

Deloitte.

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August 10, 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 Second Report relating to 663230 NB Inc. –Estate No. 512000260; Court No. 21256 motion to be heard on August 18 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 Second 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.

**Second 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 Assumption. 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.
- 1.9 On July 8, 2015, the Court of Queen's Bench of New Brunswick in Bankruptcy and Insolvency (this "Court") granted an order approving an extension of the time to make a proposal (the "Extension Order"), a copy of which is included as Appendix A.
- 1.10 On July 8, 2015, the Court granted an order providing for an administrative charge in respect of the Proposal Trustee, its legal counsel and the legal counsel and financial advisors of the Company.

2. TERMS OF REFERENCE

- 2.1 In preparing this report (the "Second 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 Second Report may not disclose all significant matters about the Company. Additionally, none of our procedures were intended to disclose defalcations or other irregularities. Should we have performed additional procedures or undertaken 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 Second 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 Second Report. Any use which any party makes of the Second Report, or any reliance or decisions to be made is the sole responsibility of such party.
- 2.4 All dollar amounts identified in the Second Report are expressed in Canadian dollars.
- 2.5 The purpose of the Second Report is to inform this Court on the status of:
- i. the actual results to date against the revised statement of projected cash flows filed on June 26, 2015 (the "First Extension Cash Flow") and forecasted cash flows for the remaining period under consideration (the "Second Extension Cash Flow");
 - ii. the Company's progress towards a restructuring plan;
 - iii. the Proposal Trustee's position on the Company's application for a 45 day extension (the "Second Extension") to the stay of proceedings.

3. FINANCIAL POSITION

- 3.1 The First Extension Cash Flow prepared by the Company for the 13-week period June 1, 2015 to August 27, 2015 was filed with this Court on June 26, 2015.
- 3.2 The First Extension 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 The Proposal Trustee monitored the actual cash flow results for the six week period ended July 30, 2015 (the "Variance Analysis"). A copy of the Variance Analysis is attached as Appendix B.

- 3.4 The Proposal Trustee performed a detailed variance analysis of the Company's actual results as compared to the First Extension Cash Flow projections for the six week period ended July 30, 2015. The Proposal Trustee wishes to highlight the following variances:
- i. The Company achieved a favorable variance in cash inflows of \$78,421. Cash receipts pertaining to hotel room rentals were higher than projected as a result of higher average daily rates and higher service revenues per available room. This favorable variance was partially offset by timing differences in the collection of certain accounts receivable;
 - ii. The Company experienced a favorable variance in cash outflows relating to Operating Expenses of \$94,367. The Company has consumed a larger portion of its existing inventory than originally projected as it has continued to negotiate credit terms with key suppliers; and
 - iii. The Company experienced a favorable variance in Salaries of \$17,421 as a result of the reduction in available hourly employees and the renegotiation of supervisor and manager salaries.
 - iv. The Company experienced a favorable variance in cash outflows relating to Professional Fees of \$30,576. As at the date of this report, the Trustee has unbilled professional fees, estimated at \$32,000.
 - v. The Company projected a closing cash balance of \$1,204 in its operating account and availability on its operating line of credit of \$100,000, representing total liquidity of \$101,204, for the week ended July 30, 2015. As a result of the aforementioned variances, the Company had liquidity of \$312,639 as at July 30, 2015, representing a total favorable variance of \$211,434.
- 3.5 In its First Report the Proposal Trustee identified nine payments totaling \$4,625 which cleared the Company's bank account relating to pre-filing liabilities. As at the date of this report the Proposal Trustee has identified two additional payments, totaling \$1,151, which have cleared the Company's bank account pertaining to pre-filing liabilities.
- 3.6 The Proposal Trustee confirms that all required GST/HST returns and remittances and 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.

3.8 The Company has prepared, and the Proposal Trustee has reviewed, the extended cash flow projection (the "Second Extension Cash Flow"), a 13-week cash flow projection for the weeks ending August 6, 2015 to October 29, 2015 using similar assumptions as the First Extension Cash Flow. A copy of the Second 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 be largely dependent on the following:

- i. continued occupancy for the hotel, restaurant and banquet facilities at historical rates during the NOI period;
- ii. a renegotiation or replacement of Shared Services; and
- iii. Management's ability to negotiate an acceptable agreement with creditors.

4.2 The Company, in conjunction with the Proposal Trustee, has taken the following steps in respect of the Company's restructuring:

- i. continued essential repairs and maintenance to the Property;
- ii. conducted a preliminary review of cost containment alternatives to reduce on-going operating costs and terminated an existing lease agreement with Assomption;
- iii. engaged a real property appraiser to perform a valuation of the land and building in support of the potential sale of the Property;
- iv. conducted a preliminary meeting with the Licensor to negotiate revised terms for the franchise agreement;
- v. engaged a professional engineering firm to complete an options analysis and feasibility review to support the potential replacement of Shared Services; and
- vi. conducted preliminary discussions with existing shareholders to explore potential restructuring alternatives and a revised business plan;

4.3 The Proposal Trustee notes the Company is paying post-filing obligations in the normal course operations and within negotiated credit terms.

