

Estate No: 51-2000260
Court No: 21256
Division No: 02-Fredericton

SUPREME COURT OF NEW BRUNSWICK IN BANKRUPTCY AND INSOLVENCY

**IN THE MATTER OF THE PROPOSAL OF
663230 NB INC.**

**OF THE CITY OF EDMUNDSTON
IN THE PROVINCE OF NEW BRUNSWICK**

Report of the Proposal Trustee on the Proposal

PART I

BACKGROUND

663230 NB Inc. and 663231 NB Inc. (the "Numbered Companies") were incorporated in New Brunswick on April 13, 2012 following the acquisition of the Clarion Hotel from Place de l'Assomption Limitée / Assomption Place Limited (collectively referred to as "Assomption"). As consideration for the assets, Assomption was provided a \$500,000 promissory note on August 31, 2012.

The Numbered Companies were amalgamated into 663230 NB Inc. ("663230" or the "Company") on August 1, 2014. The Company is equally owned by Serge Lemieux, Eric Long and Guy Long.

The Company owns and operates a 103-unit hotel located at 100 Rice Road, Edmundston, New Brunswick. In addition to the hotel, there is a restaurant operating under the banner Frank's Bar & Grill, and banquet and meeting facilities (collectively, the "Property").

The Company entered into a licensing agreement on June 29, 2012 with License (Canadian) OPS Limited Partnership to operate under the Starwood brand as a Four Points by Sheraton Hotel ("Four Points").

The Property is located within a commercial complex owned and operated by Assomption. On August 31, 2012, the Company entered into several operating agreements (collectively, the "Shared Services Agreements") with Assomption, as follows:

- i. Reimbursement of Electricity Cost Agreement; and
- ii. Heat, Ventilation and Air Conditioning ("HVAC") System Agreement.

On May 26, 2015, the Company received a demand for repayment ("Demand Letter") from Assomption of outstanding amounts owing under the Shared Services Agreements. The Demand Letter stated that a failure to pay all amounts outstanding would result in the interruption of services under the Shared Services Agreements on May 31, 2015.

On May 29, 2015, the Company filed a Notice of Intention to Make a Proposal ("NOI") pursuant to Section 50.4 of the Bankruptcy and Insolvency Act ("BIA"). Deloitte Restructuring Inc. ("Deloitte" or the "Proposal Trustee") was appointed as the trustee under the NOI.

On June 26, 2015, the Proposal Trustee filed its first report in respect of the Company's progress towards a restructuring plan, the Company's request for an administrative charge and the Proposal Trustee's position on the Company's application for a 45 day extension of time to make a proposal.

On July 8, 2015, the Court of Queen's Bench of New Brunswick, Trial Division (the "Court"), granted an order approving an extension of the time to make a proposal to and including August 11, 2015.

On July 8, 2015, the Court granted an order providing for an administrative charge in respect of the Proposal Trustee, its legal counsel and the legal counsel and financial advisors of the Company.

On August 10, 2015, the Proposal Trustee filed its second report in respect of the Company's progress towards a restructuring plan, and the Proposal Trustee's position on the Company's application for a 45 day extension of time to make a proposal.

On August 18, 2015, the Court granted an order approving an extension of the time to make a proposal to and including September 25, 2015.

On September 25, 2015, 663230 filed a proposal for the general benefit of its Creditors (the "Proposal").

Capitalized terms used herein shall bear the meanings ascribed to them in the Proposal, unless otherwise noted.

PART II

SUMMARY OF PROPOSAL

For the purposes of voting on the Proposal, there shall be three classes of creditors, being:

- i. Class One, which shall include Business Development Bank of Canada and Caisse Populaire Trois Rives Ltee, as Secured Creditors ("Class One Creditors");
- ii. Class Two, which shall include Assomption as a Secured Creditor (the "Class Two Creditor"); and
- iii. Class Three, which shall include all other Preferred Creditors, Unsecured Creditors and Deferred Creditors ("Class Three Creditors").

