

ONTARIO
SUPERIOR COURT OF JUSTICE
(BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE PROPOSAL OF
1739511 ONTARIO Incorporated
Of the City of Ottawa
In the Province of Ontario

TRUSTEE'S REPORT ON THE PROPOSAL

To the Creditors of 1739511 Ontario Incorporated (the "Debtor")

The Debtor did file on March 8, 2019 a Proposal (the "Proposal") with the Official Receiver. The Proposal has been developed for the overall settlement of the Debtor's obligations to its creditors (the "Creditors"). We enclose the following documents:

- A Notice of Proposal to Creditors;
- The Proposal;
- The Statement of Affairs including the list of creditors;
- A proof of claim form and general proxy; and
- A voting letter in the event you wish to vote in advance of the meeting of creditors.

A Meeting of the Creditors to consider the Proposal will be held at the offices of MNP Ltd. on, the 28th day of March 2019 at 3:00 p.m. at 1600 Carling Avenue, Suite 800, Ottawa, Ontario. Details on the filing of claims and documents prior to the Meeting of Creditors are included later in this report.

In order to be eligible to vote, either at or before the meeting, the Proposal Trustee must receive prior to the meeting a properly executed proof of claim, together with an attached statement of account. If you intend to have an individual represent you at the meeting of creditors, you must properly complete the proxy form attached to the proof of claim, and therein name the individual representing you. All companies must name a proxy. For your convenience, you may vote in advance of the meeting by returning to us the attached voting letter with your completed proof of claim.

Please send any documents you are forwarding to the Proposal Trustee to the attention of:

Jessica Grisé
Fax: 613-691-4270
E-mail: jessica.grise@mnp.ca

If the Proposal is accepted by the statutory majority of creditors, and approved by the Court, the Proposal will become legally binding on the Debtors and all of the Claims other than Secured Creditors as defined in the Proposal.

The purpose of this report is to provide Creditors with the necessary information required to make a well-informed decision on the acceptance or refusal of the Proposal.

For reference purposes, any capitalized terms not otherwise defined in this report shall have the meanings ascribed to them in the Proposal.

BACKGROUND AND CAUSES OF DIFFICULTY

The Debtor has had to restructure its affairs after the directors have cease making significant personal investments into the restaurant operations. Coupled with the requirement to enter into a new lease arrangement, the directors have had to reduce spending and focus on improving cash flows to support the business. If the new operations cannot support the ongoing business, the directors will have to consider ceasing operations.

SUMMARY OF THE PROPOSAL

The Debtor has submitted the attached Proposal. The significant terms of the Proposal are outlined below however readers are referred to the Proposal for the specific binding terms that will apply to them if the Proposal is approved:

PART V PROPOSAL FUND

- 5.1 *The total amount of funds be paid under this Proposal to Preferred Creditors and Unsecured Creditors shall be the Proposal Fund, which shall be paid by the Debtor to the Proposal Licensed Insolvency Trustee as set out in this Proposal. All payments by the Proposal Licensed Insolvency Trustee under this Proposal shall be made pursuant to Part VI herein.*
- 5.2 *The Proposal Fund of \$60,000.00, will be funded and paid from income generated from post filing operations of the Debtor as follows:*
- Commencing within 15 days of Court Approval of the Proposal, monthly payments of \$1,000.00, due on the last day of the subsequent month following the Final Order, shall be paid to the Proposal Licensed Insolvency Trustee by the Debtor for a period of 60 months; and*
 - Dividends will be paid by the Proposal Licensed Insolvency Trustee on a annual basis commencing June, 2020.*

PART VI
PAYMENT OF CREDITOR CLAIMS AND OTHER ITEMS

Payment of Secured Claims

- 6.1 *The Secured Creditors shall, subject to the provisions of the Act, be paid in accordance with the arrangements between the Debtor and the Secured Creditors which were either in effect at the Filing Date or as may be amended subsequent to the Filing Date as agreed to by the secured creditors and the Debtor in writing. The Debtor advises there are no Secured Creditors.*

