

IN THE MATTER OF THE PROPOSAL OF
8635919 CANADA INC. (FORMERLY OPERATING AS ITRAVEL 2000)
OF THE CITY OF MISSISSAUGA
IN THE PROVINCE OF ONTARIO

REPORT OF THE PROPOSAL TRUSTEE ON THE
FINANCIAL SITUATION OF THE DEBTOR AND THE PROPOSAL
(Sections 50(10)(b) and 50(5) of the *Bankruptcy and Insolvency Act*)

This report provides an outline of the background and financial position of 8635919 Canada Inc. (formerly operating as iTravel 2000) (“**8635919**” or the “**Company**”), including relevant information that should be of assistance to the Company’s Creditors in considering their position with respect to the Proposal being presented by the Company to its Creditors.

Enclosed are the following documents:

- Notice of Proposal to Creditors;
- Proposal, under Part III, Division I of the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c.B-3, as amended (the “**Act**”), lodged with Richter Advisory Group Inc. (“**Richter**” or the “**Proposal Trustee**”) by the Company and filed with the Official Receiver on September 9, 2016;
- The Company’s Statement of Affairs sworn September 8, 2016;
- A Proof of Claim form and general Proxy; and
- A Voting Letter.

In preparing this report, the Proposal Trustee has relied upon unaudited financial information prepared by the Company’s representatives, the Company’s books and records, discussions with the Company’s representatives and the Company’s legal counsel. The Proposal Trustee has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information.

Unless otherwise stated, monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined in this report have the meanings attributed to such terms in the Proposal.

Section A – Introduction and Background

8635919 is a privately held company, which previously operated under the name iTravel 2000 as a full-service travel retailer offering consumers a wide range of travel products with air carriers, hotel operators, car rental agencies and tour operators. The Company operated through its website and toll-free numbers as its primary sales channels, and had approximately 160 employees at its offices in Mississauga and Montreal.

Elleway Acquisitions Ltd. (“**Elleway Acquisitions**”), the equity sponsor of the Company, acquired the business out of receivership in late 2013. Since the initial investment by Elleway Acquisitions, the Company has experienced continued unprofitability driven, in part, by margin compression within the travel industry as airlines and hotels increasingly sell direct to consumers. Additionally, during the past

year certain external factors have negatively impacted the travel industry in general and the Company in particular, including the decline in value of the Canadian dollar, a mild winter and the Zika virus, all of which adversely impacted Canadian travel to the U.S. and Caribbean, the primary destinations in which the Company operated.

As a result of the Company's continuing losses, the Company was dependent on capital injections from Elleway Acquisitions and/or certain related entities to fund operations. As at the date of this report, the Company is indebted to entities affiliated with Elleway Acquisitions, being Aldenham Canada Acquisitions Corporation ("**Aldenham**") and Elleway Properties Limited ("**Elleway**"), in excess of \$20 million (discussed in greater detail later in this report).

In early/mid 2015, it was determined that the Company could not continue to operate without significant capital injections and the Company's Board of Directors determined it prudent to consider various strategic options, including the potential sale of the Company. In February 2016, the Company retained Grant Thornton Corporate Finance Inc. ("**GT**") to conduct a sales process for the Company or its assets. GT, with the assistance of the Company, prepared marketing documents, including a teaser, confidential information memorandum and NDA template. A data room, which contained financial and other information relevant to the Company's business and assets, was also created. A list of potential interested parties was assembled and GT and representatives of the Company contacted the target group to advise of the opportunity.

Following discussions with several parties regarding their interest in the Company or its assets, including more fulsome negotiations with two interested parties, on July 7, 2016, the Company entered into a sale agreement with Red Label Holdings Inc., the parent company of TravelBrands and Redtag.ca, (the "**Purchaser**") for the sale of substantially all of the Company's business and assets (the "**Transaction**"). The Transaction, which provided for continuity of the business and ongoing employment for the majority (approximately 90%) of the Company's employees, closed on August 4, 2016 (the "**Closing Date**"). Following the closing of the Transaction, the Company provided the Purchaser with a limited period of time within which to inform the Company of those contracts/leases as between the Company and various counterparties it sought to assume.

