

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01-MONTREAL
COURT No.: 500-11-052507-171
ESTATE No.: 41-2247163

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE
BANKRUPTCY OF:**

HARIRELA HOTELS LTD., a legal person, duly incorporated under the *Canada Business Corporations Act*, having its chief place of business at 7700 Côte-de-Liesse Road, Montreal, Quebec, H4T 1E7.

Bankrupt

– and –

DELOITTE RESTRUCTURING INC.

(Jean-Christophe Hamel, CPA, CA, CIRP, LIT, designated person in charge) having its place of business at 1190 Avenue des Canadiens-de-Montréal, Suite 500, Montreal, Quebec, H3B 0M7.

Trustee

TRUSTEE'S REPORT TO THE CREDITORS ON PRELIMINARY ADMINISTRATION

The *Bankruptcy and Insolvency Act* (the "**Act**"), a federal act in Canada, provides for a first meeting of creditors to discuss the creditors' collective interest in the administration of the Bankrupt's estate.

A. Background

Harirela Hotels Ltd. ("**HHL**") is a corporation constituted under the *Canada Business Corporations Act*, which, until recently, had its head office and principal place of business located at 7700 Côte-de-Liesse Road, Montreal, Quebec, H4T 1E7.

Until recently, HHL held and operated a Quality Hotel located at 7700 Côte-de-Liesse Road, Montreal, Quebec, H4T 1E7 (the "**Hotel**").

Financial statements

For reference purposes, below is HHL's income statements for the years ended March 31, 2014, 2015, and 2016. In addition, you will find below HHL's balance sheets as of March 31, 2014, 2015, and 2016:

Harirela Hotels Ltd.	2016		
Income Statements for years ended March 31	(unaudited)	2015	2014
(Note 1) (\$)	(Note 2)	(unaudited)	(unaudited)
Revenues	2,121,643	3,916,692	3,819,864
Cost of sales	106,543	235,134	230,424
Operating expenses	<u>2,271,616</u>	<u>3,938,623</u>	<u>3,422,086</u>
Income from operations	(256,516)	(257,065)	167,354
Other expenses	<u>2,845,321</u>	<u>723,559</u>	<u>907,074</u>
Net loss	<u>(3,101,837)</u>	<u>(980,624)</u>	<u>(739,720)</u>

Note 1 :

The income statements above are as per HHL's internal books and records.

Note 2 :

Results for the year ended March 31, 2016 include less than 7 months of operations as HHL sold the Hotel on October 20, 2015.

Harirela Hotels Ltd.	2016		
Balance Sheets as of March 31 (Note 1) (\$)	(unaudited)	2015	2014
	(Note 2)	(unaudited)	(unaudited)
Assets			
Short-term assets	5,300,609	5,195,133	1,470,549
Property, plant and equipment	-	6,338,386	6,583,340
Other long-term assets	<u>73,808</u>	<u>100,650</u>	<u>88,150</u>
	<u>5,374,417</u>	<u>11,634,169</u>	<u>8,142,039</u>
Liabilities			
Short-term liabilities	929,227	4,560,500	3,880,273
Long-term liabilities	<u>17,720,596</u>	<u>17,247,238</u>	<u>13,454,709</u>
	<u>18,649,823</u>	<u>21,807,738</u>	<u>17,334,982</u>
Shareholders' equity			
Accumulated deficits	(10,173,569)	(9,192,945)	(8,453,223)
Deficit	<u>(3,101,837)</u>	<u>(980,624)</u>	<u>(739,720)</u>
	<u>(13,275,406)</u>	<u>(10,173,569)</u>	<u>(9,192,943)</u>
	<u>5,374,417</u>	<u>11,634,169</u>	<u>8,142,039</u>

Note 1 :

The balance sheets above are as per HHL's internal books and records.

Note 2 :

HHL sold the Hotel on October 20, 2015.

Causes of insolvency

As indicated in the above financial statements, HHL has cumulated significant deficits over the last few years. The accumulated deficits, the increased pressure on HHL's liquidities caused by those deficits, and HHL's ownership group's overall strategic decision to exit the Montreal real-estate market resulted in the ownership group's decision to initiate a sale process.

Therefore, on February 24, 2015, HHL, with the assistance of CBRE Limited, initiated a sale process and solicited offers from interested parties for the purchase of the Hotel. HHL's sale process was successfully completed on October 20, 2015 with the closing of the sale of all its assets for an amount of \$3.7M.

