

July 6, 2015

Via email

Caroline Lafontaine
Acting Registrar
Justice Building
427 Queen Street
Fredericton, New Brunswick
E3B 1B7

Dear Ms. Lafontaine,

Subject: 663230 NB Inc. – Estate No. 51-2000260; Court No. 21256

Please find enclosed the Proposal Trustee's Supplement Report to the First Report relating to 663230 NB Inc. –Estate No. 51-2000260; Court No. 21256 motion to be heard on July 8, 2015 at 2:00 p.m. on the application of the Company by Registrar LeBlanc.

We trust you will find the enclosed to be in order. If you have any questions please feel free to contact the undersigned at your convenience.

Sincerely,

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

Per:



Jean B. Goguen, CMA, CIRP
Vice President

Enclosure (Trustee's Supplement to the First Report)

c: Service List

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

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF:

663230 NB INC.

Supplement Report to the First Report of the Trustee pursuant to sections 50.4(7)(b)(ii) and 50.4(9) of the Bankruptcy and Insolvency Act ("BIA")

1. INTRODUCTION AND BACKGROUND

- 1.1 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 ("Assomption"). As consideration for the assets, Assomption was provided a \$500,000 promissory note on August 31, 2012.
- 1.2 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.
- 1.3 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").
- 1.4 The Company entered into a licensing agreement on June 29, 2012 with License (Canadian) OPS Limited Partnership (the "Licensor") to operate under the Starwood brand as a Four Points by Sheraton Hotel ("Four Points").
- 1.5 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") with Assomption, as follows:
 - i. Meeting Room Lease agreement;
 - ii. Reimbursement of Electricity Cost Agreement; and
 - iii. Heat, Ventilation and Air Conditioning ("HVAC") System Agreement.
- 1.6 On May 26, 2015, the Company received a demand for repayment ("Demand Letter") of outstanding amounts owing under the Shared Services agreements from Assomption. The Demand Letter stated that a failure to pay all amounts outstanding would result in the interruption of Shared Services on May 31, 2015.
- 1.7 On May 29, 2015, the Company 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.
- 1.8 On June 26, 2015, the Proposal Trustee filed its first report (the "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.

2. TERMS OF REFERENCE

- 2.1 In preparing this report (the “First Supplemental Report”), the Proposal Trustee has relied upon financial information received from the Company and discussions with the Company’s management (“Management”) and Cox & Palmer, the Company’s legal counsel.
- 2.2 The financial information of the Company has not been audited, reviewed or otherwise verified by the Proposal Trustee as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that the First Report may not disclose all significant matters about the Company. Additionally, none of our procedures were intended to disclose defalcations or other irregularities. Were we to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to our attention. Accordingly, the Proposal Trustee does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Proposal Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of the First Report.
- 2.3 The Proposal Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of the First Supplemental Report. Any use which any party makes of the First Supplemental Report, or any reliance or decisions to be made is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the First Supplemental Report are expressed in Canadian dollars.
- 2.5 The purpose of the First Supplemental Report is to inform this Court on the status of the actual results to date against the initial statement of projected cash flows filed on June 8, 2015 (the “NOI Cash Flow”).

3. CASH FLOW PROJECTIONS AND PRELIMINARY RESULTS

- 3.1 Cash Flow projections prepared by the Company for the 13-week period ending August 27, 2015 were filed with the OSB on June 8, 2015. A copy of the NOI Cash Flow is attached as Appendix A.
- 3.2 The NOI Cash Flow was prepared on the assumption that:
- i. the Company’s cash flow lender, Caisse Populaires Acadiennes (“Caisse”), will continue to provide access to the Company’s \$100,000 line of credit;
 - ii. critical suppliers and vendors will continue to support the Company during the NOI period; and
 - iii. the Company will continue to experience normal occupancy levels at the hotel, banquet facilities and restaurant during the NOI period.

- 3.3 An initial review of the Company's actual results as compared to the NOI Cash Flow projections demonstrated that the Company achieved a favorable variance in overall cash flows of \$60,070 as demonstrated below:

Variance Analysis		3-Week Period Ended June 18, 2015		
		Projected	Actual	Variance
Operating Bank Account				
Opening cash	A	-	-	-
Cash receipts from operations	B	225,495	260,663	35,168
Cash disbursements from operations	C	197,901	172,999	(24,902)
Net cash flow	D = B-C	27,594	87,664	60,070
Transfer to line of credit	E	27,594	80,626	53,033
Closing cash	F = A+D-E	-	7,038	7,038
Line of Credit				
Opening balance	G	(61,066)	(80,424)	(19,358)
Transfer to line of credit	H	27,594	80,424	52,830
Interest paid on line of credit		-	203	203
		27,594	80,626	53,033
Closing balance	I = G+H	(33,472)	-	33,472
Operating line of credit availability	J	66,528	100,000	33,472
Total liquidity	K = J+F	66,528	107,038	40,510

- 3.4 The Proposal Trustee performed a detailed variance analysis of the Company's actual results as compared to the NOI Cash Flow projections for the three week period ended June 18, 2015, a copy of which is attached as Appendix B. The Proposal Trustee wishes to highlight the following variances:

- i. The Company achieved a favorable variance in cash inflows of \$35,168. The variance is primarily attributable to the collection of a pre-filing account receivable of approximately \$43,000 which was not projected in the NOI Cash Flow. The revised cash flows ("First Extension Cash Flow"), filed with the First Report, have been adjusted to include all known receivables;
- ii. The Company experienced a favorable variance in cash outflows relating to Costs of Goods Sold of \$18,375. The variance is primarily attributable to lower than projected costs. Cash disbursements for Costs of Goods Sold have been adjusted in the revised First Extension Cash Flow to reflect the lower than originally projected costs;
- iii. The Company experienced a favorable variance in cash outflows relating to Operating Expenses of \$25,896. The variance is primarily attributable to a timing difference in the payment for hotel room supplies;

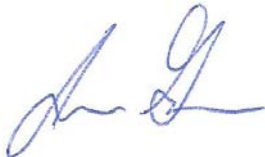
- iv. This aggregate variance is partially offset by an unfavorable variance in professional fees during the week ended June 4, 2015 relating to a deposit provided to restructuring professionals. Additional professional fees relating to the restructuring were incurred during the three week period and will be reflected in future periods; and
 - v. The Company projected availability of \$66,528 on its operating line of credit for the week ended June 18, 2015. As a result of the aforementioned variances, the Company had liquidity of \$107,038 as at June 18, 2015 representing a total favorable variance of \$40,500.
- 3.5 Through its monitoring of the company's cash flows, the Proposal Trustee identified eleven payments, totaling \$4,625, which cleared the Company's bank account related to pre-filing liabilities. The Proposal Trustee is in the process of attempting to recover these funds.
- 3.6 The Proposal Trustee confirms that all required employee payroll remittances since the NOI filing have been made to the Canada Revenue Agency.
- 3.7 The Company is continuing to maintain a Canadian dollar account with Caisse. The Proposal Trustee is not aware of any other operating bank accounts being maintained by the Company.

All of which is respectively submitted to this Court this 6th day of July, 2015.

DELOITTE RESTRUCTURING INC.

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

Per:



Jean B. Goguen, CMA, CIRP
Vice President

APPENDIX A:

NOI CASH FLOW

863230 NB Inc.
 WEEKLY CASH FLOW PROJECTION

	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
	Jun01	Jun11	Jun18	Jun25	Jul02	Jul09	Jul16	Jul23	Jul30	Aug06	Aug13	Aug20	Aug27	
Opening Cash	\$ (61,069)	\$ (32,079)	\$ (50,161)	\$ (33,472)	\$ (101,280)	\$ (84,177)	\$ (84,680)	\$ (88,597)	\$ (124,979)	\$ (97,510)	\$ (114,592)	\$ (88,917)	\$ (106,090)	\$ (61,066)
Operating Inflows														
Hotel Rooms	\$ 56,109	\$ 39,676	\$ 39,676	\$ 39,676	\$ 45,660	\$ 45,660	\$ 45,680	\$ 45,660	\$ 45,660	\$ 58,751	\$ 58,751	\$ 58,751	\$ 58,751	\$ 538,440
Restaurant & Convention	\$ 13,748	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 31,500	\$ 391,748
City of Edmonton	\$ -	\$ 9,040	\$ -	\$ -	\$ 9,040	\$ -	\$ -	\$ -	\$ -	\$ 9,040	\$ -	\$ -	\$ -	\$ 27,120
Meeting Rooms	\$ 522	\$ 600	\$ 500	\$ 400	\$ 200	\$ 200	\$ 300	\$ 300	\$ 500	\$ 400	\$ 500	\$ 500	\$ 500	\$ 5,422
Other	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 875	\$ 11,375
Total Operating Inflows	\$ 71,254	\$ 87,691	\$ 72,551	\$ 72,451	\$ 87,275	\$ 78,235	\$ 78,335	\$ 78,335	\$ 78,535	\$ 100,568	\$ 91,626	\$ 91,626	\$ 91,626	\$ 1,074,105
Operating Outflows														
Cost of goods sold	\$ 5,561	\$ 7,581	\$ 30,581	\$ 22,811	\$ 5,561	\$ 5,561	\$ 31,561	\$ 5,561	\$ 22,611	\$ 5,561	\$ 7,581	\$ 37,561	\$ 22,611	\$ 210,440
Operating expenses	\$ 36,700	\$ 20,527	\$ 19,690	\$ 28,167	\$ 36,700	\$ 26,527	\$ 19,650	\$ 27,857	\$ 16,060	\$ 41,377	\$ 27,150	\$ 20,527	\$ 23,480	\$ 344,482
Salaries	\$ -	\$ 57,000	\$ -	\$ 60,100	\$ -	\$ 61,000	\$ -	\$ 61,000	\$ 1,100	\$ 85,000	\$ -	\$ 65,000	\$ 1,100	\$ 371,300
Professional fees	\$ -	\$ 13,000	\$ 5,000	\$ 26,000	\$ 7,000	\$ 5,000	\$ 8,000	\$ 5,000	\$ 10,000	\$ 5,000	\$ 10,000	\$ 5,000	\$ 13,000	\$ 112,000
HST payable	\$ -	\$ 1,680	\$ 650	\$ 3,380	\$ 910	\$ 650	\$ 1,040	\$ 37,193	\$ 1,300	\$ 650	\$ 1,300	\$ 650	\$ 1,690	\$ 51,103
Total Operating Outflows	\$ 42,261	\$ 98,778	\$ 55,861	\$ 140,258	\$ 50,771	\$ 98,738	\$ 80,251	\$ 136,712	\$ 51,071	\$ 117,588	\$ 46,011	\$ 128,738	\$ 61,801	\$ 1,089,334
Net weekly cash flows	D = B-C	\$ 28,992	\$ (18,088)	\$ 16,689	\$ (67,806)	\$ 37,103	\$ (20,504)	\$ 18,083	\$ (58,377)	\$ 27,463	\$ (17,022)	\$ 45,615	\$ (37,112)	\$ 29,795
Cumulative cash from operations	A+D	\$ (32,079)	\$ (50,161)	\$ (33,472)	\$ (101,280)	\$ (64,177)	\$ (84,680)	\$ (88,597)	\$ (124,979)	\$ (97,510)	\$ (114,592)	\$ (88,917)	\$ (106,090)	\$ (91,526)
Operating loan availability		\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Surplus/Deficit		\$ 67,927	\$ 48,839	\$ 66,528	\$ (1,280)	\$ 35,823	\$ 15,320	\$ 33,403	\$ (24,973)	\$ 2,490	\$ (14,532)	\$ 31,083	\$ (6,030)	\$ 23,705
														\$ 8,476