5. EXTENSION TO FILE A PROPOSAL

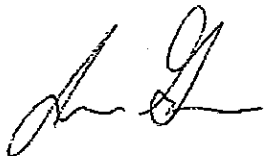
- 5.1 In the Proposal Trustee's opinion, the Company has acted, and continues to act, in good faith and with due diligence. In this regard, as detailed in section 4.2 of this Second Report, the Company has undertaken several restructuring steps since filing the NOI.
- 5.2 As provided herein, the ability of the Company to file a viable proposal is dependent on:
- i. continued occupancy of the hotel, restaurant and banquet facilities during the NOI period. The Proposal Trustee held discussions with Management regarding projected vacancies, sales and operating costs. The Company revised its projections by taking into account the initial restructuring initiatives taken to date. The Proposal Trustee has monitored the NOI Cash Flows since the NOI filing and advises that no unfavorable material variances exist which would indicate that the filing of the NOI has not negatively impacted the Company;
 - ii. alternative or replacement of the Shared Services. The Company has held discussions with alternative service providers for Shared Services and is in the process of obtaining quotes for the installation of a stand-alone HVAC system. Further, the Company has engaged in discussions with New Brunswick Power regarding the establishment of a stand-alone power meter; and
 - iii. Management's ability to implement a restructuring plan and make a proposal to creditors.
- 5.3 The Proposal Trustee believes a 45-day extension will enhance the prospects of the Company filing a viable proposal to its creditors. As described in section 4.2 of this Second Report, the Company has undertaken 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 Second Extension as requested by the Company.
- 5.5 In the absence of the Second Extension, the Company will not be in a position to file a proposal before August 11, 2015.
- 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 respectfully submitted to this Court this 10th day of August, 2015.

DELOITTE RESTRUCTURING INC.

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

Per:

A handwritten signature in black ink, appearing to read 'J. Goguen', written in a cursive style.

Jean B. Goguen, CMA, CIRP
Vice President

APPENDIX A:

EXTENSION ORDER

APPENDIX B:

VARIANCE ANALYSIS

883250 NB Inc.
 Vital Extension Cash Flow
 Variance Analysis

	July 2, 2015			July 9, 2015			July 16, 2015			July 23, 2015			July 30, 2015			July 30, 2016		
	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance	Projected	Actual	Variance
A	7,038	7,038																
Operating Bank Account																		
Opening cash																		
Operating Income																		
Hotel Rooms	64,000	61,064	2,936	64,000	61,064	2,936	70,000	61,064	8,936	70,000	61,064	8,936	70,000	61,064	8,936	70,000	61,064	8,936
Restaurant & Convection	20,000	22,078	(2,078)	20,000	19,427	573	20,000	19,427	573	20,000	19,427	573	20,000	19,427	573	20,000	19,427	573
City of Edmonton	500	2,824	(2,324)	700	9,040	(8,340)	700	9,040	(8,340)	700	9,040	(8,340)	700	9,040	(8,340)	700	9,040	(8,340)
Meeting Rooms																		
Other	10,866	(10,640)	226	10,866	48,821	(37,955)	10,866	48,821	(37,955)	10,866	48,821	(37,955)	10,866	48,821	(37,955)	10,866	48,821	(37,955)
Cash receipts from operations	95,832	80,226	15,606	95,832	80,226	15,606	105,800	80,226	25,574	105,800	80,226	25,574	105,800	80,226	25,574	105,800	80,226	25,574
Operating Outflow																		
Cost of goods sold	17,000	11,828	5,172	17,000	6,295	10,705	17,000	6,295	10,705	17,000	6,295	10,705	17,000	6,295	10,705	17,000	6,295	10,705
Operating expenses	38,228	31,242	6,986	38,228	32,028	6,200	38,228	32,028	6,200	38,228	32,028	6,200	38,228	32,028	6,200	38,228	32,028	6,200
Salaries	50,000	50,542	(542)	50,000	1,300	48,700	50,000	1,300	48,700	50,000	1,300	48,700	50,000	1,300	48,700	50,000	1,300	48,700
Professional fees		50	(50)		96,600	(96,600)		96,600	(96,600)		96,600	(96,600)		96,600	(96,600)		96,600	(96,600)
HST payable		50	(50)		50	(50)		50	(50)		50	(50)		50	(50)		50	(50)
Cash disbursements from operations	111,228	102,172	9,056	111,228	39,127	72,101	111,228	39,127	72,101	111,228	39,127	72,101	111,228	39,127	72,101	111,228	39,127	72,101
Net cash flow	(15,396)	(21,946)	6,550	(15,396)	(40,895)	25,499	(15,396)	(40,895)	25,499	(15,396)	(40,895)	25,499	(15,396)	(40,895)	25,499	(15,396)	(40,895)	25,499
Transfer to line of credit																		
Closing cash	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069
P = A-D-E																		
G																		
Operating balance																		
Transfer to line of credit																		
Interest paid on line of credit																		
Closing balance																		
I = G+H																		
J																		
Operating line of credit availability																		
K = J+P																		
Total liquidity	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069	70,702	61,633	8,069