Notwithstanding that the amounts realized from the Transaction were significantly less than the Company's secured obligations to Aldenham, a related party and the Company's primary secured lender, as the Transaction was for substantially all of the Company's business and assets, it was necessary that the Transaction comply with the *Bulk Sales Act* (the "**BSA**"), which requires that all unsecured trade creditors (as defined in the BSA) be paid, in full, the amounts owed to them by the Company.

In addition, the Company has advised the Proposal Trustee that, in an effort to ensure a smooth transition of the business to the Purchaser, the Company satisfied the termination and severance obligations owing to those limited number of former employees not offered employment by the Purchaser. To that end, the Proposal Trustee understands that payments were made to certain former employees of the Company in return for full and final releases in favour of the Company (details regarding these payments are discussed in greater detail later in this report).

Following the closing of the Transaction, the Company was left with limited assets (discussed in greater detail later in this report) with which to pay its remaining obligations. As such, in an effort to provide some recovery to the Company's remaining creditors, which primarily consist of counterparties to disclaimed contracts/leases not assumed by the Purchaser, the Company filed a Notice of Intention to Make a Proposal ("**NOI**") under section 50.4(1) of the Act on August 10, 2016.

On September 9, 2016, the enclosed Proposal naming Richter as Proposal Trustee was filed with the Official Receiver.

Section B – Summary of the Proposal

A brief summary of the Proposal is provided below. The terms of the Proposal would be effective if:

1. the Proposal is approved by a majority in number and two thirds in value of the Creditors entitled to vote that are present, personally or by proxy, at the Creditors' Meeting; and
2. the Proposal is approved by the Court, in accordance with the provisions of the Act.

Subject to Creditor acceptance and Court approval, the Proposal provides for the Company to pay \$100,000 to the Proposal Trustee to be distributed *pro-rata* to the Company's Proven Affected Creditors on account of their Proven Affected Claims (other than D&O Claims) in the expectation that all stakeholders of the Company will derive a greater benefit from the distribution contemplated by the Proposal than they would otherwise receive from a bankruptcy of the Company.

As set out in the Proposal, the Proposal provides for the following:

1. Subject to the terms and conditions set forth in the Proposal, the following payments will be made from the Available Funds:
 - (i) Administrative Fees and Expenses: subject to Section 7.3 of the Proposal, all Administrative Fees and Expenses as and when due in the ordinary course of business, in priority to all other Claims in accordance with the Act;
 - (ii) Superintendent's Levy: the Superintendent's Levy shall be paid in full;
 - (iii) Mandatory Payment Claims: Mandatory Payment Claims, if any, shall be paid in full;
 - (iv) Preferred Creditors: Preferred Claims, if any, shall be paid in full, without interest; and
 - (v) Unsecured Claims: \$100,000 of the Available Funds shall be set aside with the Proposal Trustee to comprise the Distribution Fund which shall be distributed *pro-rata* to Proven Affected Creditors on account of their Proven Affected Claims (other than D&O Claims).

(collectively, the "**Proposal Payments**").
2. The Company's assets and property, including the proceeds of the Transaction, are subject to a Secured Claim of Aldenham and a Claim of Elleway, both Related Parties. As part the Proposal, Aldenham agreed that if the conditions precedent in Section 5.1 of the Proposal are satisfied, it will subordinate and postpone its Secured Claim to allow for the payment by the Company of the Proposal Payments. As part of the Proposal, Elleway also agreed that if the conditions precedent set out in Section 5.1 of the Proposal are satisfied, it will waive any right to receive a distribution *pro-rata* with Proven Affected Creditors from the Distribution Fund on account of its Claim.
3. The Proposal is not being made to Secured Creditors or to Elleway. The Claims of Secured Creditors and Elleway are to be dealt with in accordance with existing arrangements between the Company and the Secured Creditors and Elleway or as otherwise agreed by the Company and the Secured Creditors and Elleway.
4. Within five (5) Business Days of the Approval Order being issued and entered, the Company shall transfer from the Available Funds to the Proposal Trustee an amount equal to the Proposal Payments and an amount equal to an estimate, agreed to between the Proposal Trustee and the Company, of the Administrative Fees and Expenses of the Proposal Trustee and its counsel necessary to complete the NOI proceedings and implement the Proposal.

