

RSM Richter Inc.

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CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO.: 01-MONTREAL  
COURT NO.: 500-11-039401-100  
ESTATE NO.: 41-1407343

SUPERIOR COURT  
(In Bankruptcy and Insolvency)

IN THE MATTER OF THE BANKRUPTCY OF:

**4425529 Canada Inc.**

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at :  
5300 Côte Saint-Luc Blvd.  
Montreal (Québec) H3X 0A3

**Company/Bankrupt**

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## TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

### I. INTRODUCTION

#### a) Receivership

On August 3, 2010, 1397225 Ontario Limited, the Mortgage Lender (the "Mortgage Lender"), represented by Carlisle Capital Structures Corporation ("Carlisle"), filed a Motion for the Appointment of a Receiver to the assets of 4425529 Canada Inc. ("Company or Bankrupt") and on August 4, 2010, the Court granted an Order appointing RSM Richter Inc. ("Richter") as Receiver with the powers provided therein ("Receiver Order").

#### b) Bankruptcy

On September 20, 2010, as provided for in the Receiver Order, Richter, as Receiver, caused to have 4425529 Canada Inc. file an assignment in bankruptcy in accordance with Article 49 of the *Bankruptcy and Insolvency Act* and RSM Richter Inc. was appointed Trustee to the Bankruptcy (the "Trustee").

## II. OVERVIEW

The Company, incorporated in May 2007, is owned 80% by 6743307 Canada Inc., a bankrupt company which was part of the Groupe Melior Inc. corporate structure ("Groupe Melior"), and 20% by 9102-6484 Quebec Inc.

The Company's principal asset is an ultra modern residential complex for seniors, referred to as Residence Vista, located at 5300 Côte St-Luc Road, Montreal, Quebec ("Property"). The construction of the Property was completed in June 2009.

The Property was initially managed by Groupe Melior, under the direction of Mr. Jean Maynard, until April 1, 2010 when Cogir Management Corporation/Société de Gestion Cogir, s.e.n.c. ("Cogir" or "Property Manager") was retained to manage the Property.

The Property consists of one stand-alone building, marketed as a residence for seniors, which offers varying levels of services, depending on the mobility and health of the tenant and, accordingly, the floors they occupy in the building, are summarized as follows:

4425529 Canada Inc. - Residence Vista						
Floors	Category	Tenant	Make	Services	Dinning/Entertainment	Room Includes
		Up		Included	Options	
Ground	Services					
2nd	Long-term care	Care-Dependent		Care & meals	Eat in rooms or 2nd floor dining/activity room	Furnished with TV
3rd to 6th	Room & board	Semi-Autonomous		Meals & housekeeping	3rd Floor dining room and activity room	Not furnished, efficiency kitchen
7th to 12th	Independent living	Autonomous		Option for meals and other services	1st Floor dining room and activity rooms	Not furnished, full kitchen and washer/dryer

The ground floor offers a range of services which are primarily accessible to the autonomous tenants occupying floors 7 to 12. These services include an "à la carte" dining room, activity room, theater, sports bar, pharmacy & convenience store, pool, fitness center, spa, therapist, hair dresser and financial adviser.

In addition, the 3<sup>rd</sup> floor has a separate dining room area and activity room which offers 3 meals a day and activities to the semi-autonomous tenants occupying floors 3 to 6. These tenants' rentals include a meal plan.

Care dependent tenants residing on the second floor are confined to this floor and are provided 3 meals a day in the dining room, located on the 2<sup>nd</sup> floor and/or in their rooms.

As at August 31, 2010, the building had 221 units available for rent, of which 98 are rented, representing an occupancy rate of 44%. The current rental revenues are insufficient to sustain the operating costs and financing charges.

### **III. CURRENT OPERATIONS**

Pursuant to the appointment of Richter as Receiver, Cogir's mandate to manage the Property was confirmed. Cogir's responsibilities include overseeing the Property's "in-house" management teams and personnel, providing strategic assistance and guidance in the marketing of the residence. They are also responsible for maintaining the books and records of the Property. Cogir is currently developing a business plan and a financial forecast relating to the anticipated / projected performance of the Property.

The Receiver, as provided in the Receiver Order, is monitoring the affairs of the Property, its operations and financial results. Based on the information provided by Cogir, all invoices for current purchases and services provided are being paid as they come due.

The Receiver has obtained confirmation from the Mortgage Lender that, if required, interim financing could be provided by them to support the current operations of the Property.

### **IV. FINANCIAL INFORMATION**

**The information contained in this Report has been prepared from the available books and records of the Company. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.**

**a) Historical Financial Results**

The Company's operating results for the twelve (12) months ended July 31, 2010, based on its internal financial statements, are summarized as follows:

4425529 Canada Inc - Residence Vista			
Statement of Operations			
For the 12 months ended July 31, 2010			
	5 months ended Dec.31, 2009	7 months ended July 31, 2010	12 months ended July 31, 2010
<b>Revenues</b>			
Rental revenues	\$ 595,915	\$ 1,413,953	\$ 2,009,868
Other revenues	52,200	131,751	183,951
<b>Total Revenues</b>	<b>648,115</b>	<b>1,545,704</b>	<b>2,193,819</b>
<b>Operating Expenses</b>			
Salaries & Benefits	557,842	871,063	1,428,905
Management Fees	29,262	69,956	99,218
Food	38,965	62,502	101,467
Realty Taxes	228,844	148,290	377,134
Utilities	164,210	120,758	284,968
Insurance	8,352	10,616	18,968
Marketing & Commissions	124,431	95,197	219,628
Administration	43,758	63,412	107,170
Consultant & Professional Fees	102,986	106,659	209,645
Repairs, Maintenance & Supplies	41,974	100,022	141,996
<b>Total Operating Expenses</b>	<b>1,340,624</b>	<b>1,648,475</b>	<b>2,989,099</b>
<b>EBITDA</b>	<b>(692,509)</b>	<b>(102,771)</b>	<b>(795,280)</b>
Interest	624,549	785,331	1,409,880
Depreciation	429,032	559,996	989,028
<b>Net Income Before Taxes</b>	<b>(1,746,090)</b>	<b>(1,448,098)</b>	<b>(3,194,188)</b>
Provision for Tax on Capital	48,234	43,658	91,892
<b>Net Income</b>	<b>\$ (1,794,324)</b>	<b>\$ (1,491,756)</b>	<b>\$ (3,286,080)</b>

