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C A N A D A PROVINCE OF QUEBEC DISTRICT OF QUEBEC DIVISION No.: 01-Montreal COURT No.: 500-11-045763-139 ESTATE No.: 41-1815817 OFFICE No.: 420498-1000000	S U P E R I O R C O U R T Commercial Division
IN THE MATTER OF THE PROPOSAL OF :	**IHG HARILELA HOTELS LTD.**, a legal person, duly incorporated according to law, having its head office and principal place of business at 7880 Côte-de-Liesse Road, Montreal, Quebec, H4T 1E7 Insolvent Person – and – **SAMSON BÉLAIR/DELOITTE & TOUCHE INC.** (Benoit Clouâtre, CPA, CA, CIRP, designated responsible person) having its place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec, H3B 4T9 Trustee

TRUSTEE'S REPORT ON THE PROPOSAL
[Subsections 50(5) and 50(10)]

The purpose of this report is to inform the creditors of a view to assist them in evaluating the proposal as filed on May 27, 2014 by IHG Harilela Hotels Ltd. (hereinafter referred to as the "**Company**").

It is important to note that we did not perform an audit or investigation of the books and records of the Company. Consequently, we cannot express an opinion as to the exactness or the completeness of the information contained in this report. The unconfirmed information dealt with in this report was submitted to the Trustee by the Company.

A. INTRODUCTION

On November 29, 2013, the Company filed with Samson Bélair/Deloitte & Touche Inc. ("**Deloitte**") a *Notice of Intention to Make a Proposal* under the *Bankruptcy and Insolvency Act* ("**BIA**").

On December 5, 2013, the Trustee sent to every creditor known by the Company a copy of the *Notice of Intention to Make a Proposal*.

The *Cash Flow Statement* was prepared by the Company for the period from November 29, 2013 to February 28, 2014, and was filed with the Official Receiver on December 9, 2013 with the *Trustee's Report on Cash Flow Statement* and the *Report on Cash Flow Statement by the Person Making the Proposal*, in conformity with the subsection 50.4(2) of the BIA.

On December 27, 2013, the Company filed an extension motion in conformity with subsection 50.4(9) of the BIA. The extension motion was heard by Ms. Chantal Flamand, registrar, who issued an order which extended by 45 days the time for the Company to file a proposal to its creditors, until February 10, 2014.

On February 7, 2014, the Company filed an extension motion in conformity with subsection 50.4(9) of the BIA. The extension motion was heard by Mr. Pierre Pellerin, registrar, who issued an order which extended by 45 days the time for the Company to file a proposal to its creditors, until March 24, 2014.

On March 24, 2014, the Company filed an extension motion in conformity with subsection 50.4(9) of the BIA. The extension motion was heard by Mr. Pierre Pellerin, registrar, who issued an order which extended by 45 days the time for the Company to file a proposal to its creditors, until May 8, 2014.

On May 8, 2014, the Company filed an extension motion in conformity with subsection 50.4(9) of the BIA. The extension motion was heard by Ms. Chantal Flamand, registrar, who issued an order which extended by 20 days the time for the Company to file a proposal to its creditors, until May 28, 2014.

On May 27, 2014, the Company filed a proposal with the Trustee.

B. BACKGROUND

The Company is a corporation incorporated under the *Canadian Business Corporations Act*, having its head office and principal place of business at 7880 Côte-de-Liesse Road, Montreal, Quebec.

The Company holds and operates a hotel under the Hilton Garden Inn banner.

C. EVENTS LEADING TO THE PROPOSAL

As illustrated below, the Company did not record a profit since 2011 and has cumulated a deficit of $1.4M from 2011 to the end of its last fiscal year (for which internal financial statements were finalized as of the time of this report) ended March 31, 2013.

Statement of operations For the years ended March 31 CAD	**Unaudited 2013**	**Audited 2012**	**Audited 2011**
Revenue	**7,146,318**	**7,482,162**	**6,968,164**
Cost of sales	439,536	549,774	509,156
Gross profit	**6,706,782**	**6,932,388**	**6,459,008**
	93.8%	*92.7%*	*92.7%*
Operating expenses	5,005,579	4,961,803	4,880,450
Loss from operations before other expenses	**1,701,203**	**1,970,585**	**1,578,558**
Other expenses	2,093,709	2,366,527	2,191,707
Net loss	**(392,506)**	**(395,942)**	**(613,149)**

In addition to the net losses recorded by the Company from 2011 to 2013, in the fall of 2013 the Company had a dispute with its franchisor (HLR Existing Franchise Holding LLC) who then advised the

Company on November 14, 2013 that it intended to terminate the Franchise Agreement on January 1, 2014 (the "**Termination Notice**"). Following this event, the sole secured creditor of the Company, Computershare Trust Company of Canada ("**Computershare**"), issued on November 19, 2013 a demand letter and a notice under section 244 of the BIA alleging that the Termination Notice was a default under the Loan Agreement.

