

June 18, 2015

Via email

Gina DiDiodato
Deputy Registrar of Bankruptcy
1601 Lower Water Street, 5th Floor
Halifax, NS B3J 3P6

Dear Ms. DiDiodato,

Subject: 3258024 Nova Scotia Limited – Estate No. 51-1965976; Court No. 38866

Please find enclosed the Proposal Trustee's Third Report relating to the 3258024 Nova Scotia Limited motion to be heard on June 19, 2015 at 1:30pm by Registrar Creagan.

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
3258024 Nova Scotia Limited
and not in its personal capacity

Per:



Jean Goguen, CMA, CIRP
Vice President

Enclosure (Proposal Trustee's Third Report)

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

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

3258042 NOVA SCOTIA LIMITED

**Third 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 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.
- 1.2 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 April 30, 2015, approximately 50,000 square feet is vacant and available for lease.
- 1.3 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.
- 1.4 On February 19, 2015, 3258042 and Tour Tech received a demand for repayment of outstanding amounts owing and a notice of intention to enforce security from the Business Development Bank of Canada ("BDC"). The Property is financed with BDC.
- 1.5 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.
- 1.6 On February 27, 2015, 3258042 filed a NOI pursuant to Section 50.4 of the BIA. Deloitte was appointed as the Proposal Trustee.
- 1.7 On March 20, 2015, 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.
- 1.8 On May 7, 2015, the Court granted an order approving an extension of time to allow the Company to work towards filing a proposal to its creditors to June 19, 2015 (the "Second Extension Order"). A copy of the Second Extension Order is attached as Appendix A.

2. TERMS OF REFERENCE

- 2.1 In preparing this report (the “Third Report”) the Proposal Trustee has relied upon financial information of the Company and discussions with the Company’s management (“Management”) and Boyne Clarke, 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 Third 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 Third 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 Third Report. Any use which any party makes of the Third Report, or any reliance or decisions to be made, is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the Third Report are expressed in or converted to Canadian dollars.
- 2.5 The purpose of the Third Report is to inform the Court on the status of:
- i. the actual results to date against the forecasted statement of projected cash flows filed on May 4, 2015 with the Court (the “Second Extension Cash Flow”) and the revised forecasted cash flows (the “Third Extension Cash Flow”) for the remaining period of consideration;
 - ii. the Company’s progress in establishing a restructuring plan; and
 - iii. the Proposal Trustee’s position on the Company’s application for a 24 day extension to the stay of proceedings.

3. CASH FLOW PROJECTIONS AND PRELIMINARY RESULTS

- 3.1 The Second Extension Cash Flow prepared by the Company for the 13-week period May 1 to July 24, 2015 was filed with the Court on May 4, 2015.
- 3.2 The Second Extension Cash Flow was prepared based on the following assumptions:
- i. customers, specifically tenants having entered lease agreements, will continue to support the Company through the restructuring process;
 - ii. any suppliers will continue to support the Company through the restructuring process on a cash on delivery basis;
 - iii. no payments will be made to creditors during the restructuring process outside of cash payments for post-filing purchases;
 - iv. rent revenues are received from current tenants only; and
 - v. no receipts or disbursements pursuant to an insurance claim related to winter damage to the Property are included.

- 3.3 The Proposal Trustee has monitored the actual cash flow results for the seven week period ending June 12, 2015. The Company has experienced a favourable variance in net operating cash flows of \$20,344. A copy of the detailed actual to budget variance analysis is attached as Appendix B.
- 3.4 The Company has prepared and the Proposal Trustee has reviewed, the Third Extension Cash Flow, a nine week cash flow for the weeks ending June 19 to August 14, 2015 using similar assumptions as the Second Extension Cash Flow. A copy of the Third Extension Cash Flow is attached as Appendix C.