The Proposal is an operating proposal that will be funded through cash flow generated from 663230 operations, as follows:

- i. Proven Claims of Preferred Creditors as of the NOI Date shall be paid in full, without interest, in priority to the claims of Unsecured Creditors;
- ii. in consideration of the Class One Creditors' outstanding secured advances, 663230 and the Class One Creditors shall agree to:
 - a. reduce the balance of the outstanding secured advances to 90% of the outstanding secured advances as at the Effective Date. The Effective Date means the date seven days after the Court Approval Order and the expiration of all appeals; and
 - b. enter into a forbearance agreement whereby the advances will be extinguished, per the terms of the existing loan agreements, beginning in September 2016 (the "Principal Holiday End Date"). The Company will continue to service the interest on the advances between the Effective Date and the Principal Holiday End Date;
- iii. in consideration of the Class Two Creditor, 663230 and the Class Two Creditor shall agree to:
 - a. reduce the balance of the outstanding secured advances to 10% of the outstanding secured advances as at the Effective Date;
 - b. a payment of \$50,000 from 663230 no later than October 2017 in full and complete settlement of their Secured Claim against 663230 as at the NOI Date; and
 - c. 663230 shall agree to obtain its own HVAC system, electrical supply and meter, and discontinue service under the Shared Services Agreements, no later than nine months following the Effective Date ("Shared Services End Date"). Following the Shared Services End Date, Assomption will not be obligated to honour the terms of the existing Shared Services Agreements. 663230 and Assomption shall continue to honour the terms of the Shared Services Agreements between the Effective Date and

the Shared Services End Date. 663230 will agree to pre-pay on a monthly basis, on the first day of each month, the associated costs for the preceding month pursuant to the Shared Services Agreements.

- iv. Proven Claims of Unsecured Creditors as of the NOI Date shall be paid as follows over a two year period:
 - a. the first \$600 of any Unsecured Creditors Proven Claim ("Convenience Class") will be paid in full, without interest, in November 2015; and
 - b. the remaining portion of Proven Claims will be paid pro-rata, without interest from the Fund. The Fund means the monies provided by 663230 to the Proposal Trustee in order to satisfy the Proven Claims of the Creditors pursuant to the terms of the Proposal; and
 - c. the Company shall pay to the Proposal Trustee a Fund consisting of \$143,777 payable in equal instalments of \$35,944, on November 30, 2015, August 31, 2016, November 30, 2016 and August 31, 2017. The Fund is not to exceed \$160,000.

Deferred Creditors shall not receive any distribution in this Proposal.

Amounts owed by 663230 to Subsequent Creditors for goods, services and employment actually provided to 663230, subsequent to the NOI Date, to and including the Effective Date, but not for damages, severance or termination or other claims arising, will be paid by 663230 in the normal course of operations.

The professional fees owing to the Proposal Trustee and its legal counsel are to be paid in priority to any amounts distributed to Secured Creditors, Preferred Creditors, Unsecured Creditors and Subsequent Creditors.

All payments made to the Unsecured Creditors are subject to a 5% levy payable to the Office of Superintendent of Bankruptcy.

PART III

FINANCIAL POSITION AND CAUSES OF DIFFICULTIES

Subsequent to an appraisal and investigation of the affairs and property of the Company, the Proposal Trustee has determined the Company's financial difficulties resulted from:

- i. lost revenue and unanticipated capital expenditures at the time of purchase in 2012;
- ii. unexpected costs relating to a labour dispute;
- iii. hotel occupancy rates below projections provided by Four Points;
- iv. operating costs, specifically operating costs incurred under Shared Services Agreements, being materially greater than projected; and
- v. non-recurring expenses pertaining to on-going disputes with Assomption.