Payment of Administrative Fees and Expenses

- 6.2 *Administrative Fees and Expenses will be paid in priority to all Claims of Secured Creditors, Preferred Creditors and Unsecured Creditors and shall be paid from the Proposal Fund and may be paid to the LIT immediately as funds become available subject to taxation by the Court. Such draws shall remain as LIT fees whether such Proposal is fully performed.*
- 6.3 *Administrative Fees and Expenses for this Proposal shall be paid as follows:*
- a) *Payment to the LIT shall be made upon filing of the Notice of Intention to file a Proposal in the amount of \$10,000.00, plus applicable taxes. This payment will not form part of the payments required under Section 5.2;*
 - b) *15% of the total Proposal Fund, plus applicable taxes, will be paid to the LIT when dividend payments are made to Unsecured Creditors, pursuant to Section 5.2; and*
 - c) *Expenses for legal fees, filing fees and court fees, if any, will be paid as they are invoiced from the funds held in trust by the LIT.*

Payment of Preferred Claims

- 6.4 *Preferred Claims under Section 136 of the BIA, without interest and after payment of Administrative Fees and Expenses, are to be paid in full in priority to all claims of Unsecured Creditors including, without limitation, any entitlement of Unsecured Creditors to the payments to be made under paragraph 6.9 of this Proposal.*

Payment of Crown Claims

- 6.5 *During the period between the Court Approval Date and the Effective Date, the Debtor shall pay and keep current Her Majesty in right of Canada and in right of Ontario all amounts of a kind that could be subject to a demand under subsection 224(1.2) of the Income Tax Act (Canada) or any substantially similar provision of Ontario legislation.*

- 6.6 Any amounts outstanding under Section 54.(2.1) of the Act will be paid within 6 months of a Final Order for all Claims of her Majesty in right of Canada or a province of a kind that could be subject to a demand under:
- a) subsection 224(1.2) of the Income Tax Act (Canada);
 - b) any provision of the Canada Pension Plan or the Employment Insurance Act (Canada) that refers to subsection 224(2.1) of the Income Tax Act (Canada) and provides for the collection of a contribution, as defined in the Canada Pension Plan, an employee's premium or employer's premium as defined in the Employment Insurance Act (Canada), or a premium under Part VII.1 of the Employment Insurance Act (Canada), and of any related interest, penalties or other amounts; or
 - c) any provisions of provincial legislation that has a similar purpose to subsection 224(1.2) of the Income Tax Act (Canada), or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties, or other amounts, where the sum:
 - i) has been withheld or deducted by a person from payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the Income Tax Act (Canada); or
 - ii) is of the same nature as contribution under the Canadian Pension Plan if the province is a "province providing a comprehensive pension plan" as defined in subsection 3(1) of the Canada Pension Plan and the provincial legislation establishes a "provincial pension plan" as defined in the subsection.

Payment of Unsecured Claims

- 6.7 Unsecured Creditors shall include the Claims of any Secured Creditors claim under paragraph 6.1 more than the value of the collateral under the security granted and Unsecured Creditors. There are no Secured Claims that are valued less than the security granted.
- 6.8 Payment to Unsecured Creditors will be made from the Proposal Fund received by the LIT. The distribution to unsecured creditors will happen after every sixth payment received. The first dividend payment will commence October 2019 and ever 6 months thereafter.
- 6.9 After payment by the LIT of all amounts payable under paragraphs 6.3 and 6.4 this Proposal, the LIT shall pay to the remaining Unsecured Creditors on a pro-rata basis the remaining funds from paragraph 6.8.

Effect of Payment

- 6.10 Creditors will accept the payments provided for in this Proposal in complete satisfaction of all their Claims, whether against the Debtor or against Third Parties, including the Debtor's officers and directors and all liens, certificates of pending litigation, executions or any other similar charges or actions or proceedings in respect of such Claims will have no effect in law or in equity

against the property, assets and undertaking of the Debtor or Third Parties. Upon the Debtor making all payments as required to completely fund the Proposal Fund, any and all such liens, certificates of pending litigation, executions or other similar charges or actions will be discharged, dismissed or vacated without costs to the Debtor, or any Third Parties. Creditors waive their rights to contest any sale of assets pursuant to the provisions of the Bulk Sales Act of Ontario.

- 6.11 *The Debtor will have the ability to accelerate the payments in Section 5.2 at any time without penalty or charge.*
- 6.12 *From the payment to Preferred and Unsecured Creditors, the Superintendent's Levy will be withheld when amounts are paid to Creditors.*

Acceptance of the Proposal will release all Claims against the Debtors for obligations due as of March 8th, 2019, and any subsequent actions against the Debtors relating to events prior to March 8th, 2019.

FINANCIAL POSITION AND EVALUATION OF ASSETS

A summary of the book values of the Debtors assets and liabilities as reported on the Debtor's statement of affairs dated August 8th, 2017 is outlined below.