4. PRELIMINARY RESTRUCTURING PLAN

- 4.1 The ability of the Company to file a viable proposal will largely be dependent on the following:
- i. continued rent payments from tenants during the NOI period;
 - ii. fulfillment of the insurance claim for the repairs and damages incurred to the Property;
 - iii. Management's ability to implement a restructuring plan and make a proposal to creditors; and
 - iv. the successful restructuring of Tour Tech.
- 4.2 The Company and Tour Tech, in conjunction with the Proposal Trustee, have taken the following steps in respect of the Company's restructuring:
- i. making essential repairs and maintenance to the Property;
 - ii. working with the insurance provider in having the insurance claim and recovery move forward;
 - iii. maintaining current leases and seeking additional lease agreements for unutilized space; and
 - iv. exploring financing strategies.
- 4.3 In the Proposal Trustee's report dated May 4, 2015, the Court was advised that on April 1, 2015, the Proposal Trustee and the Company met with the insurance provider, as well as the insurance adjuster, to discuss the damages to the Property.
- 4.4 On May 14, 2015, the Company received two bids for repairs on the Property from contractors selected by the Company's insurance provider, Travelers Canada ("Travelers"). Travelers provided the Company, the Proposal Trustee and BDC with its recommendation to select one of the bids based on the quoted cost of the repairs, time required to repair damages and the quality of the bid itself. The Company has yet to select a successful bidder.
- 4.5 Since the Second Extension hearing, the Company continues to actively search for new tenants for the 50,000 square feet of vacant space in the Property. The Proposal Trustee is advised that Management is currently in discussions with an existing tenant that is exploring the option of increasing its foot print in the Property and the Proposal Trustee is aware that Management has engaged a real estate broker to assist with identifying additional tenants.
- 4.6 In the Proposal Trustee's report pursuant to the restructuring of Tour Tech dated May 4, 2015, the Proposal Trustee advised the Court that Tour Tech, in conjunction with the Proposal Trustee, was holding investment discussions with a financial party (the "Financial Partner").
- 4.7 Subsequent to the Second Extension hearing, the Proposal Trustee and Tour Tech have expended significant time and effort working with the Financial Partner. On May 29, 2015, subsequent to a meeting held with the principals of Tour Tech and the Financial Partner, legal

counsel to the Company provided an outline of a potential transaction that was acceptable to both parties. The potential transaction included a restructuring of 3258042.

- 4.8 On June 1, 2015, the Proposal Trustee held a conference call with representatives of the Financial Partner. Subsequent to this call, the Financial Partner provided Tour Tech and the Proposal Trustee with an initial requirements listing to begin its due diligence.
- 4.9 On June 3, 2015, representatives from the Financial Partner met with the Proposal Trustee to obtain background information on Tour Tech in order to gain a better understanding of the process and to have general questions answered.
- 4.10 On June 4, 2015, representatives from the Financial Partner and the Proposal Trustee worked on site at Tour Tech's premises to complete the due diligence. The due diligence period continued until June 10, 2015.
- 4.11 In the Proposal Trustee's report pursuant to the restructuring of Tour Tech dated June 18, 2015, the Proposal Trustee advised the Court that another party (the "Financial Lender") had been introduced to Tour Tech as a potential financing source. Subsequent to numerous communications between Tour Tech, the Proposal Trustee and the Financial Lender, the Financial Lender signed an expression of interest letter in Tour Tech. The Company, the Proposal Trustee and BDC have held discussions regarding BDC remaining as the mortgage lender of the Company if the Financial Lender makes an investment in Tour Tech.

