

District of Ontario
Division No. 11 – Kingston
Court File No. 33-2929085
Estate File No. 33-2929085

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
LA SALLE MOTEL CO. (KINGSTON) LTD.
OF THE CITY OF KINGSTON, IN THE PROVINCE OF ONTARIO**

**SECOND REPORT OF LINK & ASSOCIATES INC.
IN ITS CAPACITY AS PROPOSAL TRUSTEE**

June 12, 2023

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June 12, 2023

I. INTRODUCTION

1. On April 3, 2023, La Salle Motel Co. (Kingston) Ltd. (**“La Salle”** or the **“Company”**) filed a Notice of Intention to Make a Proposal (**“NOI”**) under Division I, Part III, of the Bankruptcy and Insolvency Act (the **“BIA”**). Link & Associates Inc., Licensed Insolvency Trustee, provided its consent to act as Proposal Trustee (the **“Proposal Trustee”**).
2. Information regarding the NOI proceedings has been posted to the Proposal Trustee’s case website at www.linkassociates.ca under Files in Progress/La Salle Motel Co. (Kingston) Ltd.
3. The Company owns and operates a full-service hotel under the Travelodge name, along with separate (non-Travelodge) motel facilities and a full-service restaurant known as the Cavalier Room (collectively the **“Business”**).
4. The Business operates from real property owned by the Company, located at 2360 Princess Street in Kingston, Ontario (the **“La Salle Property”**).
5. The Company is owned by brothers Peter Karkoulis (**“Peter Sr.”**), John Karkoulis (**“John”**), and the estate of their late brother George Karkoulis (**“George”**). Peter Sr. is 92 years old, and John is 96 years old.
6. The Company had listed the La Salle Property and Business for sale in 2017 but did not accept any of the offers received at that time.
7. In September 2021, the Company again listed the La Salle Property and Business for sale.

8. On December 14, 2021 the Company entered into an agreement of purchase and sale (the “APS”) with 1000073686 Ontario Inc. (hereinafter referred to as “686”) to sell the La Salle Property and the assets of the Business as a going concern.
9. The APS provided for, among other things, the assumption of the Travelodge franchise agreement and the continued employment of all of the Company’s employees except for the shareholders or any of their family members. After all conditions were met, the sale to 686 was scheduled to close on August 10, 2022.
10. At the time of the proposed sale, Peter Karkoulis Jr. (“Peter Jr.”), son of George and nephew to Peter and John was the general manager of the Business, a role he held for several years. Peter Jr. was not being offered employment by 686.
11. Peter Jr. commenced litigation against the Company and on or about August 5, 2022, obtained an *ex parte* order which allowed for a Certificate of Pending Litigation (“CPL”) to be issued and registered against the La Salle Property.
12. The CPL prevented the APS from closing as scheduled. The closing date was extended on more than one occasion, but the Company was unsuccessful in its efforts to have the CPL removed from title to allow the sale to close.
13. In the meantime the Business was encountering cash flow problems. It was significantly past due with critical suppliers for food and utilities, had fallen behind in its HST remittances, and had received notices of disconnection from utility companies.
14. The Company suspended its regular monthly dividend payments to its shareholders in January 2023. Andrea Karkoulis, George’s widow, commenced litigation against the Company.

15. 686 Commenced litigation against the Company and its directors Peter and John, and Peter Jr., on March 13, 2023.
16. The Company terminated Peter Jr.'s employment on March 15, 2023. Peter Jr. commenced further litigation against the Company in relation to the termination of his employment.
17. In view of the foregoing, the Company filed its NOI on April 3, 2023 (the **"NOI Date"**).
By filing the NOI, the Company was able to obtain a stay of proceedings to allow it to take the steps necessary to create a stabilized environment to continue operating the Business as a going concern while working with its legal advisors and the Proposal Trustee to deal with the various issues facing the Company.
18. Gina Karkoulis, daughter of John, was appointed as General Manager, a role which she had previously held for many years.

II. NOTICE TO READER

19. In preparing this Second Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, has reviewed materials filed in the four litigation proceedings in which the Company is a defendant, has held discussions and meetings with ownership, Company counsel, employees, and has received information from other third-party sources (collectively, the **"Information"**).
20. Except as specifically noted in this Second Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards of the Chartered Professional Accountants of Canada. Certain of the information

referred to in this Second Report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, in accordance with standards set by the Chartered Professional Accountants of Canada, has not been performed. Future-oriented financial information referred to in this Second Report was prepared based on estimates and assumptions provided by management. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variations could be material.

