers or investors in Alfacon's business with a projected completion date for any transaction(s) to take place by the end of January 2019.

Liquid Capital Factoring Agreement

8. The Murdoch Affidavit states that after the filing date of the NOI, and in consultation with the Proposal Trustee and RBC, Alfacon will implement a factoring arrangement with Liquid Capital Exchange Corp. (“**Liquid Capital**”) to accelerate collection of Alfacon’s accounts receivable (the “**Liquid Capital Factoring Proposal**”).
9. As set out in the First Report, the cash flow projections filed by Alfacon with the Official Receiver and reviewed by the Proposal Trustee (the “**Cash Flow Projections**”) assume that financing will be obtained through the Liquid Capital Factoring Proposal by factoring all amounts billed by Alfacon. The proceeds from the factoring of Alfacon’s accounts receivable will serve to fund the company’s operations during the SISP. A copy of the Cash Flow Projections is attached as Exhibit “C” to the First Report.
10. The First Report states that Alfacon has certain customer orders that will require additional material purchases and in preparing the Cash Flow Projections, Alfacon assumed that it would receive the additional financing needed to make those purchases through the Liquid Capital Factoring Proposal. However, as at the date of its filing the Cash Flow Projections with the Official Receiver, Alfacon allegedly did not yet know the exact costs of the Liquid Capital Factoring Proposal.
11. An executed copy of the Liquid Capital Factoring Proposal was first provided to RBC on October 25, 2018 and a copy is attached hereto as Exhibit “A”. Alfacon filed revised cash flow projections with the Official Receiver on October 26, 2018 incorporating the costs of the Liquid Capital Factoring Proposal and a copy of the revised cash flow projections is attached as Exhibit “D” to the First Report.
12. The statement in the Murdoch Affidavit that RBC was consulted with respect to the Liquid Capital Factoring Proposal is somewhat misleading in that RBC was advised by Alfacon that it would look to factor its accounts receivable to fund its operations during the SISP but RBC had no involvement with any negotiation in respect of the Liquid Capital Factoring Proposal and RBC’s position with respect to any factoring arrangement

always remained subject to the terms of any such arrangement and the definitive documentation in respect thereof being satisfactory to RBC.

13. On October 25, 2018, I received an email from Mike Brandt (“**Brandt**”), the Chief Executive Officer of Monteco Ltd. (“**Monteco**”), Alfacon’s parent, attaching the Liquid Capital Factoring Proposal and on October 28, 2018, I advised Brandt via email that RBC had requested additional information from the Proposal Trustee prior to making a final determination as to whether RBC had any concerns with the Liquid Capital Factoring Proposal. Attached hereto as Exhibit “**B**” is a copy of my email correspondence with Brandt.
14. The Liquid Capital Factoring Proposal contemplates that Liquid Capital will factor Alfacon’s current and future accounts receivable. Furthermore, Liquid Capital requires priorities, subordination and postponement agreements from all existing secured creditors so as to provide Liquid Capital with a first-ranking secured position on all of Alfacon’s accounts receivable subject to the Liquid Capital Factoring Proposal.
15. As set out in the Murdoch Affidavit, Alfacon’s accounts receivable account for the majority of the company’s asset value and are subject to RBC’s first-ranking security interest. RBC will not agree to subordinate and postpone its security interest to Liquid Capital in Alfacon’s accounts receivable as contemplated by the Liquid Capital Factoring Proposal as that will result in existing accounts receivable being used to fund Alfacon’s operations, creating new accounts receivable that will be assigned to Liquid Capital under the factoring agreement. The result will be the creation of value for Liquid Capital under the factoring agreement to the detriment of RBC’s security position.
16. Furthermore, RBC has little confidence that the SISP will result in a transaction whose proceeds will be sufficient to repay RBC’s indebtedness and, as such, RBC will prejudice its own security position and bear the risk that the SISP is unsuccessful, which would be the case if it were to postpone and subordinate to Liquid Capital.

17. As such, absent Liquid Capital's agreement to waive the postponement and subordination precondition to the Liquid Capital Factoring Proposal, Alfacon will not be able to close the factoring transaction contemplated therein and will not have sufficient funding to fund its operations throughout the SISP. Alfacon would have to resort to using the accounts receivable subject to RBC's first-ranking security interest to fund its operations which is unacceptable to RBC and would represent a substantial erosion of the value of RBC's security.

18. As noted in the footnote included in paragraph 39 of the First Report, it cannot be said that an extension of the time for filing a proposal by Alfacon will not affect or prejudice creditors as the Proposal Trustee concedes that there is a potential erosion of RBC's security in the event an extension is granted. In light of the terms of the Liquid Capital Factoring Proposal and the fact that RBC will not agree to postpone and subordinate its security interest in Alfacon's accounts receivable, RBC respectfully submits that the erosion of RBC's security is inevitable.

SISP Prospects

19. As noted earlier, Alfacon and RBC entered into the Forbearance Agreement in April 2018. During the nearly six month period that it had to source financing or to find a purchaser for its business, Alfacon did not provide RBC with any evidence to indicate that any parties had expressed a legitimate interest in pursuing a transaction with the company. Furthermore, Alfacon's financial prospects remain dire and it is highly speculative that the SISP will result in a satisfactory purchase or investment offer.