On November 29, 2013, the Company's financial difficulties and contractual disputes forced it to try to restructure its affairs and to file the Notice of Intention.

D. STATEMENT OF AFFAIRS

The Statement of Affairs as of May 23, 2014 is as follows:

Statement of Affairs ($) **Unaudited** **(as of May 23, 2014)**	**Book value** **(October 31, 2013)**	**Estimated net** **realizable value**
Assets		
Cash	243,167	106,439
Accounts receivable	225,245	136,107
Intercompany receivables	931,934	-
Prepaids	776,633	-
Inventory	123,940	18,591
Deposits	36,237	-
Building and land	10,729,119	10,315,364
Leashold improvement	367,190	-
Furniture and equipment	1,502,321	300,464
Computer and software	113,018	11,302
Automobiles	13,583	6,792
Others	18,916	-
	15,081,303	**10,895,059**
Liabilities		
Secured employee claims (as per section 81.3 of the BIA)		91,621
Secured creditor		10,803,438
Unsecured creditors (related entities)		6,858,619
Unsecured creditors (non-related entities) (Note 1)		430,812
		18,184,490
Deficit (before professional fees)		**(7,289,431)**

Note 1:
Creditors will have the onus to prove their claims and only those which are finally approved will constitute the liabilities to be paid in the Proposal.

The value attributed to the various assets of the Company in the Statement of Affairs represents the net realizable value of those assets under a liquidation scenario as estimated by the management of the Company ("**Management**"):

- Cash: Represents the actual cash balance as of May 16, 2014. Please note that the cash balance that would be available for distribution to creditors in a liquidation scenario could be less than the actual cash balance as of May 16, 2014 as additional disbursements were/will be made from May 17, 2014 to the date of a distribution to creditors (as indicated in the Statement of Receipts and Disbursements filed by the Company on May 27, 2014). The Company's cash balance appears to be secured in favor of Computershare;
- Accounts receivable: The book value of the Company's accounts receivable as of October 31, 2013 is $225,245. Management estimated that approximately 95% of the book value of the receivables from the hotel guests could be obtained in a liquidation of the Company's assets. The Company's accounts receivable appear to be secured in favor of Computershare;
- Intercompany receivables: The book value of the Company's intercompany receivables as of October 31, 2013 is $931,934. As companies affiliated to the Company are owed a total of $1,045,356 as of November 29, 2013 (as per the Statement of Affairs), it is assumed that no funds would be collected from those affiliated companies in a liquidation of the Company's assets as those affiliated companies would likely exercise their right to compensation before remitting any funds to the Company.
- Inventory: The book value of the Company's inventory (made mainly of linen, beverages, food, housekeeping supplies, and printing and stationery supplies) as of October 31, 2013 is $123,940. Management estimated that approximately 15% of the book value of the inventory could be obtained in a liquidation of the Company's assets. The Company's inventory appears to be secured in favor of Computershare;
- Building and land: The book value of the Company's building and land as of October 31, 2013 is $10,729,119. Management estimated that the total net realizable value of all of the Company's assets in a liquidation scenario would be equal to the total amount of the employees' secured claims and of the secured creditor's claim as of November 29, 2013. As a result (and based on the net realizable value estimated/allocated to the other assets of the Company), Management estimated the value of the building and the land at $10,315,364. The Company's building and land appear to be secured in favor of Computershare;
- Furniture and equipment: The book value of the Company's furniture and equipment as of October 31, 2013 is $1,502,321. Management estimated that approximately 20% of the book value of the furniture and equipment could be obtained in a liquidation of the Company's assets. The Company's furniture and equipment appear to be secured in favor of Computershare;
- Computer and software: The book value of the Company's computer and software as of October 31, 2013 is $113,018. Management estimated that approximately 10% of the book value of the computer and software could be obtained in a liquidation of the Company's assets. The Company's computer and software appear to be secured in favor of Computershare;
- Automobiles: The book value of the Company's automobiles as of October 31, 2013 is $13,583. Management estimated that approximately 50% of the book value of the automobiles could be obtained in a liquidation of the Company's assets. The Company's automobiles appear to be secured in favor of Computershare; and

- Other assets: The book values of the Company's prepaid expenses, deposits, leasehold improvements and other assets as of October 31, 2013 are respectively $776,633, $36,237, $367,190 and $18,916. Management estimated that no value would be obtained from those assets in a liquidation of the Company's assets.