21. Unless otherwise stated, all monetary amounts contained in this Second Report are expressed in Canadian dollars.

III. PURPOSE OF THIS REPORT

22. The purpose of this Second Report is to:

- a) Provide information to the Court with respect to the administration of La Salle's Proposal proceedings, including:
 - i) reporting on the comparison of the Cash Flow Projection (as defined in the First Report) to actual results since the NOI Date;
 - ii) providing an updated cash flow projection to show the Company's projected receipts and disbursements for the period of June 3 to September 1, 2023;
 - iii) to report on the Proposal Trustee's actions and activities since the date of its First Report and to seek approval for same;
 - iv) to seek approval for this Second Report; and

- b) Provide the Court with the Proposal Trustee's support for, and observations in respect of the Company's request that the Court grant an Order, *inter alia*:
 - i) approving an extension of the time for the Company to file a Proposal to August 4, 2023 (the "**Second Extended Period**");
 - ii) authorizing the Company's proposed sales and investment solicitation process ("**SISP**") to seek a buyer for the Business and/or the La Salle Property; and
- c) Such further and other relief as this Honourable Court may deem just and appropriate.

IV. FIRST REPORT TO COURT

23. The Proposal Trustee filed its first report to Court dated April 14, 2023 (the "**First Report**"). A copy of the First Report (without appendices) is attached hereto as **Appendix "A"**.

24. The First Report was filed in conjunction with, and in support of, an application made by the Company for a motion returnable on April 19, 2023 to seek the following:

- i) A 45-day extension of time to file a proposal under the BIA up to and including June 19, 2023;
- ii) Approval for the Company to increase its operating loan limit with Bank of Montreal by \$150,000 by way of a Debtor in Possession financing charge;
- iii) Approval of a \$100,000 Administration Charge in favour of the Proposal Trustee and its legal counsel, and counsel to the Company;
- iv) Approval of the First Report and the activities of the Proposal Trustee set out therein; and

- v) An Order directing all persons in possession or control of Company Property and Records (as defined in the Order) to deliver up same to the Company within 10 days.

25. The foregoing relief was all granted by way of an Order of the Honourable Justice Kershman dated April 19, 2023 (the “**First Stay Extension Order**”). A copy of the First Stay Extension Order is attached hereto as **Appendix “B”**.

26. The Proposal Trustee filed the First Stay Extension Order with the Office of the Superintendent of Bankruptcy (the “**OSB**”) on April 20, 2023.

4.1 DIP Facility with Bank of Montreal

27. Bank of Montreal (“**BMO**”) is the Company’s secured creditor. At the NOI Date the BMO facilities consisted of a \$300,000 revolving Operating Loan, three non-revolving demand loans totaling \$500,552 (within an overall sub-limit of \$795,000), and a corporate MasterCard with a \$50,000 limit, for total authorized credit facilities of \$1,145,000.

28. The credit facilities are secured by, among other things, a General Security Agreement registered at PPSA, and a Collateral Mortgage registered at Land Titles.

29. In accordance with the Stay Extension Order, the Company executed the necessary credit facility amendment documents to increase its operating loan limit with BMO by \$150,000 to \$450,000. The incremental \$150,000 has been made available by way of a Debtor in Possession loan (the “**DIP Facility**”).

30. The new operating loan limit of \$450,000 became fully available on May 18, 2023. The amended credit facilities also provided for a reduction to the Company’s MasterCard limit from \$50,000 to \$25,000, which has been implemented.

31. The BMO accounts are operating as agreed. The term loans are being repaid on a monthly basis in accordance with their terms.

4.2 Return of Books, Records and Property

32. In accordance with the First Stay Extension Order, the Company demanded of Peter Jr. the return of all of the Company's books, records and property in his possession or control.

33. We understand that a quantity of books, records and electronic devices in Peter Jr.'s possession or control were retrieved by the Company on or about April 24, 2023. We further understand that Peter Jr. delivered additional boxes of records to the Company on or about April 27, 2023.