20. As noted in the Murdoch Affidavit and the First Report, market conditions are challenging for Alfacon due to persistent working capital shortages and the company's negative financial position has been exacerbated by disputes, both internal to Alfacon and external with customers, and gross miscalculations that have resulted in substantial losses for the company.

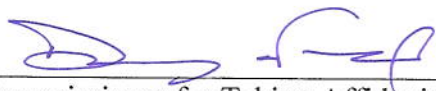
21. In the First Report, the summary of Alfacon's historical financial results for the fiscal years 2015 to 2018 show that the company has generated negative EBITDA every year. In the most recent fiscal year, 2018, Alfacon generated negative EBITDA in the amount of \$4,364,419, nearly doubling the negative EBITDA amount generated during fiscal year 2017. Based on the company's historical financial results, RBC does not believe that the SISP is likely to generate any satisfactory investment or purchase offers and that Alfacon will simply continue to lose money throughout the course of the SISP to the detriment and prejudice of its creditors, particularly RBC given its first-ranking security position.

Alfacon's Creditors

22. Finally, the First Report sets out a list of Alfacon's secured creditors starting with Murdoch, Monteco and Patrick Bermingham Holdings Inc. ("PBHI"), who are collectively owed \$3,435,000.
23. RBC respectfully submits that the Proposal Trustee's listing of the secured creditors is misleading as it appears to diminish the prejudice to RBC of the relief sought by Alfacon in failing to account for the proper priorities between the parties and apparently elevating the claims of Murdoch, Monteco and PBHI.
24. Attached as Exhibit "C" to the Murdoch Affidavit is a copy of Alfacon's creditor list as attached to the NOI. Contrary to the First Report which aggregates the amount owed to the aforementioned creditors, the amounts owed to each of the creditors, according to the creditor list, is \$554,829.40 (Murdoch), \$2,935,000 (Monteco) and \$100,000 (PBHI).
25. While RBC has no knowledge regarding the accuracy of the amounts claimed by Murdoch, Monteco and PBHI, the Proposal Trustee's listing of secured creditors gives the impression that those claims rank in priority to RBC's secured claim when, in fact, RBC has received postponements from Murdoch and Monteco of all indebtedness owed to each of them by Alfacon as part of guarantees that each of them provided to RBC.

26. I swear this affidavit in response to Alfacon's motion for, among other things, an order extending the time for filing a proposal by Alfacon in this proceeding and approving the SISP and for no other or improper purpose.

Sworn before me at the City of Toronto,)
in the Province of Ontario, this 31st day of)
October, 2018.)



Commissioner for Taking Affidavits

DANNY NUNES



WOJCIECH KARWALA

This is Exhibit ^{"A"} referred to in the
affidavit of WOJCIECH KARWALA
sworn before me, this 31st
day of OCTOBER 2018



A COMMISSIONER FOR TAKING AFFIDAVITS

DANNY NUNES



October 25, 2018

Alfacon Solutions Limited

Attention: Mike Brandt

Dear Mr. Brandt

Re: Financing Facility Proposal

Liquid Capital Exchange Corp. ("LCX") is pleased to express its interest in providing the financing program outlined below for Alfacon Solutions Limited.

1. **Client:** Alfacon Solutions Limited ("Client").
2. **Facilities:** (a) Maximum \$1.5 Million Accounts Receivable Facility (the "AR Facility").

Eligible accounts receivable for the AR Facility are Client's fully earned accounts receivable that are acceptable to LCX and within credit limits as established by LCX from time to time.

Advances under the AR Facility will be the face value of eligible accounts receivable, net of any discounts, contras or offsets, less a reserve of 15%.
3. **Term:** Fully open Facilities. Client may terminate the Facilities at any time provided that LCX is given 60 days written notice.
4. **Interest, Fees and Expenses:**
 - (a) Fees for invoices purchased will be as follows: 3.50 % day one based on face value of the invoice (not including credit insurance fees) for the first 45 days with an additional 10bps per day on the outstanding balance for the period outstanding.
 - (b) A non-refundable Work/Closing Fee of \$15,000, \$7,500 payable upon signing with the balance payable on closing, for setting up the Facilities and for LCX's preparation of the Security in LCX's standard forms, where applicable, any and all searches and registrations relative to the Security will be completed by LCX's in-house lawyer.
5. **Documents/ Security:** A definitive Financing Facility Agreement and the usual and customary documents for facilities of this nature and all supporting authorizations,

certificates, acknowledgments, waivers, assurances, security registrations and legal opinions as LCX may reasonably require, including in part the documents listed below:

- (a) Facility Agreement;
 - (b) Promissory Note of Client;
 - (c) Guarantees from shareholders controlling in excess of 20% of the shares;
 - (d) Discharges and Priorities, Subordination or Postponement Agreements with existing secured creditors of Client so that LCX is in first secured position on all accounts receivables subject to the Facilities.
6. **Events of Default:** Usual and customary events of default for facilities of this type.
 7. **Other Covenants:** Usual and customary covenants for facilities and transactions of this type.
 8. **Conditions:** Usual and customary conditions precedent to facilities of this type.
 9. **Ongoing Reporting:** Weekly, monthly and annual financial and other information relative to the Facilities and the Security as LCX may request from time to time.
 10. **Confidentiality:** This Financing Facility Proposal is confidential to Client, Guarantors, specified creditors and their respective legal advisors and accounting professionals, and may not be copied or its contents disclosed to other parties without LCX's prior written consent.
 11. **Other:** LCX (and its affiliates and their respective officers, directors, employees, advisors, agents and franchisees) will have no liability for, and will be indemnified by Client and Guarantors and held harmless, against any loss, liability, cost or expense incurred in respect of the financing contemplated hereby or the use or proposed use of proceeds thereof (except to the extent resulting from the gross negligence or willful misconduct of the indemnified party), such indemnity to include, without limitation, reasonable legal fees and settlement costs.
 12. **Language:** The parties hereto acknowledge that they have requested and are satisfied that the foregoing as well as all notices, actions and legal proceedings be drawn up in the English language./Les parties à ce document reconnaissent qu'elles ont exigé que ce qui précède ainsi que tous avis, actions ou procédures légales soient rédigés et exécutés en anglais et s'en déclarent satisfaites.

If you would like to proceed on the basis outlined here, please sign where indicated below and return a copy of this Financing Facility Proposal so signed, together with payment of \$7,500 to Liquid Capital Exchange Corp. for the initial installment of the non-refundable Work/Closing fee.

The terms of this Financing Facility Proposal are subject to completion by LCX of its due diligence and LCX's credit committee approval.

Yours truly,

Liquid Capital Exchange Corp.



per: Robert Thompson-So, Chief Strategy Officer

Client and Guarantors hereby accept the terms and conditions of this Financing Facility Proposal

Dated this 25th day of October, 2018.

Alfacon Solutions Ltd.

(Client)

By: 

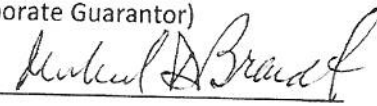
Name: JOHN MURDOCH

Title: CEO

Email: john.murdoch@alfaconsolutions.com

Monteco Ltd.

(Corporate Guarantor)

By: 

Name: MIKE BRANDT

Title: CEO

Email: mbrandt@monteco.com

This is Exhibit...⁸...referred to in the
affidavit of...WJCIKCH KARNALA.....
sworn before me, this...31st.....
day of...OCTOBER.....20...18.....


.....
A COMMISSIONER FOR TAKING AFFIDAVITS

DANNY NUNES

Nunes, Danny

Subject: FW: [EXTERNAL] RE: Liquid Capital term sheet
Attachments: Liquid Capital.pdf
Importance: High

From: Karwala, Wojtek (Mr.) [mailto:wojtek.karwala@rbc.com]
Sent: October 29, 2018 11:09 AM
To: Mike Brandth (mbrandt@monteco.com)
Cc: Matthew Lem (Matthew.Lem@mnp.ca)
Subject: [EXTERNAL] RE: Liquid Capital term sheet
Importance: High

Good morning Mr. Brandt,

We have asked Mr. Lem to provide us with more information prior to make a decision as to the proposal. Mr. Lem, could you forward me a draft of the proposal?

Thanks,

Wojtek Karwala
Royal Bank of Canada
416-974-3557

*****We are moving to 20 King Street West, 2nd Floor, Toronto, ON., M5H 1C4 on DEC. 9, 2018*****

From: Michael Brandt [mailto:mbrandt@monteco.com]
Sent: 2018, October, 25 8:41 PM
To: Karwala, Wojtek (Mr.)
Cc: Manski, Juergen; Matthew Lem; Michael Litwack; Michael Psotka; John Murdoch; Kathryn Harrison
Subject: Liquid Capital term sheet
Importance: High

Wojtek

Please find attached an executed copy of the Liquid factoring term sheet. We realize that with Alfacon as a new transition account for you, it was best to provide you some background.

A number of weeks ago Matt and I had a conversation with Juergen on the perspective of factoring the Alfacon AR, both current and future billings, which Juergen had agreed to, subject to definitive documents. As you will note from the attached, Liquid would only have a priority on the on AR. Mike P and I had a confirming discussion with Juergen in the last week. We have worked with Mike L in the past week to ensure the term sheet attached was aligned to our discussions with Juergen which we believe does meet the requirements.

MNP are about to file the next set of documents (motion materials) for NOI purposes tomorrow, so it would be helpful to confirm there is nothing that RBC is opposed to in the attached term sheet. The court date is scheduled for November 1st.

Would appreciate your no opposition confirmation, however, if you have any questions, please give me a call on my cell (416 318 6615) at your convenience tomorrow.

Regards,
Mike and the Alfacon team

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF ALFACON SOLUTIONS LIMITED OF THE TOWN OF MILTON, IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY

PROCEEDINGS COMMENCED AT TORONTO

AFFIDAVIT OF WOJCIECH KARWALA
(sworn October 31, 2018)

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Toronto, ON M5X 1E2

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Lawyers for Royal Bank of Canada