5. Subject to any reserves that may be required as determined by the Proposal Trustee, the Proposal Trustee shall make the distributions and payments contemplated herein as soon as practically possible thirty (30) days after sending the Final Distribution Notice.
6. In order to be eligible to vote at the Creditors' Meeting, each Creditor shall file a Proof of Claim with the Proposal Trustee in accordance with the applicable provisions of the Act, and shall specify every Claim and D&O Claim it asserts against the Company and/or the Directors and Officers.
7. A Creditor holding a Landlord Repudiation Claim shall only file a Proof of Claim in respect such Landlord Repudiation Claim in an amount equal to the lesser of:
 - (i) The aggregate of:
 - (a) the rent provided for in the lease for the first year of the lease following the date on which the disclaimer or resiliation becomes effective, and
 - (b) fifteen (15) percent of the rent for the remainder of the term of the lease after that year, and;
 - (ii) Three (3) years' rent;unless otherwise agreed, in writing, by the applicable Creditor and the Company, with consent of the Proposal Trustee.
8. On the Effective Date, the treatment of Claims under the Proposal shall be final and binding on the Company and all Creditors (and their respective heirs, executors, administrators, legal or personal representatives, successors and assigns) and the Proposal will constitute (a) full, final and absolute settlement of all rights of all Affected Creditors; and (b) as applicable, an absolute release and discharge of all indebtedness, liabilities and obligations of the Company in respect of all Claims other than Unaffected Claims, and related Security, including any interest accrued, costs or other rights arising after the NOI Filing Date.
9. On the Effective Date, all Affected Creditors shall be deemed to have consented and agreed to all of the provisions of the Proposal in its entirety. Each Affected Creditor will be deemed to have waived any default by the Company in any provision, express or implied or in any agreement, whether written or oral, existing between the Affected Creditor and the Company that occurred on or prior to the Effective Date. Each Affected Creditor will be deemed to have agreed that, to the extent there is any conflict between the provisions of any such agreement and the provisions of the Proposal, the provisions of the Proposal take precedence and priority and the provisions of any such agreement are amended accordingly.
10. In accordance with section 149 of the Act, prior to the final distribution, the Proposal Trustee shall give notice by mail to every known Creditor who did not file a Proof of Claim that, if the Creditor does not file a Proof of Claim within thirty (30) days after the mailing of the notice, the Proposal Trustee will proceed to declare a dividend without regard to that Creditor's claim. In order to receive a distribution, a Creditor must submit a Proof of Claim prior to the Claims Bar Date.
11. Upon completion of the payments and distributions contemplated in the Proposal, the Proposal will have been fully performed and the Proposal Trustee shall issue to the Company and file with the Court the certificate referred to in section 65.3 of the Act.
12. The provisions of Sections 95 – 101 of the Act and any similar provision of any federal or provincial statute do not apply to the Proposal.

13. On the Effective Date, (i) the Company's employees and contractors, each Director and Officer, and their respective heirs and assigns, and (ii) the Proposal Trustee, the Proposal Trustee's counsel, and each and every present and former shareholder, affiliate, subsidiary, director, officer, member, partner, employee, auditor, financial advisor, legal counsel and agent of any of the foregoing Persons shall be released and discharged from any and all claims which any Creditor or other Person may be entitled to assert, including any Affected Claim existing on or prior to the Effective Date that constitute or are in any way relating to, arising out of or in connection with any Affected Claims, the business and affairs of the Company, the administration and/or management of the Company, the Proposal, or any document, instrument, matter or transaction involving the Company in connection with the Proposal, shall be deemed to be fully, finally, irrevocably and forever waived, discharged, released, cancelled and barred as against the Released Parties; provided that nothing in the Proposal will waive, discharge, release, cancel or bar (a) the right to enforce the Company's obligations under the Proposal; (b) any Unaffected Claim; or (c) any D&O Claim that is not permitted to be released pursuant to section 50(14) of the Act.
14. The implementation of the Proposal and distributions contemplated thereunder are subject to the satisfaction of the following conditions precedent:
- (i) The Proposal shall be approved by the Required Majority at the Creditors' Meeting;
 - (ii) The Approval Order shall be issued and entered; and
 - (iii) All other actions, documents and agreements necessary to implement this Proposal as required herein or otherwise by the Proposal Trustee shall have been effected and executed.

