

Estate No: 51-1963560
Court No: 38848
District No: 02
Division No: 01-Halifax

SUPREME COURT OF NOVA SCOTIA IN BANKRUPTCY AND INSOLVENCY

**IN THE MATTER OF THE PROPOSAL OF
TOUR TECH. EAST LIMITED**

**OF THE CITY OF DARTMOUTH
IN THE PROVINCE OF NOVA SCOTIA**

Report of the Proposal Trustee on the Proposal

Section A – Background

Tour Tech. East Limited (“Tour Tech” or the “Company”) was incorporated on September 4, 1984. The shares of Tour Tech are 90% owned by Peter Hendrickson, President, and 10% owned by Robert Barrett. The sole director of Tour Tech is Peter Hendrickson.

Tour Tech is based in Dartmouth, Nova Scotia. The Company services the entertainment industry through the provision of professional audio, lighting and staging rentals, installation and distribution, servicing Canada and the eastern United States.

Tour Tech operates its production rental, installation, distribution and corporate operations out of a 213,389 square foot commercial facility located at 180 Thornhill Drive, Dartmouth, Nova Scotia. The property is owned and operated by 3258042 Nova Scotia Limited (“3258042”), a related entity.

On February 20, 2015, Tour Tech filed a Notice of Intention to Make a Proposal (“NOI”) pursuant to Section 50.4 of the BIA. Deloitte Restructuring Inc. (“Deloitte” or the “Proposal Trustee”) was appointed as the trustee under the NOI.

On February 27, 2015, the Proposal Trustee filed a report with the Supreme Court of Nova Scotia in Bankruptcy and Insolvency (the “Court”) pertaining to the Company’s application for an Order providing for interim financing (the “DIP Financing”) and an administrative charge (the “Administrative Charge”) providing security to cover certain costs pursuant to section 64.2 of the BIA.

On March 3, 2015, the Proposal Trustee filed a supplemental report with the Court advising that BDC had provided the Company with a more favourable DIP Financing offer.

On March 4, 2015, the Court issued an Order to:

- i. Provide a DIP Financing Charge in the amount of \$300,000; and
- ii. Provide an Administrative Charge in the amount of \$75,000

On March 20, 2015, the Order was restated with an effective date of March 4, 2015.

On March 20, 2015, with the consent of the Company’s secured creditors, the Court issued an order to extend the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA to and including May 7, 2015.

On May 7, 2015, with the consent of the Company’s secured creditors, the Court issued an order to extend the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA to and including June 19, 2015.

On June 19, 2015, with the consent of the Company's secured creditors, the Court issued an order to extend the time for the Company to file a proposal pursuant to section 50.4(9) of the BIA to and including July 14, 2015.

On July 14, 2015, Tour Tech filed a proposal for the general benefit of its Creditors.

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

Section B – Summary of Proposal

The Proposal is an operating proposal whereby Tour Tech will enter into a transaction with an Investor via a Newco. Newco will purchase assets (sound and lighting equipment) from Tour Tech for proceeds of \$1,300,000 to be disbursed as follows:

- i. An amount estimated to be approximately \$267,000 for payment in full of Priority Claims outstanding against Tour Tech as at the Effective Date;
- ii. An amount estimated to be approximately \$575,000 for payment in full of TD's advances to Tour Tech as at the Effective Date;
- iii. To provide the Proposal Trustee with the required funds to establish a Fund of \$200,000 to be used for full and final settlement of all Unsecured Creditors claims against Tour Tech as at the NOI Date, in accordance with Part VIII of the Proposal;
- iv. To provide Tour Tech with funds to be used in the operation of the business;
- v. Proven Claims of Unsecured Creditors as of the NOI Date, not including Proven Claims of Deferred Creditors, shall be paid as follows:
 - i. The Convenience Class portion of the claim will be paid in full, without interest; and
 - ii. Remaining Proven Claims of Unsecured Creditors not paid within the Convenience Class will participate on a pro-rata basis from the Fund; and
- vi. Deferred Creditors shall not receive any distribution in this Proposal.

