

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION No.: 01-MONTREAL
COURT No.: 500-11-052508-179
ESTATE No.: 41-2247164

SUPERIOR COURT
Commercial Division

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

HARIRELA INVESTMENTS LTD., a legal person,
duly incorporated under the *Canada Business
Corporations Act*, having its registered office at
1 Place Ville Marie, Suite 3000, Montreal, Quebec,
H3B 4N8.

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 Investments Ltd. ("**HIL**") is a corporation constituted under the *Canada Business Corporations Act*, which has a registered office at 1 Place Ville Marie, Suite 3000, Montreal, Quebec, H3B 4N8.

HIL is a holding company and its only tangible asset are the shares of its subsidiary, Harirela Hotels Ltd. ("**HHL**"). 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 HIL's income statements for the years ended December 31, 2014, 2015, and 2016. In addition, you will find below HIL's balance sheets as of December 31, 2014, 2015, and 2016:

Harirela Investments Ltd.	2016		
Income Statements for years ended December 31	(unaudited)	2015	2014
(Note 1) (\$)	(Note 2)	(unaudited)	(unaudited)
Revenue	-	-	-
Expenses	-	-	1,100
Net loss	-	-	(1,100)

Note 1 :

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

Note 2 :

HHL sold the Hotel on October 20, 2015.

Harirela Investments Ltd.	2016		
Balance Sheets as of December 31 (Note 1) (\$)	(unaudited)	2015	2014
	(Note 2)	(unaudited)	(unaudited)
Assets			
Short-term assets	3	3	3
Investments in HHL, at cost (Note 2)	1,750,300	1,750,300	1,750,300
	1,750,303	1,750,303	1,750,303
Liabilities			
Advance from HNH Investments Ltd. (Shareholder)	1,750,300	1,750,300	1,750,300
Advance from 9303-7026 Québec inc.	1,100	1,100	1,100
	1,751,400	1,751,400	1,751,400
Shareholders' equity			
Capital stock	3	3	3
Deficit	(1,100)	(1,100)	(1,100)
	(1,097)	(1,097)	(1,097)
	1,750,303	1,750,303	1,750,303

Note 1 :

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

Note 2 :

HHL sold the Hotel on October 20, 2015.

Causes of insolvency

HHL 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.

The proceeds from the sale of all of its assets did not allow HHL to repay in full all of its unsecured creditors. In fact, following the sale of its assets and the use of the sale proceeds for the repayment of its secured creditor and the partial repayments to some of its unsecured creditors, HHL estimated that an amount of approximately \$18.6M remains unpaid to its various unsecured creditors. For this reason, on May 3, 2017, HHL filed for bankruptcy and Deloitte was appointed Trustee in the bankruptcy of HHL.

As HIL's only asset are the shares of HHL, an insolvent and bankrupt entity, and as HIL has liabilities estimated at \$1.8M, on May 3, 2017, HIL filed for bankruptcy and Deloitte was appointed Trustee in the bankruptcy of HIL.

B. Trustee's preliminary evaluation of assets and liabilities

Below is a summary of HIL's Statement of Affairs as of April 25, 2017, which includes the estimated net realization value of HIL's assets, as well as the estimated deficit to the unsecured creditors:

Harirela Investments Ltd.		
Statement of Affairs (CAD)	Book Value	Estimated Net Realization Value
As of April 25, 2017 (unaudited)		
Assets		
Advance to HNH Investments Ltd. (Shareholder)	3	-
Investments in HHL	<u>1,750,300</u>	<u>-</u>
	1,750,303	-
Liabilities (Note 1)		
Unsecured creditor - Due to HNH Investments Ltd. (Shareholder)		1,750,300
Unsecured creditor - Other		<u>1,100</u>
		1,751,400
Deficit of unsecured creditors		<u>(1,751,400)</u>

Note 1 : *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.*

C. Conservatory and protective measures

The Trustee implemented the following conservatory and protective measures:

- Sending of notices to all of HIL's creditors informing them about the bankruptcy and the first meeting of creditors; and
- Publication of a notice to creditors in *The Gazette* newspaper.

D. Information relating to provable claims

As of the time of this report, only one proof of claim from HNH Investments Ltd. was received by the Trustee. As of the time of the preparation of this report, the Trustee has not yet completed its review of the proof of claim received from HNH Investments Ltd.

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 HIL, 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 HIL 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

The Trustee estimates that there will not be any proceeds available for distribution to unsecured creditors as the Trustee does not expect to be able to realize any value from the liquidation of the Bankrupt's assets (as illustrated in the Statement of Affairs).

H. Trustee's remuneration

The professional fees and disbursements of Deloitte, in its capacity as Trustee in the bankruptcy of HIL, will be paid by one of HIL's affiliated entity as per an agreement between one of HIL'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 Investments 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