The description of the Proposal in this report is a summary only and is being provided solely for the purpose of assisting the Creditors. In the event there is any inconsistency between this report and the Proposal, the terms of the Proposal shall govern. Creditors are advised to read the Proposal in its entirety.

Section C – Financial Position and Causes of Difficulties

The Company's operating results for the period from November 4, 2013 to October 31, 2014 ("2014"), the fiscal year ended October 31, 2015 ("2015") and the nine-month period ended July 31, 2016 ("2016") are summarized in the table below:

8635919 Canada Inc.			
Historical Financial Results			
	2014	2015	2016
(\$s in 000's)	(audited)	(audited)	(unaudited)
Revenue	19,726	16,185	12,275
Cost of Sales	(5,945)	(4,680)	(3,426)
Gross Margin	13,781	11,505	8,849
Expenses	(19,609)	(15,955)	(10,270)
Operating Loss	(5,828)	(4,450)	(1,421)

Elleway Acquisitions acquired the Company in late 2013 with the intention of undertaking a period of financial and operational restructuring. Although the Company successfully eliminated certain fixed overhead expenses, various external factors adversely impacting the travel industry have negatively impacted sales volume and the Company has continued to be unprofitable.

Section D – Interim Receiver

Not applicable.

Section E – Identification and Evaluation of Assets

According to the Company’s Statement of Affairs, the Company’s assets consist of the following:

Asset Description	Estimated Net Book Value	Estimated Realizable Value per SOA
Cash	1,129	1,129
Investments / Other	364	364
Accounts Receivable	973	783
Capital Assets	56	-
Total*	2,523	2,276

**Excludes funds received from customers and held, in trust, as payment for travel services which, pursuant to the Transaction, were transferred to the Purchaser on or around August 12, 2016*

The Company’s assets are discussed in greater detail below:

Cash

Cash balances include amounts held in the Company’s bank accounts as well as approximately \$795,000 held in trust representing the remaining proceeds from the Transaction.

Investments

Investments primarily consist of Guaranteed Investment Certificates (“**GICs**”) held by Bank of Montreal (“**BMO**”) as security for the Company’s obligations to BMO (discussed in greater detail later in this report).

Accounts Receivable

According to the Company’s books and records, the Company’s accounts receivable balance, as at August 10, 2016, was approximately \$973,000. The Company has undertaken a detailed analysis of its accounts receivable to determine the collectability of each account taking into consideration historic collection rates, the nature of the customer and the aging of the receivable. Based on the Company’s analysis, the Company has estimated that approximately \$783,000 of its accounts receivable are collectible.

Capital Assets

According to the Company’s books and records, the net book value of the Company’s capital assets, as at August 10, 2016, was approximately \$56,000. The Company’s capital assets consist largely of miscellaneous equipment not acquired by the Purchaser as part of the Transaction. The Company estimates that the realizable value of its capital assets is negligible.

Section F – Conduct of the Debtor

The Proposal Trustee has performed a preliminary review of certain of the Company's financial records, including bank statements for the twelve-month period prior to the NOI Filing Date in order to identify (i) any disbursements greater than \$50,000 that may be considered preferences pursuant to the Act, and (ii) any transactions that may be considered transfers at undervalue pursuant to the Act. In addition, the Proposal Trustee has made enquiries with certain members of the Company's management, including individuals with knowledge of the Company's day-to-day financial transactions, to discuss the potential existence of any such transactions.

In the three-month period prior to the NOI Filing Date, the Company made thirteen (13) disbursements greater than \$50,000, as follows:

Date	Payee	Amount	Description
May 11, 2016	Ceridian	\$ 322,901.76	Payroll
May 27, 2016	Ceridian	\$ 312,419.01	Payroll
June 03, 2016	Suncor - Petro	\$ 65,790.15	Vendor
June 03, 2016	Google	\$ 74,344.65	Vendor
June 13, 2016	Ceridian	\$ 298,062.64	Payroll
June 20, 2016	Bank of Montreal	\$ 60,882.80	Secured Creditor
June 21, 2016	Hub International	\$ 92,498.67	Insurance
June 28, 2016	Ceridian	\$ 287,253.46	Payroll
July 08, 2016	Google	\$ 62,818.67	Vendor
July 08, 2016	Suncor - Petro	\$ 70,029.71	Vendor
July 13, 2016	Ceridian	\$ 299,583.05	Payroll
July 27, 2016	Ceridian	\$ 296,305.84	Payroll
July 29, 2016	Suncor - Petro	\$ 58,397.97	Vendor