In consideration of BDC's outstanding advances as at the Effective Date, Tour Tech and BDC will enter into an agreement whereby the advances will be fully extinguished over a period of fifteen years on a monthly basis starting in October 2015. In addition, 3258042 shall pay on an annual basis, all excess cash flows, after funding operations and fulfilling 3258042's obligations under its Proposal, to BDC on account of outstanding advances owed by Tour Tech; said outstanding advances being guaranteed by 3258042.

In consideration of the outstanding advances of the Class Two Secured Creditors, that Class shall have the option to either begin receiving regularly scheduled payments over the terms of the various finance agreements based upon 50% of the NOI Filing Date balance beginning in October 2015, or to take possession and enforce their security.

All Preferred Creditors will be paid in full, without interest, under the statutory requirements as contained within the BIA, before any payments are made to the Unsecured Creditors. The Proposal Trustee advises that there are no known Preferred Creditors as at July 14, 2015.

Amounts owed by Tour Tech to Subsequent Creditors for goods, services and employment actually provided to Tour Tech, 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 Tour Tech in the normal course of operations.

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

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. Further, pursuant to a Court order, outstanding professional fees of the Trustee, its counsel, and the counsel of the Company have a priority charge up to a limit of \$75,000 pursuant to section 64.2 of the BIA.

The offer contained within the Proposal is conditional on being accepted by the requisite support of all Secured Creditor classes, the Unsecured Creditors class, approval by the Court along with a Court approved Proposal of 3258042.

Section C – Financial Position and Causes of Difficulties

The Company has informed the Proposal Trustee that its financial difficulties resulted from:

- i. Declining revenues since fiscal 2010 attributable to a reduction in concerts and entertainment events in the region serviced by the Company and increased regional competition;
- ii. A surplus of underutilized assets with ongoing carrying costs;
- iii. The additional carrying costs associated with the purchase of 180 Thornhill Drive by 3258042 in October 2011 to allow for business expansion;
- iv. Unanticipated costs associated with leasehold improvements on the premises owned by 3258042;
- v. The requirement to purchase additional equipment to maintain competitiveness in the market;
- vi. The negative impact related to the foreign exchange rate between Canada and the United States of America; and
- vii. A reduction in the available borrowing capacity under the TD operating line of credit.

The Company produced unaudited financial information as at June 30, 2015, which is summarized in the Company's Statement of Affairs ("Statement of Affairs"). Detailed analysis of the Company's current financial position is found in Section E below.

Section D – Interim Receiver

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

Section E – Identification and Evaluation of Assets

According to the Company's Statement of Affairs as at July 14, 2015, and information provided to the Proposal Trustee by the Company, the Company's assets and their estimated realizable value (in liquidation) consisted of the following:

Asset	Book Value	Estimated Realizable Value	
		Low	High
Cash	\$ 40,000	\$ 40,000	\$ 40,000
Accounts receivable	298,668	166,000	196,000
Inventory	171,000	17,000	34,000
Equipment	7,702,815	2,000,000	2,500,000
Total	\$ 8,212,483	\$ 2,223,000	\$ 2,770,000

The estimated realizations contained in this Report are based on the assumption that the financial position of the Company will not change materially between June 30, 2015 and August 4, 2015, the date of deemed bankruptcy if the Proposal is not accepted by all the Secured Creditor classes, the Unsecured Creditor class and approved by the Court. These assets are discussed in greater detail hereunder.

Cash

The cash balance reflected in the Statement of Affairs of \$40,000 represents the Company's estimated cash position as at August 4, 2015.

Accounts Receivable

The accounts receivable balance reflected in the Statement of Affairs of \$298,688 represents the Company's book value of receivables. This balance includes approximately \$80,000 that the Company has identified as doubtful.

In a liquidation scenario, customers of the Company may claim offsets for product/service quality, lack of continued supply, etc. against the remaining accounts receivable. As a result, the Proposal Trustee estimates that in a liquidation scenario, the realizable value of the accounts receivable would be between \$166,000 and \$196,000.

