Court File No: CV-22-00682153-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, C. C-36, AS AMENDED

AND IN THE MATTER OF ARMSTRONG FLOORING, INC., AFI LICENSING LLC, ARMSTRONG FLOORING LATIN AMERICA, INC. AND ARMSTRONG FLOORING CANADA LTD.

APPLICATION OF ARMSTRONG FLOORING CANADA LTD. UNDER SECTION 46 OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, C. C-36, AS AMENDED

REPORT OF GRANT THORNTON LIMITED AS PROPOSED INFORMATION OFFICER

JUNE 6, 2022

GrantThornton

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INTRODUCTION

1. On May 8, 2022 (the "**Petition Date**"), Armstrong Flooring, Inc. ("**AFI**") and the other companies listed on **Schedule "A"** hereof (collectively, the "**Chapter 11 Debtors**"), commenced proceedings under Chapter 11 of Title 11 of the *United States Code* in the United States Bankruptcy Court for the District of Delaware (the "**US Court**") (the "**US Bankruptcy Proceedings**").

2. On May 11, 2022, which hearing was continued on May 13, 2022 and May 17, 2022, the US Court heard the Chapter 11 Debtors' first day motions and granted numerous orders (collectively, the "**First Day Orders**").

3. The purpose of the US Bankruptcy Proceedings and the proposed Canadian recognition proceeding is to provide a stabilized environment for the Chapter 11 Debtors to continue to operate while they pursue a sale process under the direction of Houlihan Lokey Capital Inc. ("**Houlihan**").

4. At this time, Armstrong Flooring Canada Ltd. (the "**Foreign Representative**" or "**AFI Canada**") is making an application to the Ontario Superior Court of Justice (Commercial List) (the "**Ontario Court**") for recognition of the US Bankruptcy Proceedings under Part IV of the *Companies' Creditors Arrangement Act* ("**CCAA**"), and is seeking the granting by the Ontario Court of an Initial Recognition Order and a Supplemental Order (collectively, the "**Recognition Orders**"):

   (a) the Initial Recognition Order which, *inter alia*, recognizes the US Bankruptcy Proceedings as a "*foreign main proceeding*" and recognizes the Foreign Representative as the "*foreign representative*", as defined in section 45 of the CCAA, stays all proceedings against the Chapter 11 Debtors, and prevents any property within Canada from being sold, other than through the ordinary course of business; and

   (b) the Supplemental Order which, *inter alia*, appoints Grant Thornton Limited ("**GTL**") as Information Officer, recognizes the First Day Orders issued by the US Court in the US Bankruptcy Proceedings, orders a stay of proceedings, as set out therein, and grants the Administration Charge (as defined in the Recognition Orders).

5. This report ("**Report**") is filed by GTL in its capacity as proposed Information Officer (the "**Proposed Information Officer**") in the Canadian recognition proceedings.

PURPOSE OF THIS REPORT

6. The purposes of this Report are as follows:

(a) provide GTL's qualifications to act as Information Officer;

(b) provide general background information about the Chapter 11 Debtors and the US Bankruptcy Proceedings;

(c) provide an overview on the financial position of AFI Canada and its affiliated Chapter 11 Debtors;

(d) provide a summary of the First Day Orders for which the Ontario Court recognition is sought;

(e) provide information regarding the debtor-in-possession credit facilities ("**DIP Financing**"), which include:

(i) a senior secured super-priority asset-based revolving credit facility (the "**DIP Revolver Facility**") by and among AFI, as borrower, the domestic subsidiaries of AFI party thereto, as guarantors, the lenders from time to time party thereto, and Bank of America, N.A. as administrative agent, collateral agent and Australian security trustee and as swingline lender and letter of credit issuer; and

(ii) a senior secured super-priority multi-draw term loan facility (the "**DIP Term Loan Facility**" and, together with the DIP Revolver Facility, the "**DIP Facilities**") by and among AFI, as borrower, the domestic subsidiaries of AFI party thereto, as guarantors, the lenders from time to time party thereto, and Pathlight Capital LP, as administrative agent and collateral agent;

(f) summarize the rationale for the proposed Administration Charge; and

(g) recommend that the Ontario Court grant the relief sought by the Foreign Representative.

SCOPE AND TERMS OF REFERENCE

7. The information contained in this Report has been obtained by the Proposed Information Officer in the short time since it was engaged from the records of the Chapter 11 Debtors, publicly available information, and/or is based upon discussions with, and representations made by the Chapter 11 Debtors' financial advisors and other professional advisors retained in this matter. The information has not been audited or reviewed by the Proposed Information Officer as to its accuracy or completeness, and the reader is therefore cautioned that the Proposed Information Officer does not provide any form of assurance with respect to the accuracy of any financial information presented in this Report or relied upon in preparing this Report, and this Report may not disclose all significant matters about the Chapter 11 Debtors.