The Proposal Trustee understands that each of the above payments was made in the ordinary course of business. In addition, as noted earlier in this report (see Section A), the BSA applied to the Transaction. As a result, each of the above payments, excluding the Secured Creditor payment that would not be considered a preference, were required payments in order for the Transaction to comply with the BSA. In this regard, the Proposal Trustee notes that, as part of the Transaction, the amounts owed by the Company to its unsecured trade creditors (as defined in the BSA) as at the Closing Date in the amount of approximately \$974,000 were paid, in full, by the Purchaser on or about August 8, 2016.

In addition to the above and as noted in Section A of this report, the Proposal Trustee is aware that, on or about August 9, 2016, the Company made payments in the aggregate amount of approximately \$134,000 to eight (8) former employees that were not offered employment by the Purchaser in respect of termination and severance pay. The largest individual payment was approximately \$46,000 and the smallest individual payment was approximately \$3,000. In the Proposal Trustee's view, although the payments to the Company's employees may qualify as preferences pursuant to Section 95(1) of the Act, the quantum of the individual payments as well as the significant costs to challenge the payments severely limit any potential benefit to the Company's Creditors, generally, from any successful challenge of the payments.

Based on its review of certain of the Company's financial records and discussions with the Company's management, the Proposal Trustee has not identified any Related Party transactions in the twelve-month period prior to the NOI Filing Date that may be considered preferences or transfers at undervalue.

The Proposal Trustee will provide an update, if necessary, on its review of the Company's financial records at the Creditors' Meeting to consider the Proposal.

Section G – Creditor Claims

According to the Company's Statement of Affairs, the Company's creditors are summarized in the table below:

Creditor Classification	Estimated Claim Per SOA
Secured	11,008,200
Preferred	nil
Unsecured*	10,597,044
Total Claims*	21,605,244

*Includes the Claim of Elleway in the amount of approximately \$10.4 million which Claim, should the Proposal be approved by both Creditors and the Court, will be postponed and not share in any distribution under the Proposal.

Secured Creditors

Based on the Company's books and records, the Company's Secured Creditors and the amounts of their respective claims, as at August 10, 2016, are as follows:

Secured Creditor	Amount of Claim
Aldenham Canada Acquisition Corporation ("Aldenham")	10,829,998
Hewlett Packard Financial Services Co. ("HP")	125,129
Bank of Montreal ("BMO")	53,072
Total Claims	11,008,200

As noted in Section B of this report, the Proposal is not made to Secured Creditors (or to Elleway). The Claims of Secured Creditors (and Elleway) are to be dealt with in accordance with existing agreements between the Company and the Secured Creditors (and Elleway) or as otherwise agreed between the Company and the Secured Creditors (and Elleway).

Aldenham, the Company's primary secured creditor, was owed approximately \$11 million as at the NOI Filing Date. As detailed in Section E of this report, the estimated value of the Company's assets subject to Aldenham's security is significantly less than the Company's obligations to Aldenham. Aldenham, however, has agreed to subordinate and postpone its Secured Claim to allow for payment of the Proposal Payments, subject to approval of the Proposal by both Creditors and the Court.

In order to assess the validity of Aldenham's security, Stikeman Elliott LLP ("**Stikeman**"), independent legal counsel to the Proposal Trustee, has provided its opinion to the Proposal Trustee indicating that, in its view and subject to the customary qualifications and limitations noted therein, Aldenham's security created a valid perfected security interest pursuant to the laws of Ontario and is valid and enforceable as against the Company.

The Proposal Trustee also notes that, based on its review of a summary of registrations of security interests against the Company pursuant to the *Personal Property Security Act* (Ontario), in addition to Aldenham, BMO (the "**BMO Security**") and HP (the "**HP Security**") have registered security interests against the Company (collectively, the "**Other Security Registrations**").

The Company has advised the Proposal Trustee that the BMO Security relates to security registered by BMO in respect of a credit card facility and various letters of credit issued by BMO (primarily to the Quebec travel industry regulator, Office de la Protection due Consommateur).