Inventory

The amount of \$171,000 reflected in the Statement of Affairs represents the Company's book value of inventory. According to the books and records of the Company, inventory consists of sales inventory (\$84,000) and rental inventory (\$87,000). The Proposal Trustee estimates the realizable value in a liquidation scenario would be between \$17,000 and \$34,000.

Equipment

According to the Company's records, the net book value of the Company's capital assets as at June 30, 2015 was \$7,702,815. Capital assets consist of equipment (\$7,658,951), office furniture (\$23,252) and vehicles (\$20,612).

The equipment consists of assets used in the normal course of operations. Subsequent to the filing of the NOI, Tour Tech engaged Castle Appraisals to perform an appraisal on the equipment. The equipment was appraised for approximately \$2,800,000. Due to the specific nature of the assets, and taking into consideration sales commissions and expenses, along with prior asset sales, the Proposal Trustee estimates the realizable value of the equipment in a liquidation scenario would be \$2,000,000 to \$2,500,000.

Section F – Conduct of the Debtor

The Proposal Trustee monitored the cash flows of the Company during the NOI period. Outside of a transaction discussed within the Proposal Trustee's Third Report dated May 4, 2015, 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.

Section G – 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	No. of Creditors	Value
Priority	2	\$ 383,636
Secured	9	3,993,316
Unsecured	89	1,478,759
Total	100	\$ 5,855,711

The Proposal Trustee is aware of several discrepancies between the amounts contained within the books and records of the Company and the expected claims to be filed by Creditors. Discrepancies will be investigated by the Proposal Trustee upon the receipt of proofs of claims.

Section H – Previous Business Dealings with the Debtor

Prior to consenting to act as Proposal Trustee on February 20, 2015, Deloitte was engaged by BDC in March 2014 to act as a consultant with respect to specific initiatives. This mandate ended in July of 2015.

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

Section I – Informal Meetings with Major Creditors

The Proposal Trustee has held several discussions with the BDC since the filing of the NOI. BDC has remained supportive of the Company since the filing of the NOI and continued to provide access to the DIP Financing.

In addition to discussions with BDC, the Proposal Trustee has communicated with several other Secured Creditors, all of whom remained supportive of the Company.

Section J – Remuneration of 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.

Section K – Other

The Proposal Trustee engaged Ellsworth Johnson Phillips of Moncton, New Brunswick as its legal counsel.

Section L – Statement of Estimated Realization

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

The Proposal Trustee, in its preparation of the above analysis, assumes that the financial position of the Company as at August 4, 2015, the date of a potential bankruptcy, will not be materially different than the financial position as at June 30, 2015.

Asset	Book Value	Proposal	Liquidation in Bankruptcy	
			Low	High
Cash	\$ 40,000	\$	40,000	\$ 40,000
Accounts receivable	298,668		166,000	196,000
Inventory	171,000		17,000	34,000
Equipment	7,702,815		2,000,000	2,500,000
Estimated Gross Realizations	\$ 8,212,483	\$ 200,000	\$ 2,223,000	\$ 2,770,000
Less: claims of Priority Creditors	Nil	Nil	205,000	205,000
Less: claims against Administrative Charge	Nil	Nil	40,000	20,000
Less: WEPPA claims	Nil	Nil	60,000	30,000
Less: claims of Secured Creditors	Nil	Nil	2,551,924	2,551,924
Less: professional fees	Nil	Nil	300,000	200,000
	Nil	Nil	3,156,924	3,006,924
Estate Balance		200,000	Nil	Nil
Levy to OSB		10,000	Nil	Nil
Available for distribution		190,000	Nil	Nil
Estimated Unsecured Claims		1,275,000		
Dividend yield		15%	0%	0%

Section M – 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 than they would under the terms contained within the Proposal. The Unsecured Creditors would not receive any distribution, as opposed to a distribution in the range of 15% contemplated by the terms of 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 Halifax, Nova Scotia, the 20th day of July, 2015.

DELOITTE RESTRUCTURING INC.
In its capacity as Trustee under the Proposal of
Tour Tech. East Limited
and not in its personal capacity

Per:



James Foran, CPA, CA, CIRP
 Vice President