8. This Report has been prepared for the use of the Ontario Court and the Foreign Representative's stakeholders as general information relating to the Foreign Representative and to assist the Ontario Court in making a determination of whether to approve the relief sought. Accordingly, the reader is cautioned that this Report may not be appropriate for any other purpose. The Proposed Information Officer assumes no responsibility or liability for any loss or damage occasioned by any party because of the circulation, publication, reproduction or use of this Report. Any use that a party makes of

this Report, or any reliance on or decisions to be made based on it, is the responsibility of such party.

9. A copy of this Report and other relevant documents with respect to these proceedings will be made available on the Proposed Information Officer's website at: www.GrantThornton.ca/afi if appointed.

10. All references to dollars are in Canadian currency unless otherwise noted.

GTL'S QUALIFICATIONS TO ACT AS INFORMATION OFFICER

11. GTL is qualified to act as Information Officer. GTL's qualifications include:

    (a) GTL is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). GTL is not subject to any of the restrictions to act as set out in Section 11.7(2) of the CCAA; and

    (b) GTL has acted as information officer in several previous proceedings, as well as numerous Court-appointed capacities under various insolvency, regulatory and corporate legislation.

12. GTL had not previously been involved with the Chapter 11 Debtors and was engaged only very recently to act as the Proposed Information Officer. In that short time, GTL has gathered the information reflected in this Report and understands from representatives of the Chapter 11 Debtors that such information is the most current and appropriate information for purposes of this Report.

13. GTL has consented to act as Information Officer in these proceedings should the Ontario Court grant the Recognition Orders. GTL's duties and obligations as Information Officer

will be as set out in the Recognition Orders, as well as by statute, and GTL would from that date forward be acting as an officer of the Ontario Court.

BACKGROUND OF THE US BANKRUPTCY PROCEEDINGS

14. The Chapter 11 Debtors collectively are a leading global producer of resilient flooring products for use primarily in the construction and renovation of commercial, residential, and institutional buildings. The Chapter 11 debtors operate primarily in North America, where they are the largest producers of resilient flooring products. The AFI group (as defined below) additionally operates throughout the Pacific Rim.

15. The Chapter 11 Debtors sell their products to both specialty retailers, as well as independent wholesale flooring distributors, who re-sell the products. The majority of the AFI Group's (as defined below) sales are to distributors.

16. AFI is a Pennsylvania-based company, which wholly owns the other Chapter 11 Debtors, as well as additional subsidiaries in Australia and China (together with its subsidiaries, the "**AFI Group**").

17. AFI Canada is the only Canadian domiciled entity involved in these Chapter 11 proceedings and is a Chapter 11 Debtor. As noted above, AFI Canada is the Foreign Representative in the recognition proceedings.

18. As of the Petition Date:

    (a) AFI, as borrower, entered into a credit agreement dated December 18, 2018, with the guarantors party thereto, the lenders party thereto (the "**ABL Lenders**"), and Bank of America, N.A., in its capacity as agent (the "**ABL Agent**"), pursuant to which the ABL Lenders made available to AFI and the guarantors party thereto revolving loan commitments and other financial accommodations (the "**Prepetition ABL Credit Facility**"). The aggregate outstanding amount owed by the Chapter 11 Debtors, excluding AFI Canada, under the ABL Credit Facility was approximately US$52.9 million. Furthermore, AFI is indebted pursuant to a term loan agreement to which AFI Canada is not a party;

(b) The obligations under the Prepetition ABL Credit Facility are guaranteed by (i) liens on and a first priority security interest in certain of the AFI Group's cash and certain other financial assets, and (ii) liens on and a second priority interest in substantially all of certain of the Chapter 11 Debtors' other assets;

(c) AFI Canada is not a borrower or a guarantor in respect to the credit facilities extended to certain companies within the AFI Group. AFI has pledged the shares of AFI Canada Ltd., prior to its continuance as a British Columbia corporation under the name Armstrong Flooring Canada Ltd., to the ABL Agent and the ABL Lenders and AFI has since pledged the new shares of Armstrong Flooring Canada Ltd. to the ABL Agent and the ABL Lenders; and

(d) the Chapter 11 Debtors collectively employ 1,216 employees of which 4 are employed in Canada.

19. Additional background on the US Bankruptcy Proceedings and the Chapter 11 Debtors is set out in the affidavit of Michel S. Vermette, sworn June 1, 2022 (the "**Vermette Affidavit**").