The Proposal Trustee understands that the HP Security relates to security registered by HP in respect of the Company's lease of computer/IT equipment from HP (the "**HP Lease**"). Subsequent to the NOI Filing Date, the Company disclaimed all interest in the equipment subject to the HP Lease.

Given that the estimated value of the Company's assets (see Section E) is insufficient to satisfy the Company's secured obligations to Aldenham, as at the date of this report, the Proposal Trustee has not requested that Stikeman provide an opinion as to the validity and enforceability of the Other Security Registrations.

Preferred Creditors

According to the Company's Statement of Affairs, no amounts are due to Preferred Creditors. Based on the Proposal Trustee's review of certain of the Company's financial records, it appears that all amounts owed to the Company's employees, in respect of outstanding wages and vacation pay, which may have existed as at the NOI Filing Date, have been paid by the Company and/or the Purchaser in the ordinary course. Any employee claims that might exist at the time of Court approval of the Proposal will be paid immediately following Court approval in accordance with the terms of the Proposal and the Act.

Based on its review of certain of the Company's financial records, the Proposal Trustee is not aware of any other potential Preferred Claims or Mandatory Payment Claims.

Unsecured Creditors

According to the Company's Statement of Affairs, the Company's unsecured creditors are owed approximately \$10.6 million, including approximately \$10.4 million owed to Elleway, a Related Party. As noted in Section B of this report, subject to approval of the Proposal by both Creditors and the Court, Elleway has agreed to postpone its Claim and waive its right to receive its *pro-rata* distribution from the Distribution Fund under the Proposal.

The Company has advised the Proposal Trustee that the amounts noted as owing to employees on the Statement of Affairs (approximately \$220,000) was in respect of outstanding wages owed to the Company's employees prior to the closing of the Transaction, which amounts were subsequently paid by the Company and/or the Purchaser. In addition, as the Proposal Trustee understands that the majority of the Company's former employees were provided employment with the Purchaser and those former employees not offered employment with the Purchaser were paid the termination/severance amounts due to them by the Company, the Proposal Trustee is unaware of any remaining obligations to the Company's former employees.

As noted previously in this report, following the closing of the Transaction, the Company provided the Purchaser with a limited period of time within which to inform the Company of those contracts/leases as between the Company and various counterparties it sought to assume. Prior to the filing of the Proposal, the Company disclaimed its interest in two (2) commercial leases for its offices in both Montreal and Mississauga as well as various contracts/agreements entered into by the Company. As such, any Landlord Repudiation Claims or Restructuring Claims resulting from the disclaimers will increase the total claims sharing in the Distribution Fund.

Section H – Previous Dealings with the Debtor

The undersigned Proposal Trustee confirms that neither he nor the firm with which he is related has provided previous services to the Company in any capacity other than consulting with the Company in respect of its consideration to file a Proposal. The Proposal Trustee further confirms that he does not have any knowledge of any conflict of interest situation arising from the acceptance of this appointment as Proposal Trustee under the Proposal.

Section I – Informal Meetings with Major Creditors

The Company and the Proposal Trustee have had various discussions with Aldenham and Elleway regarding the Transaction and the arrangements between the Company, Aldenham and Elleway under the Proposal. These discussions were necessary in order to, among other things, establish the Distribution Fund under the Proposal to provide a recovery to unsecured creditors.

Section J – Remuneration of Proposal Trustee

Payment of the fees and expenses of the Proposal Trustee, including the legal fees and disbursements of the Proposal Trustee, are provided for in the Proposal.

Section K - Cash Flow Statement

In accordance with the Act, the Proposal Trustee reviewed the cash flow statement and assumptions for the period August 10, 2016 to November 11, 2016 that were prepared by the Company (the “**Cash Flow Statement**”) and which were filed with the Official Receiver. In reviewing the Cash Flow Statement, nothing has come to the Proposal Trustee’s attention which would lead the Proposal Trustee to believe that the hypothetical and probable assumptions used by the Company in the preparation of the Cash Flow Statement are inconsistent with the purpose of the Cash Flow Statement.

Section L – Statement of Estimated Realizations

Proposal Accepted

As noted in Section G, should the Proposal be approved by both the Creditors and the Court, Elleway has agreed to postpone its Claim (approximately \$10.4 million) and waive its right to receive a *pro-rata* distribution from the Distribution Fund. In addition, the employee Claims (approximately \$220,000) in respect of unpaid wages included on the Statement of Affairs were subsequently paid by the Company and/or Purchaser.