663230 NB Inc.
 Insolvent Person
 Delicate Restructuring Inc.
 Trustee under the Notice of Intention to file a Proposal for
 863230 NB Inc.
 and not in its personal capacity

APPENDIX B:

VARIANCE ANALYSIS

663230 NB Inc.
 NOI Cash Flow
 Variance Analysis

		1			2			3			3-Week Period Ended June 18, 2015		
		June 4, 2015			June 11, 2015			June 18, 2015			Projected	Actual	Variance
		Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance			
Operating Bank Account													
Opening cash	A	-	-	-	-	-	-	-	-	-	-	-	-
Operating Inflows													
Hotel Rooms		56,109	59,064	2,955	39,676	38,201	(1,474)	39,676	74,904	35,228	135,460	172,169	36,708
Restaurant & Convention		13,748	14,550	802	31,500	15,169	(16,331)	31,500	51,033	19,533	76,748	80,752	4,004
City of Edmundston		-	-	-	9,040	-	(9,040)	-	1,851	1,851	9,040	1,851	(7,189)
Meeting Rooms		522	1,664	1,143	600	905	305	500	3,323	2,823	1,622	5,892	4,270
Other		875	-	(875)	875	-	(875)	875	-	(875)	2,625	-	(2,625)
Cash receipts from operations	B	71,254	75,278	4,025	81,691	54,275	(27,416)	72,551	131,110	58,559	225,495	260,663	35,168
Operating Outflows													
Cost of goods sold		5,561	12,828	7,267	7,561	-	(7,561)	30,561	12,481	(18,080)	43,684	25,310	(18,375)
Operating expenses		36,700	2,800	(33,900)	20,527	6,432	(14,095)	19,650	41,750	22,100	76,877	50,981	(25,896)
Salaries		-	-	-	57,000	56,619	(381)	-	-	-	57,000	56,619	(381)
Professional fees		-	40,090	40,090	13,000	-	(13,000)	5,000	-	(5,000)	18,000	40,090	22,090
HST payable		-	-	-	1,690	-	(1,690)	650	-	(650)	2,340	-	(2,340)
Cash disbursements from operations	C	42,261	55,718	13,457	99,778	63,050	(36,728)	55,861	54,231	(1,631)	197,901	172,999	(24,902)
Net cash flow	D = B-C	28,992	19,560	(9,432)	(18,088)	(8,775)	9,312	16,689	76,879	60,190	27,594	87,664	60,070
Transfer to line of credit	E	28,992	19,560	(9,432)	(18,088)	(8,775)	9,312	16,689	69,841	53,152	27,594	80,626	53,033
Closing cash	F = A+D-E	-	-	-	-	-	-	-	7,038	7,038	-	7,038	7,038
Line of Credit													
Opening balance	G	(61,066)	(80,424)	(19,358)	(32,073)	(61,066)	(28,992)	(50,161)	(69,841)	(19,680)	(61,066)	(80,424)	(19,358)
Transfer to line of credit	H	28,992	19,358	(9,634)	(18,088)	(8,775)	9,312	16,689	69,841	53,152	27,594	80,424	52,830
Interest paid on line of credit		-	203	203	-	-	-	-	-	-	-	203	203
		28,992	19,560	(9,432)	(18,088)	(8,775)	9,312	16,689	69,841	53,152	27,594	80,626	53,033
Closing balance	I = G+H	(32,073)	(61,066)	(28,992)	(50,161)	(69,841)	(19,680)	(33,472)	-	33,472	(33,472)	-	33,472