Note Receivable

As part of the directors attempt to restructure the affairs of the company, they have set up a new operating company supported by the used equipment and furniture of the old restaurant. The note receivable supports the proposal payments. The value of the assets are much less that being offered by the promissory note, as a result, there is no transfer at under value.

MISCELLANEOUS FACTORS POSSIBLY AFFECTING PROPOSAL RECOVERY

The proposal is dependent on the new operations being able to generate enough income to meet the terms of the promissory note without the directors investing further personal resources to support the operations.

Unsecured liabilities: (Contingent/ Co-Signed/ Guaranteed/ Unliquidated Claims/ Claims from Related Parties):

The Trustee is not aware of the existence of any unsecured liabilities falling in the aforementioned categories.

Gifts, transfers, conveyances or transactions at undervalue that may be subject to challenge by the Trustee:

The Trustee has conducted a detailed review of the Debtor's books and records. To date, we are not aware of any such transactions.

CONDUCT OF THE DEBTOR

The Proposal Trustee attempts, to the best of their ability, to identify any preferential payments and transfers at under value that the Debtor may have been a party to and reports these to the Creditors. The Proposal Trustee has detailed any transactions where the Debtor has disposed of any assets and the Proposal Trustee is not aware of any preferential payments or transfers at under value.

CREDITORS CLAIMS

The Trustee is not aware of any issues regarding the outstanding Claims of the Debtor.

The Debtor advises that he is not aware of any government priority claims or Preferred Claims, which would be paid in priority to the Unsecured Creditors. All proofs of claims are subject to review by the Proposal Trustee and will only be eligible for voting purposes or to share in any distribution if accepted by the Proposal Trustee in accordance with the Act and the Proposal.

PREVIOUS DEALINGS WITH THE DEBTORS

The Proposal Trustee has not acted in any capacity on behalf of the Debtor prior to the Proposal Trustee consenting to act. Accordingly, other than the initial payment pursuant to Section 6.3(a) of the Proposal, the Proposal Trustee has received no other remuneration.

INFORMAL MEETINGS WITH MAJOR CREDITORS

The Trustee is not aware of any informal or formal meetings held with Creditors.

REMUNERATION OF THE TRUSTEE

The Trustee's administrative fees and expenses for this Proposal shall be paid pursuant to the terms of the Proposal. Creditors are directed to paragraph 6.2 and 6.3 of the Proposal and shall be paid in priority to all Claims. The Proposal Trustee's interim payments set in paragraph 6.3(a) and 6.3(b) payments for the remaining Proposal Trustee's interim payments are made when dividends are paid to Unsecured Creditors. Proposal Trustee will pay any legal fees and disbursements as they are incurred. The Proposal Trustee fees and expenses will be subject to final taxation by the Court.

STATEMENT OF ESTIMATED REALIZATION

Assuming the Proposal Fund is paid in full and the Debtors are not bankrupt, the Unsecured Creditors will receive an estimated 55% recovery should the Proposal be accepted.

Alternatively, there would be a recovery of **10% to 0%** should the Debtor file an assignment in Bankruptcy or the Unsecured Creditors reject the Proposal.

CLAIM AND VOTING PROCEDURES

In order to approve the Proposal at the March 28th, 2019 meeting, a majority of unsecured creditors in numbers and 66.67% in value of unsecured creditors with proven Claims present and voting in person, by Voting Letter, or by Proxy, must approve the motion adopting the Proposal.

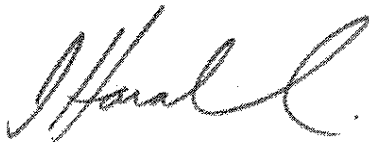
Should the motion and subsequent vote by unsecured creditors for the resolution approving the Proposal fail, the Debtors will automatically be deemed bankrupt and the First Meeting of Creditors for the bankruptcy will be conducted forthwith.

RECOMMENDATION OF THE TRUSTEE

The Proposal Trustee recommends that the creditors accept this Proposal as it provides for an overall greater recovery for the Unsecured Creditors that what would otherwise be achieved through a bankruptcy.

Dated at Ottawa, Ontario, this 11th day of March 2019.

MNP Ltd.
Licensed Insolvency Trustee *re* the Proposal of
1739511 Ontario Incorporated



John P. Haralovich, CPA, CA, CMA, CIRP, LIT
Senior Vice President

Enclosures