5. STAY EXTENSION APPLICATION

- 5.1 As discussed above, the ability of the Company to file a viable proposal is dependent on:
 - i. continued support from tenants during the NOI period;
 - ii. fulfillment of the insurance claim for the repairs and damages incurred to the Property;
 - iii. Management's ability to implement a restructuring plan and make a proposal to creditors; and
 - iv. the successful restructuring of Tour Tech.
- 5.2 The Proposal Trustee is of the opinion that the Company has been and is acting in good faith and with due diligence in connection with the preparation of a restructuring plan and a proposal to creditors.
- 5.3 The Proposal Trustee believes that a 24 day extension will enhance the prospects of the Company filing a viable proposal to its creditors. As described in subsection 4.2, the Company has taken meaningful steps in relation to a restructuring plan; however, the Company has not had adequate time to implement material restructuring changes to date.
- 5.4 The Proposal Trustee is of the opinion that no creditor would be materially prejudiced by the extension as requested by the Company.
- 5.5 In the absence of an extension, the Company will not be in a position to file a proposal before June 19, 2015 and will therefore be deemed bankrupt. The Proposal Trustee is of the view that more time is required to allow the Company to assess its options in drafting a proposal which the Proposal Trustee believes will result in a higher return to unsecured creditors as compared to a liquidation scenario in the event the Company is deemed bankrupt.
- 5.6 Based on the foregoing, the Proposal Trustee supports the Company's application for an Order extending the amount of time for the Company to file a proposal to creditors.

All of which is respectively submitted to this Court this 18th day of June, 2015.

DELOITTE RESTRUCTURING INC.

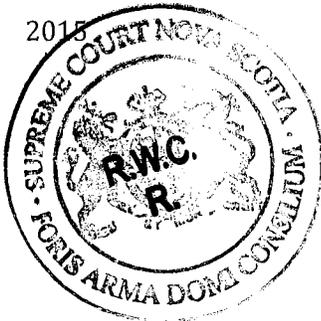
In its capacity as Trustee under the Proposal of
3258042 Nova Scotia Limited
and not in its personal capacity.

Per:

A handwritten signature in blue ink, appearing to read "J. Goguen". The signature is fluid and cursive, with a large initial "J" and "G".

Jean Goguen, CMA, CIRP
Vice President

**Appendix A: Supreme Court of Nova Scotia in Bankruptcy and Insolvency
Second Extension Order**



Estate No. 51- 1965976

Court No. 38866

District of Nova Scotia

Division No. 01-Halifax
Court Administration

MAY 7 2015

Halifax, N.S.

**SUPREME COURT OF NOVA SCOTIA
IN BANKRUPTCY & INSOLVENCY**

In the Matter of: **THE PROPOSAL OF 3258042 NOVA SCOTIA LIMITED**

Order Approving Extension of Time to Make a Proposal

Before the Honourable Richard W. Cregan, Q.C., Registrar in Bankruptcy

Upon 3258042 Nova Scotia Limited (the "Applicant"), having made motion for an Order to extend the time for the filing of a proposal pursuant to section 50.4(9) of the *Bankruptcy & Insolvency Act*;

An Upon reading the Second Report of Deloitte Restructuring Inc. (the "Trustee"), the Affidavit of Peter Hendrickson, and the other materials on file herein;

And Upon hearing from counsel for the Applicant, the Trustee, and such other counsel as appeared;

It is ordered that:

SERVICE

1. To the extent necessary any required notice periods with respect to this motion are hereby abridged;
2. Any lack or deficiency in service of this motion is hereby waived and excused;
3. Service on those persons set out in the Affidavit of Service filed on this motion shall be sufficient service for the purposes of this motion;

EXTENSION OF TIME TO MAKE A PROPOSAL

4. The time to file a Proposal in the proceeding is extended commencing from and including May 7, 2014, to and including June 19, 2015.

EFFECTIVE TIME & DATE

5. This Order and all of its provisions are effective as of 12:01 a.m. local time on the date of this

**IN THE SUPREME COURT
COUNTY OF HALIFAX, N.S.**

Issued May 7, 2015

I hereby certify that the foregoing is a true copy of the original order on file herein.