663230 produced internal financial statements as at August 31, 2015. The Company's financial position, as at that date, is summarized as follows:

(CAD \$000s)	August 31, 2015
Assets	
Cash	351,465
Other current assets	392,153
Fixed & other assets	5,507,647
	<u>6,251,264</u>
Liabilities	
Bank overdraft	-
Accounts payable and other current liabilities	1,187,944
Long term debt	3,949,920
Due to shareholders	726,941
	<u>5,864,805</u>
Equity	<u>386,459</u>
	<u>6,251,264</u>

PART IV

STATUS OF COMPANY OPERATIONS

Management of the Company continues to operate the business. As previously reported by the Proposal Trustee, the Company has undertaken various actions in working towards a successful restructuring. As a result, the Company has been able to increase the occupancy rates at the hotel while reducing expenses. The Company has also taken the required steps in assessing the costs and timeline of installing a new HVAC System.

PART V

INTERIM RECEIVER

Not applicable, as there was no appointment of an Interim Receiver during the period of the NOI.

PART VI

IDENTIFICATION AND EVALUATION OF ASSETS

The estimated realizations contained in this Report are based on the assumption that the financial position of the Company will not change materially between August 31, 2015 and October 16, 2015, the date of bankruptcy if the Proposal is not accepted by the Unsecured Creditors class and approved by the Court.

The valuation of the land and building is based on an appraisal report requested by the Company dated June 26, 2015.

According to the Company's Statement of Affairs as at September 25, 2015, and information provided to the Proposal Trustee by the Company, the Company's assets and their estimated realizable value (in liquidation) consists of the following:

Asset	Estimated Realization Value	
	Low	High
Cash	346,821	346,821
Accounts Receivable	42,305	52,882
Equipment	130,154	171,720
Inventory	43,253	54,067
Capital Assets	2,853,000	3,162,000
	<u>3,415,533</u>	<u>3,787,489</u>

Cash

The cash balance reflected in the Statement of Affairs of \$346,821 represents the Company's cash position as at September 24, 2015.

Accounts Receivable

The accounts receivable balance reflected in the Statement of Affairs of \$70,509 represents the Company's book value of receivables on September 24, 2015.

In a liquidation scenario, customers of the Company may claim offsets for service quality, for example, against the remaining accounts receivable. There are also aged receivables that are at risk of being collectible. As a result, the Proposal Trustee estimates that in a liquidation scenario, the realizable value of the accounts receivable would be between 60% to 75% of the reported balance.

Inventory and Equipment

The amount of \$184,067 reflected in the Statement of Affairs represents the Company's expected value of inventory and small equipment on-hand. The Proposal Trustee estimates the realizable value in a liquidation scenario would be between 60% to 75% of the reported balance as inventory and equipment such as food items, mattresses, linens and other materials are not expected to have a realizable value much lower than the book value.

Land and Building

The amount of \$2,853,000 reflected in the Statement of Affairs represents the Company's expected net realization in a liquidation sale of the land and building. The Company obtained an appraisal which valued the property at \$3,162,000 within an orderly sales process of 12 months. The Proposal Trustee estimates the realizable value in a liquidation scenario would be reduced due to holding costs such as heating, property taxes, security and professional fees in order to yield the appraisal value within an orderly sales process. In addition, should the liquidation of the land and building happen in a shorter period as contemplated in the appraisal, it is expected that the estimated realizable value would be lower than the appraised amount.

PART VII

CONDUCT OF THE DEBTOR

The Proposal Trustee monitored the cash flows of the Company during the NOI period. The Proposal Trustee is not aware of any material payments relating to pre-NOI debts or of payments which could be viewed as reviewable under the BIA.

The Proposal Trustee is not aware of any offenses under the BIA having been committed during the NOI period.

**PART VIII
CREDITORS' CLAIMS**

According to information provided to the Proposal Trustee by the Company, the Company's Creditors as at the NOI Date are comprised of:

Category	Count	Amount
Secured	3	3,965,857
Preferred	0	-
Unsecured	80	814,636
	83	4,780,493

The Proposal Trustee is not aware of any material discrepancies between the amounts contained within the books and records of the Company and the expected claims to be filed by Creditors. Any discrepancies will be investigated by the Proposal Trustee.

**PART IX
PREVIOUS BUSINESS DEALINGS WITH THE DEBTOR**

Prior to consenting to act as Proposal Trustee on May 29, 2015, Deloitte has not been engaged to work on behalf of the Company.