APPENDIX C:

SECOND EXTENSION CASH FLOW

663236 NB Inc.
WEEKLY CASH FLOW PROJECTION

	1	2	3	4	5	6	7	8	9	10	11	12	
Opening Cash	\$ 212,639	\$ 181,537	\$ 231,548	\$ 255,440	\$ 277,201	\$ 254,714	\$ 252,804	\$ 207,286	\$ 218,464	\$ 173,000	\$ 171,648	\$ 160,799	\$ 187,867
Operating Inflows													
Hotel Rooms	\$ 83,500	\$ 122,000	\$ 112,000	\$ 98,000	\$ 77,000	\$ 40,250	\$ 41,000	\$ 42,000	\$ 40,250	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000
Restaurant & Convention	\$ 24,000	\$ 28,000	\$ 32,000	\$ 20,000	\$ 15,000	\$ 12,000	\$ 12,000	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000	\$ 13,000
Meeting Rooms	\$ 750	\$ 750	\$ 750	\$ 750	\$ 800	\$ 2,000	\$ 1,200	\$ 1,000	\$ 1,000	\$ 1,200	\$ 1,200	\$ 18,000	\$ 2,000
City of Edmundston	\$ 9,040	\$ -	\$ -	\$ -	\$ 8,040	\$ -	\$ 9,040	\$ -	\$ -	\$ -	\$ -	\$ 9,040	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Inflows	\$ 117,290	\$ 148,750	\$ 144,750	\$ 119,750	\$ 101,840	\$ 57,250	\$ 54,200	\$ 64,240	\$ 54,250	\$ 67,000	\$ 68,200	\$ 94,040	\$ 88,000
Operating Outflows													
Cost of goods sold	\$ 23,900	\$ 22,300	\$ 21,300	\$ 20,300	\$ 11,300	\$ 11,150	\$ 11,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 13,300	\$ 10,300
Operating expenses	\$ 55,932	\$ 22,747	\$ 33,281	\$ 53,297	\$ 48,932	\$ 20,747	\$ 31,461	\$ 11,897	\$ 22,825	\$ 33,885	\$ 9,600	\$ 24,928	\$ 11,861
Salaries	\$ 58,600	\$ 1,800	\$ 56,000	\$ 2,500	\$ 56,600	\$ -	\$ 50,000	\$ 2,500	\$ 55,800	\$ -	\$ 50,000	\$ 2,500	\$ 51,600
Professional fees	\$ 42,000	\$ -	\$ -	\$ -	\$ -	\$ 16,008	\$ -	\$ 16,008	\$ -	\$ 16,008	\$ -	\$ 16,008	\$ -
HST payable	\$ 8,860	\$ 9,892	\$ 10,287	\$ 4,884	\$ 7,495	\$ 11,185	\$ 7,048	\$ 12,317	\$ 10,869	\$ 9,659	\$ 10,146	\$ 10,239	\$ 12,327
Total Operating Outflows	\$ 148,392	\$ 88,739	\$ 120,858	\$ 98,989	\$ 124,327	\$ 56,070	\$ 99,808	\$ 53,063	\$ 99,714	\$ 68,352	\$ 79,048	\$ 66,873	\$ 86,098
Net weekly cash flows	\$ (31,102)	\$ 59,011	\$ 23,692	\$ 21,751	\$ (22,487)	\$ (1,820)	\$ (45,608)	\$ 11,177	\$ (45,464)	\$ (1,352)	\$ (10,848)	\$ 27,067	\$ (17,088)
Cumulative cash from operations	\$ 181,537	\$ 231,548	\$ 255,440	\$ 277,201	\$ 254,714	\$ 252,804	\$ 207,286	\$ 218,464	\$ 173,000	\$ 171,648	\$ 160,799	\$ 187,867	\$ 170,778
Line of Credit 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	\$ 281,537	\$ 331,548	\$ 355,440	\$ 377,201	\$ 354,714	\$ 352,804	\$ 307,286	\$ 318,464	\$ 273,000	\$ 271,648	\$ 260,799	\$ 287,867	\$ 270,778

663236 NB Inc.
Responsible Person

[Signature]

663236 NB Inc.
Responsible Person

Under the Notice of Intention to file a Proposal for
663236 NB Inc.
and not in its personal capacity