In light of the above, it appears that the Claims eligible to receive a distribution from the Distribution Fund will primarily be comprised of (i) Landlord Repudiation Claims, which are to be calculated in accordance with section 65.2(4) of the Act unless otherwise agreed in writing by the applicable Creditor and the Company, with consent of the Proposal Trustee, and (ii) Restructuring Claims that, by their nature, are likely unliquidated claims that must be valued by the Proposal Trustee prior to admission for either voting purposes or sharing in a distribution from the Distribution Fund.

As a result of the foregoing, as at the date of this report, it is difficult to estimate the Claims of Creditors that would be entitled to both vote on and participate in a distribution under the Proposal. As noted in Section G of this report, any proven Landlord Repudiation Claims or proven Restructuring Claims will increase the total claims sharing in the Distribution Fund, thus reducing each creditor’s respective share of the Distribution Fund.

When assessing the distributions that may be made to Proven Affected Creditors under the Proposal, the Proposal Trustee notes that, although the distributions from the Distribution Fund may not provide a significant recovery to Creditors, any recovery would appear to exceed what Creditors would receive in a bankruptcy.

Proposal Not Accepted

If the Proposal is not accepted, the Company would become bankrupt on September 30, 2016 and the Company's assets would vest with the trustee in bankruptcy, subject to the rights of the Company's Secured Creditors.

As discussed previously in this report, all of the Company's assets are subject to the Security of Aldenham and BMO/HP have registered security interests against the Company. As at the NOI Filing Date, the outstanding secured debt totaled approximately \$11 million, which is well in excess of the realizable value of the Company's assets.

In the event of the Company's bankruptcy, the Distribution Fund provided for under the Proposal would not be made available for the benefit of the Company's unsecured creditors, in which event the Proposal Trustee estimates that there would not be any funds available to support a distribution to the Company's unsecured creditors.

Section M – Recommendations

Based on the analysis set out in this report, the Proposal Trustee believes that the Proposal is preferable to a bankruptcy, since it provides an opportunity for a distribution to the Company's unsecured creditors that likely exceeds amounts that would otherwise be available from a bankruptcy. If the Proposal is rejected, the Company will be deemed bankrupt resulting in no recoveries for the Company's unsecured creditors.

Accordingly, based on all of the above, the Proposal Trustee recommends the acceptance of the Proposal by the Company's Creditors.

Section N – Meeting of Creditors

In completing the Proof of Claim form enclosed herewith, Creditors should only include all amounts outstanding as at August 10, 2016.

It is expressly noted and should be clearly understood that Richter, acting solely in its capacity as Proposal Trustee, assumes no responsibility for any claims against the Company before, on, or after the NOI Filing Date.

Creditors may attend the meeting to consider the Proposal either in person or by proxy. The meeting to consider the Proposal will be held on September 30, 2016 at 2:30 p.m. at the offices of Davies Ward Phillips & Vineberg LLP, 155 Wellington Street West, Toronto, Ontario.

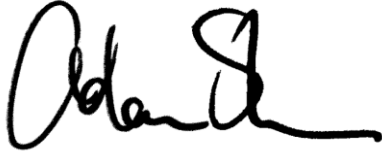
Please note that in order for your vote to count in connection with the Proposal, it is necessary that you complete and submit the enclosed documents prior to the meeting.

Creditors who do not wish to attend or be represented at the meeting but who wish to vote, may forward their Proofs of Claim and voting letters to the Proposal Trustee so as to be received prior to the meeting.

Should you have any questions in connection with the Proposal or this report, please contact Mr. Adam Sherman at (416) 642-4836 or via email at asherman@richter.ca or Mr. Anthony Dalfio at (416) 642-4835 or via email at adalfio@richter.ca.

Dated at Toronto, Ontario, this 20th day of September, 2016

Richter Advisory Group Inc.
in its capacity as Proposal Trustee re
the Proposal of 8635919 Canada Inc.

A handwritten signature in black ink, appearing to read 'Adam Sherman', written over a horizontal line.

Adam Sherman, MBA, CIRP, LIT
Senior Vice President