Deloitte confirms that it does not have any knowledge of any conflict of interest situation arising from the acceptance of this appointment as Proposal Trustee.

**PART X
INFORMAL MEETINGS WITH MAJOR CREDITORS**

The Proposal Trustee has held several discussions with the Secured Creditors since the filing of the NOI, as well as with respect to the terms of the Proposal.

**PART XI
REMUNERATION OF THE TRUSTEE**

For the purposes of the Proposal, all proper fees of the Proposal Trustee, and the reasonable expenses and legal costs of the Proposal Trustee, on and incidental to the proceedings arising out of the Proposal, (including the preparation of the Proposal), shall be paid in priority to all claims of the Secured Creditors, Preferred Creditors, Unsecured Creditors and Subsequent Creditors. Such fees shall be based on the time expended and charged by the Proposal Trustee and its legal counsel at their normal billing rates.

**PART XII
OTHER**

The Proposal Trustee engaged Bingham Law of Moncton, New Brunswick as its legal counsel.

PART XIII
STATEMENT OF ESTIMATED REALIZATION

The Proposal Trustee estimates the realization to Unsecured Creditors under a Proposal and potential bankruptcy situation as follows:

Asset	Proposal	Liquidation in Bankruptcy	
		Low	High
Cash		346,821	346,821
Accounts receivable		42,305	52,882
Inventory		43,253	54,067
PP&E - Restaurant Equipment		78,370	94,043
PP&E - Building & Land		2,853,000	3,162,000
PP&E - Furniture and Equipment		51,784	77,676
Total Realizable Value	\$ 143,777	\$ 3,415,533	\$ 3,787,489
Less: WEPPA	Nil	80,056	33,419
Less: Professional fees	Nil	100,000	75,000
Less: Admin. Charge	Nil	35,000	25,000
Less: Operating costs	Nil	250,500	167,000
Less: Claims of Secured Creditors	Nil	3,965,857	3,965,857
	Nil	4,431,413	4,266,276
Estate Balance	143,777	Nil	Nil
Livy to OSB	7,189	Nil	Nil
Available for distribution	136,588	Nil	Nil
Class Two Creditor	500,000		
Estimated Class Three Creditors	814,636		
Claims	1,314,636		
Dividend Yield	10%	0%	0%

The Proposal Trustee, in its preparation of the above analysis, assumes that the financial position of the Company as at October 16, 2015, the date of a potential bankruptcy, will not be materially different than the financial position as at May 29, 2015, the NOI filing date.

Based on the projected shortfalls listed above, the following can be anticipated in the context of the Proposal versus realization in a deemed bankruptcy:

- i. Class One Creditors would be at risk of not fully realizing on the security should the Company deemed bankrupt versus a 90% distribution contemplated in the Proposal;
- ii. Class Two Creditor would receive no distribution should the Company be deemed bankrupt versus the 10% distribution contemplated in the Proposal; and
- iii. Class Three Creditors would receive no distribution should the Company be deemed bankrupt versus the 10% distribution contemplated in the Proposal.

**PART XIV
RECOMMENDATIONS**

It is the opinion of the Proposal Trustee that the Proposal is in the best interests of the Secured and Unsecured Creditors. If the Proposal is rejected and the Company is deemed bankrupt, the Proposal Trustee has estimated that Secured Creditors would realize less on their security and Unsecured Creditors would receive less distributions in bankruptcy as compared to the Proposal. Accordingly, the Proposal Trustee recommends that Secured and Unsecured Creditors support the Company's Proposal. Furthermore, the Proposal Trustee intends to vote proxies received, naming the Proposal Trustee as the proxy holder, in favor of the Proposal.

Dated at Moncton, New Brunswick, the 6th day of October, 2015.

DELOITTE RESTRUCTURING INC.
In its capacity as Trustee under the Proposal of
663230 NB Inc.
and not in its personal capacity

Per:

A handwritten signature in blue ink, appearing to read 'J. Goguen', is written over a faint, illegible stamp.

Jean Goguen, CPA, CMA, CIRP
Vice President