

Estate No: 51-1965976
Court No: 38866
District No: 02
Division No: 01-Halifax

SUPREME COURT OF NOVA SCOTIA IN BANKRUPTCY AND INSOLVENCY

**IN THE MATTER OF THE PROPOSAL OF
3258042 NOVA SCOTIA LIMITED**

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

Report of the Proposal Trustee on the Proposal

Section A – Background

3258042 Nova Scotia Limited (“3258042” or the “Company”) was incorporated in Nova Scotia on October 20, 2011. The shares of 3258042 are 90% owned by Peter Hendrickson, President, and 10% owned by Robert Barrett.

3258042 is based in Dartmouth, Nova Scotia. The Company owns and operates a 213,389 square foot commercial facility located at 180 Thornhill Drive in Dartmouth (the “Property”). The Company has several tenants under lease for the usage of the facility, occupying approximately 173,500 square feet of the facility. As of the date of this report, approximately 50,000 square feet is vacant and available for lease.

The Company’s major tenant, Tour Tech. East Limited (“Tour Tech”), is a related entity which 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’s operations occupy approximately 120,000 square feet of the Property. Historically, Tour Tech has not paid rent to the Company; however, Tour Tech has paid the operating costs of the Property. The Trustee has been advised that property taxes related to the Property have not been paid since 2013.

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, 3258042 filed a NOI pursuant to Section 50.4 of the BIA. Deloitte was appointed as the Proposal Trustee.

On March 20, 2015, with the consent of the Company’s secured creditors, the Supreme Court of Nova Scotia in Bankruptcy and Insolvency (the “Court”) granted an order approving an extension of time to allow the Company to work towards filing a proposal to its creditors to 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, 3258042 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 that will be funded through cash flow generated from 3258042 operations, as follows:

- i. 3258042 will generate the necessary funds for payment in full of Priority Creditor Claims outstanding against 3258042 as at the Effective Date;
- ii. In consideration of BDC's outstanding advances as at the Effective Date, 3258042 and BDC will enter into an agreement whereby the advances will be fully extinguished on a monthly basis, over a period of 18 years and 9 months, starting in October 2015;
- iii. In consideration of BDC's outstanding advances to Tour Tech, 3258042 shall pay on an annual basis, all excess cash flows, after funding operations and fulfilling the Company's obligations under this Proposal, to BDC on account of outstanding advances owed by Tour Tech; said outstanding advances being guaranteed by the Company;
- iv. In consideration of HRM's outstanding property taxes as at the Effective Date, 3258042 and HRM will enter into an agreement whereby the outstanding property taxes will be fully extinguished on a semi-annual basis, over a period of five years, starting in October 2015. 3258042 will remain current with property tax payments due for payment subsequent to the Effective Date;
- v. Proven Claims of Unsecured Creditors as of the NOI Date, excluding Proven Claims of Deferred Creditors, shall be paid 75% of Proven Claims over a three year period commencing on the Effective Date, payable in semi-annual payments from the Fund; and
- vi. Deferred Creditors shall not receive any distribution in this Proposal.

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 3258042 to Subsequent Creditors for goods, services and employment actually provided to 3258042, 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 3258042 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.

The offer contained within the Proposal is conditional on being accepted by the requisite support of the Secured Creditors class, the Unsecured Creditors class, approval by the Court, and Court approval of the Proposal of Tour Tech.

Section C – Financial Position and Causes of Difficulties

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

- i. Inability to increase revenues due to approximately 50,000 square feet of vacant space with the Property that is available for lease;
- ii. Additional carrying costs associated with the purchase of 180 Thornhill Drive in October 2011 to allow for business expansion; and
- iii. Funding Tour Tech operational losses.

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

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 bankruptcy if the Proposal is not accepted by all the Secured Creditors class, the Unsecured Creditors class and approved by the Court.

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	\$	38,175	\$	38,175	\$	38,175
Prepaid expenses		40,797		Nil		Nil
Capital assets		3,505,352		3,000,000		4,000,000
Total	\$	3,584,324	\$	3,038,175	\$	4,038,175

Cash

The cash balance reflected in the Statement of Affairs of \$38,175 represents the Company's estimated cash position as at August 4, 2015.

In a liquidation scenario, the cash balance estimated to be realized is 100% of the cash on hand.

Prepaid Expenses

The prepaid expenses reflected in the Statement of Affairs of \$40,797 represents the Company's estimated balance as at August 4, 2015. The balance consists of a \$10,000 deposit with Nova Scotia Power Inc. for continuation of utility services, and \$30,797 of prepaid taxes.

In a liquidation scenario, the prepaid expenses are estimated to have no realization value as a result of expected offsets applied against amounts owed for services rendered or taxes owed.

Capital Assets

According to the Company's records, the net book value of the Company's capital assets as at June 30, 2015 (the latest unaudited financial statements available) was \$3,505,352. Capital assets consist of leasehold improvements (\$322,742), a building (\$2,333,213) and a land parcel (\$849,398).

The leasehold improvements, building and land parcel together consist of the Property, a 213,389 square foot commercial facility located at 180 Thornhill Drive in Dartmouth. The Company has several tenants under lease for the usage of the facility, occupying approximately 173,500 square feet of the facility with annual rental revenue of approximately \$360,000. However, as of the date of this report, approximately 50,000 square feet is vacant and available for lease.

The Property was appraised in October 2014 with a market value of \$8,600,000 based on an income approach. This value was calculated based on income and occupancy levels that were never fully realized. Considering occupancy rates, which will decline in a liquidation scenario as Tour Tech will be bankrupt, recent sales history as the Property was purchased in a liquidation scenario in late 2011 for

\$3,500,000, and the current assessment value of \$3,600,000, the Proposal Trustee estimates the value of the Property in a liquidation scenario would be between \$3,000,000 and \$4,000,000.

Section F – 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.

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
Secured	2	\$ 3,650,936
Unsecured	10	155,234
Total	12	\$ 3,806,170

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.

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 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 BDC since the filing of the NOI. BDC has remained supportive of the Company since the filing of the NOI.

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:

Asset	Book Value	Proposal	Liquidation in Bankruptcy	
			Low	High
Cash	\$ 38,175	\$	38,175	\$ 38,175
Prepaid expenses	40,797		Nil	Nil
Capital assets	3,505,352		3,000,000	4,000,000
Estimated Gross Realizations	\$ 3,584,324	120,000	\$ 3,038,175	\$ 4,038,175
Less: claims of Priority Creditors		Nil	Nil	Nil
Less: claims of Preferred Creditors		Nil	Nil	Nil
Less: claims of Secured Creditors		Nil	3,800,000	3,800,000
Less: professional fees (including real estate commissions)		Nil	250,000	275,000
		Nil	\$ 4,050,000	\$ 4,075,000
Estate Balance		120,000	Nil	Nil
Levy to OSB		6,000	Nil	Nil
Available for distribution		114,000	Nil	Nil
Total Unsecured Claims (less deferred claims)		162,000		
Dividend yield		70%	0%	0%

The Proposal Trustee, in its preparation of the above analysis, assumes that the financial position of the Company as at July 14, 2015, the date of a potential bankruptcy, will not be materially different than the financial position as at February 27, 2015, the NOI filing date.

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 and Unsecured Creditors would not receive any distribution, as opposed to a projected distribution of 70% (75% dividend less 5% levy) 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
3258042 Nova Scotia Limited
and not in its personal capacity

Per:



James Foran, CPA, CA, CIRP
 Vice President