As reflected in the monthly operating results, the monthly revenues have been increasing as the occupancy rate increases. We note that the Property was operating at 41% occupancy rate as of July 31, 2010 and is now at a 44% occupancy rate. Given the current occupancy level, the Property's operating results are not sufficient to cover the financing costs.

**b) Statement of Affairs**

The Statement of Affairs as at September 20, 2010 (Bankruptcy date), based on the books and records of the Company and information provided by the Property Manager, is summarized as follows:

4425529 Canada Inc - Residence Vista Statement of Affairs As of September 20, 2010	
<b>Liabilities</b>	
Secured creditors	\$ 42,356,830
Preferred creditors	
Unsecured creditors	455,917
	<u>42,812,747</u>
<b>Assets</b>	
Current assets	110,589
Long-term assets <sup>(1)</sup>	41,015,700
	<u>41,126,289</u>
<b>Deficit</b>	<u>\$ (1,686,458)</u>

Note <sup>(1)</sup>: It is important to note that the Company's accounting records are not necessarily up-to-date or complete and accordingly the values as reflected in the books of the Company may not be accurate.

**i) Assets**

All the assets are pledged in favor of the Mortgage Lender.

**a) Current (\$110,589)**

The current assets consist of the bank account balance and the accounts receivable.

The available cash in the Company's bank account has remained under the control of Cogir, the Property Manager. It is being used to fund the operations of the Property.

The accounts receivable consist of minimal amounts of rent or service revenues which are collectible. In addition, certain amounts are due from bankrupt related companies, which are most likely not recoverable.

**b) Fixed Assets (\$41,015,700)**

The long term assets consist of the land and building, machinery and equipment, furniture and fixtures (i.e. the Property). The value declared in the statement of affairs reflects the construction costs that the Company recorded in its books. The Trustee will be obtaining an evaluation of the Property.

**ii) Liabilities**

**a) Secured creditors (\$42,356,830)**

The amounts owing to the secured creditors are detailed as follows:

- 1397225 Ontario Limited (mortgage financing of \$41,800,000);
- Ville de Montreal (municipal taxes of \$436,139);
- Comite de Gestion de Taxes Scolaires de Montreal (school taxes of \$120,690);

A legal opinion on the validity of the security held by the Mortgage Lender has been requested from the Trustee's legal counsel. Upon receipt of the legal opinion the Trustee will submit it to the Inspectors of the Estate.

Subject to the validity of their security and their ranking, the secured creditors will receive the proceeds from the ultimate realization of the Property up to the amount of their claim.

It is too early to evaluate if the secured creditors will be repaid in full.

**b) Preferred creditors**

The books and records of the Company do not indicate any preferred creditors.

**c) Ordinary creditors (\$455,917)**

According to the Statement of Affairs, the amount due to the unsecured creditors totals \$455,917. In addition, we have been informed that substantial amounts may be owing to the Tax Authorities for outstanding GST/QST claims. As at the date of the preparation of this Report, the Trustee has not received sufficient proofs of claim to validate the amount of ordinary claims.

## **V. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE**

### **a) Books and Records**

As at the Bankruptcy date, the books and records of the Company were not necessarily complete and up-to-date. The Trustee has requested that Cogir bring them to date.

The physical and electronic books and records of the Company, since the commencement of operations of the Property (July 1, 2009), are in the possession of Cogir and will be maintained by them on behalf of the Trustee. As of the date of this Report, the Trustee has been unable to locate the financial information and records concerning the construction costs, and the pre-operation expenses (from May 2007 to June 2009) of the Company.

### **b) Protective Measures**

Since September 20, 2010, the Trustee has undertaken various security and protective measures such as:

- Opening of a trust bank account;
- Assign the responsibility of safeguarding the physical and electronic books and records, on behalf of the Trustee to Cogir, the Property Manager;
- Adding the Trustee's name to the insurance policies in force covering the assets of the Company;
- Making arrangements with utilities companies and certain suppliers of goods and services to continue servicing the Property;

### **c) Realization Process**

The Trustee will be discussing with the representative of the Mortgage Lender the various realization alternatives that could be considered in this matter and report to the Inspectors of the Estate.

### **d) Property of Others**

To date, the Trustee has not received any property claims.

**e) Reviewable Transactions and Preferential Payments**

The Trustee will perform a review of the Company's books and records to determine any potential preferential payments or any reviewable transactions and will submit a report to the Inspectors of the Estate.

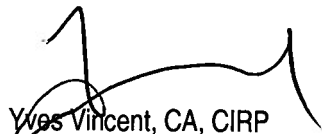
**VI. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION**

It is too early to estimate the anticipated realization results and the possible distribution, if any, to the unsecured creditors.

Dated at Montréal, this 30<sup>nd</sup> day of September 2010.

**RSM Richter Inc.**

Trustee



Yves Vincent, CA, CIRP  
Administrator of the Estate