Dated the
A.D., 2015

GINA DiDODATO

PL# 131700/4526785
Deputy Registrar in Bankruptcy
DEPUTY REGISTRAR

GINA DiDODATO
Deputy Registrar in Bankruptcy
Deputy Registrar

Appendix B: Actual to Second Extension Cash Flow Variance Analysis

3258042 Nova Scotia Limited
Actual to Budget Variance Analysis
For the seven weeks ending June 12, 2015

	May-01		May-08		May-15		May-22		May-29		Jun-05		Jun-12		Cumulative			Notes
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Variance	
Opening Cash Balance	42,082	21,122	6,912	48,521	32,851	44,649	44,232	43,343	36,431	36,028	31,116	33,398	46,355	64,957	42,082	21,122		
Adjustment to Actual from Budgeted	(20,960)														(20,960)			
Inflows:																		
Rental income	-	27,399	33,149	2,300	-	115	-	-	-	-	33,149	33,149	-	-	66,298	62,963	(3,335)	1
HST received	-	-	-	-	25,174	-	-	-	-	25,182	-	-	-	-	25,174	25,182	8	
Total Inflows	-	27,399	33,149	2,300	25,174	115	-	-	-	25,182	33,149	33,149	-	-	91,472	88,145	(3,327)	
Operating Outflows:																		
Professional fees	11,210	-	3,710	1,421	10,293	1,421	4,301	7,315	1,815	25,787	9,315	-	1,815	-	42,459	35,944	6,515	2
Repairs and maintenance	2,000	-	2,500	4,746	2,500	-	2,500	-	2,500	2,011	2,500	1,590	2,500	3,572	17,000	11,919	5,081	3
Operating expenses	1,000	-	1,000	5	1,000	-	1,000	-	1,000	14	1,000	-	1,000	-	7,000	19	6,981	4
HST payable	-	-	-	-	-	-	-	-	-	-	5,094	-	-	-	5,094	-	5,094	5
Total Outflows	14,210	-	7,210	6,172	13,793	1,421	7,801	7,315	5,315	27,812	17,909	1,590	5,315	3,572	71,553	47,882	23,671	
Operating Cash Flow	(14,210)	27,399	25,939	(3,872)	11,381	(1,306)	(7,801)	(7,315)	(5,315)	(2,629)	15,240	31,560	(5,315)	(3,572)	19,919	40,263	20,344	
Closing Cash Balance	6,912	48,521	32,851	44,649	44,232	43,343	36,431	36,028	31,116	33,398	46,355	64,957	41,040	61,385	41,041	61,385	20,344	

1. This unfavorable variance relates to lost revenue as one months rent to a tenant was waived due to damages sustained on the Property.
2. This favorable variance relates to timing as there was an outstanding cheque to Deloitte in the amount of \$18,101 as at June 12, 2015.
3. This favorable variance relates to lower costs incurred for repairs and maintenance compared to budget.
4. This favorable variance relates to cost saving initiatives implemented by Management.
5. The favorable variance relates to the Company being in an HST receivable position during the period.

Appendix C: Third Extension Cash Flow

**3258042 Nova Scotia Limited
Third Extension Cash Flow
For the nine weeks ending August 14, 2015**

	Jun-19	Jun-26	Jul-03	Jul-10	Jul-17	Jul-24	Jul-30	Aug-07	Aug-14
Opening Cash Balance	61,385	52,885	44,385	72,684	66,684	58,184	52,184	39,210	65,010
Inflows:									
Rental income	-	-	34,299	-	-	-	-	34,299	-
Total Inflows	-	-	34,299	-	-	-	-	34,299	-
Operating Outflows:									
Professional fees	5,000	5,000	2,500	2,500	5,000	2,500	5,000	5,000	5,000
Repairs and maintenance	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Operating expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
HST payable	-	-	-	-	-	-	4,474	-	-
Total Outflows	8,500	8,500	6,000	6,000	8,500	6,000	12,974	8,500	8,500
Operating Cash Flow	(8,500)	(8,500)	28,299	(6,000)	(8,500)	(6,000)	(12,974)	25,799	(8,500)
Closing Cash Balance	52,885	44,385	72,684	66,684	58,184	52,184	39,210	65,010	56,510



3258024 Nova Scotia Limited
Insolvent Person



Deloitte Restructuring Inc.
Trustee under the Notice of Intention to File a Proposal
for 3258024 Nova Scotia Limited
and not in its personal capacity