Following the sale of all of its assets and as of the time of this report, HHL's only remaining assets is a remaining cash balance of \$4K held in a trust account with HHL's legal counsel. In fact, HHL has used the sale proceeds to reimburse in full the amount (approximately \$1.7M) owed to its secured creditor (9303-7026 Québec Inc.) and to pay back some of the amounts owed to its various unsecured creditors. HHL's internal books and records indicate that following the sale of the Hotel and the payments made to its secured and unsecured creditors from the sale proceeds, an amount of approximately \$18.6M would still be owed to its various unsecured creditors (please refer to the detailed summary of HHL's assets and liabilities in the following section of this report). For this reason, on May 3, 2017, HHL filed for bankruptcy and Deloitte was appointed Trustee in the bankruptcy of HHL.

B. Trustee's preliminary evaluation of assets and liabilities

Below is a summary of HHL's assets and liabilities as of May 24, 2017, which includes the estimated net realization value of HHL's assets, as well as the estimated deficit following the distribution of the estimated proceeds from the liquidation of the assets to the unsecured creditor:

Harirela Hotels Ltd.		
Summary of assets and liabilities (CAD)	Book Value	Estimated Net Realization Value
As of May 24, 2017 (unaudited)		
Assets		
Cash	4,345	4,345
Accounts receivable (Note 1)	5,283,641	-
	5,287,986	4,345
Liabilities (Note 2)		
Unsecured creditors - Affiliated companies (Note 3)		16,607,305
Unsecured creditors - Other creditors		2,011,534
		18,618,839
Deficit of unsecured creditors		(18,614,494)

Note 1: *Accounts receivable almost exclusively include amounts receivable from insolvent affiliated companies.*

Note 2: *Creditors will have the onus to prove their claims and only claims that are proved will constitute valid claims and receive a distribution if funds are available.*

Note 3: *The amount owed to the affiliated companies is high because the latter have financed the Hotel activities and losses for several years.*

Note 4: *Above analysis does not consider the professional fees necessary for the administration of the Bankrupt's estate.*

C. Conservatory and protective measures

The Trustee implemented the following conservatory and protective measures:

- Sending of notices to all of HHL's creditors informing them about the bankruptcy and the first meeting of creditors;
- Seizing of the balance of funds held in trust by the Bankrupt's legal counsel; and
- Publication of a notice to creditors in *The Gazette* newspaper.

D. Information relating to provable claims

As of the time of this report, considering the limited numbers of proofs of claim received to date, the Trustee is not able to determine if there will be a significant difference between the amount of claims declared by the Bankrupt and the amount of claims proven by the various creditors.

E. Legal proceedings, transfers at undervalue, and preference payments

The Trustee has not initiated any legal proceedings and has not identified any transfers at undervalue or preference payments to date.

F. Conflict of interest

In addition to his role as Trustee in the bankruptcy of HHL, Deloitte is also currently acting as Receiver or Bankruptcy Trustee of a number of entities related to the Bankrupt. Deloitte however does not believe that its role as Trustee in the bankruptcy of HHL or as Receiver or Bankruptcy Trustee of entities related to the Bankrupt puts it in a position of conflict of interest.

G. Projected distribution and Trustee's comments on anticipated asset realization

As the funds expected to be realized from the liquidation of the Bankrupt's assets will more than likely all be used to pay a portion of the Trustee's professional fees and disbursements, the Trustee estimates that there will not be sufficient funds available in the Bankrupt's estate to provide for a distribution to unsecured creditors.

H. Trustee's remuneration

The Trustee will seek approval of the estate inspector(s) appointed in the course of the administration of HHL's bankruptcy, if any, to settle the Trustee's professional fees and disbursements out of the assets of the estate.

Further, should there not be sufficient funds available in the estate for the payment of the Trustee's fees and disbursements, the professional fees and disbursements of Deloitte, in its capacity as Trustee in the bankruptcy of HHL, will be paid by one of HHL's affiliated entity as per an agreement between one of HHL's affiliated entity and Deloitte.

I. Other matters

None.

DATED AT MONTREAL, Quebec, this 24th day of May, 2017.

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee of the Estate of
Harirela Hotels Ltd.
and not in its personal capacity

Per:

A handwritten signature in black ink, appearing to read 'JCHamel', written in a cursive style.

Jean-Christophe Hamel, CPA, CA, CIRP, LIT
Vice President