Under a bankruptcy scenario, some of the employee claims (as estimated in the Statement of Affairs) would be secured by a security on the Company's current assets in conformity with subsection 81.3(1) of the BIA.

Please note that Deloitte did not obtain an independent opinion on the validity of the security on all of the assets of the Company held by the secured creditors.

E. SUMMARY OF THE PROPOSAL

The following is a brief synopsis intended to assist the reader. Please refer to the Proposal itself for a complete description of measures that would result from the approval of the Proposal.

The Proposal essentially provides for the measures described below to be put into effect following the acceptance of the Proposal by the creditors and its approval by the Court:

- The payment, by the Company, of all employee (or former employee) claims that such employees/former employees would be qualified to receive under paragraph 136(1)(d) of the BIA if the Company became bankrupt on the Date of the Proposal;
- The payment, by the Company, of the professional fees in priority to all Preferred Claims and Ordinary Claims;
- The payment, by the Company, of all Preferred Claims, without interest, in priority to all Ordinary Claims;
- The payment to secured creditors in accordance with the existing contracts;
- The payment to unsecured creditors of an amount representing 85% of the creditor's proven claim on October 1, 2014;
- Provided that the Company fulfills the Proposal and the payments required to be made are made as and when required under the Proposal, sections 95 through 101.1 of the BIA and articles 1631 to 1636 of the *Civil Code of Quebec* shall not apply to the Proposal and neither the Trustee nor any creditors of the Company shall have, or be entitled to, exercise any of the rights or recourses provided for therein;
- The acceptance of the Proposal by the creditors of the Company shall release definitively the Directors from any and all Directors Liabilities in accordance with subsections 50(13) and 50(14) of the BIA; and
- The payments under the Proposal shall be made through Deloitte, who shall issue the dividend in accordance with the terms of the Proposal.

F. ANALYSIS OF THE PROPOSAL

In the event where the creditors would refuse to approve the Proposal, the Company would be declared bankrupt and, therefore, the Trustee, subject to the secured creditors' rights, would be forced to liquidate the Company's assets.

Estimated distribution of funds (Liquidation scenario in a bankruptcy)	($)
Estimated funds available from the liquidation of assets:	
Cash	106,439
Accounts receivable	136,107
Inventory	18,591
Building and land	10,315,364
Furniture and equipment	300,464
Computer and software	11,302
Automobiles	6,792
	10,895,059
Distribution of funds:	
Amount owed to employees eligible to a security under section 81.3 of the BIA	91,621
Amount owed to the secured creditor	10,803,438
Surplus of the secured creditor (before professional fees)	**0**
Amount owed to unsecured creditors before professional fees	7,289,431
Distribution to unsecured creditors before professional fees (%)	**0.00%**

As demonstrated by the estimated distribution of funds under a bankruptcy scenario, it is unlikely that the liquidation of the Company's assets would allow the unsecured creditors to receive a dividend equivalent or higher to the one provided for in the Proposal (i.e., a payment to unsecured creditors of an amount representing 85% of their proven claims).

In fact, as presented above, under a scenario of a liquidation of the Company's assets in a bankruptcy, it is estimated that the total amount owed to the secured creditor would be paid and 0% of the amount owed to the unsecured creditors would be paid (before even considering all professional fees required to complete the liquidation of the assets). Hence, under such scenario, it is estimated that the unsecured creditors would incur a loss of approximately $7.3M.

Given that all creditors with proven and accepted claims should receive a dividend under the Proposal (and that such dividend is likely to be higher than the dividend that could be obtained in a bankruptcy scenario), the Trustee is of the opinion that the unsecured creditors would not be prejudiced in accepting the Proposal and recommends its acceptance.

G. RECOMMENDATION

If the Proposal is accepted by the creditors, the dividend payment will be made in accordance with the terms of the Proposal.

In conclusion, **the Trustee recommends the approval of the Proposal by the creditors** since a bankruptcy scenario would likely not generate any funds for the unsecured creditors.

Any creditors wishing to vote prior to the First meeting of creditors may complete the voting and claim forms included with the Notice of Proposal to Creditors, and forward them to the Trustee by mail or by fax.

DATED AT MONTREAL, this 4th day of
June, 2014.

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
Trustee acting *in re:* the proposal of
IHG Harilela Hotels Ltd.

Benoit Clouâtre, CPA, CA, CIRP