20. Senior Management of the Chapter 11 Debtors have determined that value for the creditors will be maximized through the US Bankruptcy Proceedings and pursuing all restructuring options available to the Chapter 11 Debtors, including a going-concern sale

of the Chapter 11 Debtors' assets. An injection of liquidity is required to pursue these options, which is being provided in the form of the DIP Facilities. The DIP Facilities are discussed later in this Report.

AFI CANADA

21. AFI Canada is a wholly-owned subsidiary of AFI. AFI Canada is incorporated in British Columbia.

22. The Vermette Affidavit sets out the integrated nature of AFI Canada with the other Chapter 11 Debtors and the overall basis to establish the center of main interest ("**COMI**") of the Chapter 11 Debtors in the US. Accordingly, the COMI attributes are not repeated herein.

<u>Financial Overview: Insolvency</u>

23. AFI Canada does not independently report its financial performance. Its financial reporting is part of a consolidated reporting prepared for the AFI Group. The consolidated financial statements of the Chapter 11 Debtors are attached as an exhibit to the Vermette Affidavit.

24. The majority of the assets held by the Chapter 11 Debtors are held in the US. We understand that the only Canadian assets held are accounts receivable in the amount of approximately CDN$3.2 million and inventory in the amount of approximately CDN$103,000.

25. The Proposed Information Officer also observes, or has been informed, that:

(a) based on the consolidated financial statements from January 1, 2022 to April 30, 2022, the Chapter 11 Debtors' consolidated revenue was approximately US$172.4 million, with AFI Canada representing approximately US$8.9 million; and

(b) for the 12-month period ended December 31, 2021, the Chapter 11 Debtors have incurred net losses of US$35.7 million and has an accumulated deficit of US$349.1 million, with further losses of US$25 million incurred from January through April 2022.

26. The Chapter 11 Debtors' small cash balance impugns their ability to cover short-term financial obligations as they come due; however, barring significant impairment to its inventories and Property, Plant, and Equipment, the Chapter 11 Debtors assets as represented in its financial statements should be sufficient to enable payment of all its liabilities.

Creditor Composition

27. As at the date of the filing of the Chapter 11 petitions, the Chapter 11 Debtors maintain two intercompany loans: one between AFI, as lender, and AFI Canada, as borrower (as detailed below), and one between non-Chapter 11 Debtor, Armstrong Flooring Pty Ltd, as lender, and AFI, as borrower, in the amount of US$26.2 million, which matures on June 23, 2025. Both intercompany loans are unsecured.

28. AFI Canada has approximately 35 unsecured creditors that are owed approximately CDN$4.4 million. AFI Canada has further unsecured debts to AFI in the amount of CDN$13.92 million in respect of an unsecured Intercompany Loan that matures on March 31, 2026.

29. AFI Canada's predecessor, AFI Canada Ltd., is the subject of one registration, as a debtor, under the *Personal Property Security Act* (Ontario), in favour of Element Fleet Management Inc. in respect to certain defined collateral. A search of the personal property registry for British Columbia as against AFI Canada by Borden Ladner Gervais LLP

discloses no registrations under the *Personal Property Security Act* (British Columbia) as against AFI Canada.

FIRST DAY ORDERS

30. The Foreign Representative is seeking recognition of the following First Day Orders by the Ontario Court:

(a) the Foreign Representative Order;

(b) the Claims and Noticing Agent Order;

(c) the Critical and Foreign Vendors Order;

(d) the Shippers and Warehousemen Order;

(e) the Customer Program Order;

(f) the Employees and Benefits Order;

(g) the Joint Administration Order;

(h) the Creditor Listing Order;

(i) the Sealing Order;

(j) the Insurance Order;

(k) the Taxes Order;

(l) the Utilities Order; and

(m) The Cash Management Order

(n) the Interim DIP Financing Order.

31. The Vermette Affidavit provides a summary of the relief sought in each of the above orders.

THE DIP FACILITIES

32. The Proposed Information Officer has been informed that immediate access to liquidity is critical to maximizing value for creditors and facilitating a potential sale process of the Chapter 11 Debtors.

33. In particular, the ABL Agent's concerns regarding depleting cash resources and the absence of a definitive agreement for the acquisition of the company has reduced the availability of funds available under the Prepetition ABL Credit Facility, leaving the US Chapter 11 Debtors little to no access to liquidity under the Prepetition ABL Credit Facility. As of the Petition Date, the Debtors' total cash balance was approximately USD$2.3 million, which is insufficient to operate their enterprise and continue paying debts as they come due, which therefore gives rise for the need to access the DIP Facilities.

34. The Proposed Information Officer has also been advised that the Chapter 11 Debtors have agreed to DIP Facilities for (a) up to US$90 million of post-Petition revolving loans under the DIP Revolver Facility and (b) up to US$37.333 million of post-Petition financing under the DIP Term Loan Facility.

35. The DIP Facilities are available on such terms and conditions set out in the applicable post-Petition credit agreements and related documents.

36. Based on Michel S. Vermette's Declaration of Support of Chapter 11 Petitions and First-Day Paper's, funds provided under the DIP Facilities would be used to allow "…the

Company [to] continue to operate, as far as possible, in the ordinary course until the completion of the sale process, which the [Chapter 11 Debtors] and the [DIP lenders] propose to occur by 50 days after the Petition Date". This use of funds could allow the Chapter 11 Debtors to continue as a going concern, as well as to maintain valuable relationships with vendors, customers, and employees, which is necessary to attract any potential going-concern buyer.

37. The Proposed Information Officer has also been advised that:

(a) The going concern sale process is supported by its senior lenders, and contemplates the sale of some, or all, of AFI's assets;

(b) the Chapter 11 Debtors require immediate access to the DIP Facilities to ensure their continued operations during these proceedings;

(c) the DIP Facilities are an important component of the Chapter 11 Debtors' going-concern sale process; and

(d) if the Chapter 11 Debtors did not secure the DIP Facilities, as required, the Chapter 11 Debtors would be unable to explore a path forward to find a buyer at a value-maximizing price.

38. As described above, AFI is the borrower under each DIP Facility. AFI Canada is not a guarantor in respect of either DIP Facility. Accordingly, no DIP charge will be sought as part of the Supplemental Order.

39. While the Proposed Information Officer has not conducted a security review of the Prepetition ABL Credit Facility and no claims process has been conducted, the Proposed Information Officer understands that AFI provided first-ranking security over its assets to secure any borrowings made under the Prepetition ABL Credit Facility.

40. Given the connection between AFI Canada and AFI, AFI Canada will benefit from the DIP Financing, as it will be used to fund ordinary course operations, meet the Chapter 11 Debtors' obligations and facilitate its efforts to restructure.

41. The US Court was satisfied that the DIP Financing Order was necessary for the orderly continuation of operations of the Chapter 11 Debtors, and that the costs and fees of the DIP Financing are market for similar levels of financing in similar circumstances, and that the fees paid and to be paid thereunder, are fair, and reasonable, and the best available to the Chapter 11 Debtors under the circumstances.

ADMINISTRATION CHARGE

42. The proposed Recognition Orders contemplate an Administration Charge.

43. The Foreign Representative is seeking an Administration Charge in an amount not to exceed $300,000 to secure the fees and expenses of the Proposed Information Officer and its counsel.

44. The Administration Charge is a customary provision in recognition orders under Part IV of the CCAA. It is required by certain of the professionals engaged to assist a debtor company and to protect those professionals in the event it is unable to pay their fees and costs during the insolvency proceedings.

45. GTL believes that the quantum of the Administration Charge is reasonable and appropriate in the circumstances, given the complexities of the cross-border proceedings and the services to be provided by the professionals involved.

CONCLUSION AND RECOMMENDATION

46. Given the interconnectedness among the Chapter 11 Debtors, particularly with most critical management and administrative functions being performed in the US, a restructuring of the business of the Chapter 11 Debtors as a whole, is likely to provide enhanced recoveries and prevent liquidation proceedings in respect of AFI Canada.

47. For the reasons set out in this Report and in reliance on the facts and assumptions set out herein, the Proposed Information Officer is of the view that the relief being sought by the Foreign Representative is reasonable in the circumstances. Accordingly, the Proposed Information officer respectfully recommends that the Ontario Court grant the Recognition Orders.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this **6**th day of June, 2022.

GRANT THORNTON LIMITED,
AS PROPOSED INFORMATION OFFICER OF
ARMSTRONG FLOORING, INC. AND OTHER CHAPTER 11 DEBTORS
AND NOT IN ITS PERSONAL OR CORPORATE CAPACITY

Per: ________________________________

J. Krieger, CPA, CA, CIRP, LIT
Sr. Vice President

SCHEDULE "A"

LIST OF CHAPTER 11 DEBTORS

Armstrong Flooring, Inc.

AFI Licensing LLC

Armstrong Flooring Latin America, Inc.

Armstrong Flooring Canada Ltd.

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PROCEEDINGS COMMENCED AT TORONTO

REPORT OF GRANT THORNTON LIMITED AS PROPOSED INFORMATION OFFICER

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