34. The Company has advised the Proposal Trustee that it will take some time to vet the records and items returned.

V. ACTIVITIES OF PROPOSAL TRUSTEE SINCE FIRST REPORT

35. Since the date of the First Report, the Proposal Trustee has undertaken the following activities, some of which are a continuation of activities set out in the First Report which commenced with the filing of the NOI, *inter alia*:

- i) updated the Proposal Trustee's case website;
- ii) prepared drafts of written and oral communications to assist the Company in its correspondence with its creditors and other stakeholders;
- iii) engaged in frequent meetings and discussions with the Company and its legal counsel regarding the Company's business and financial affairs;

- iv) daily ongoing communication with Company with respect to all manner of financial and operational issues as part of the monitoring program;
- v) assist Company with communication with Bank of Montreal and its counsel as required;
- vi) meetings and discussions with respect to proposed SISP process; and
- vii) preparation of this Second Report.

36. The Company does not have any employees in specified accounting or clerical positions, nor does it employ anyone with an accounting background or designation. As a result, the Proposal Trustee has spent considerable time assisting the Company with its financial projections, budgeting and cash flows, accounting systems and analysis, implementation of policies designed to protect and monitor cash, interaction with the external accountant, revenue and expense analysis, and all other related financial issues.

VI. CASH FLOW PROJECTIONS

37. In accordance with the provisions of the BIA, on April 12, 2023, the Proposal Trustee filed with the Official Receiver the Company's cash flow statement and ancillary reports dated April 12, 2023 (the "**Cash Flow Projection**") which covered the period of April 3, 2023 to July 7, 2023. A copy of the Cash Flow Projection was appended to the First Report, and for ease of reference, is attached hereto as **Appendix "C"**.

38. The Proposal Trustee assisted the Company in the development and preparation of the Cash Flow Projection as the Company did not have the requisite skills and experience required to prepare it. The Company did not have any existing budgeting or forecasting procedures in place.

39. The Proposal Trustee has closely monitored the Company's cash flow since the NOI Date and has prepared a variance report that compares the Cash Flow Projection to actual results for the 8-week period ending June 2, 2023 (the "**Cash Flow Variance Report**").

6.1 Cash Flow Variance Report

40. A copy of the Cash Flow Variance Report, complete with notes, is attached hereto as **Appendix "D"**.

41. The Company's ending cash position after eight (8) weeks operating under the NOI is slightly better than projected, albeit with certain individual line items demonstrating both positive and negative variances as more particularly described below. Some variances may be attributed to timing of payments and receipt of invoices from week to week.

42. In the original Cash Flow Projection, accommodation revenues were projected to decrease by 10% from 2022 levels, however the actual results for the months of April and May 2023 versus the same two months in 2022 show a decrease higher than 10%, as explained in more detail in the notes to the Cash Flow Variance Report.

43. On a percentage basis, motel revenues are down more than the hotel rooms, which is primarily attributed to the fact that the motel section housed new immigrants under an agreement with a sponsoring agency in 2022, an arrangement which has come to an end.

44. Despite the lower than projected accommodation revenues, conference room rentals are performing much better than projected.

45. In the original Cash Flow Projection, the Company had assumed that it would discontinue the five night per week dinner service at the Cavalier Room restaurant and focus on

breakfast and lunch. As a result, restaurant revenues were forecast to be 20% lower than the previous year.

46. The Company subsequently decided to maintain evening dinner service on Friday and Saturday evenings, which has resulted in higher than projected food and beverage receipts, but also increased food purchases and restaurant-related payroll. Overall, continued evening dinner service on a limited basis appears to provide modest positive direct contribution margin.

47. With respect to HST, the Company is a net payor. It files its HST returns quarterly. Therefore no remittances have been required since the NOI Date as the next HST reporting period ends June 30, 2023, and the net HST for the quarter will be due on July 31, 2023.

48. In the original Cash Flow Projection, the Company set aside \$5,000 per week for Repairs and Maintenance given the age of the building and its overall condition. Only minor repairs were required during the first eight (8) weeks under the NOI resulting in a positive variance of approximately \$35,000. This positive variance will be used up in the coming weeks for a major repair to the fire suppression system described later in this Second Report.

49. Utility expenses are approximately \$20,000 more than projected due to amounts required by each of Enbridge (gas), Hydro One (electricity) and Utilities Kingston (water and sewer) for security deposits. Efforts were made to reduce the amount of the requested security deposits, but those efforts were unsuccessful.

6.2 Cash Flow Projection for Second Extended Period

50. The Proposal Trustee has assisted the Company in maintaining a rolling cash flow forecast for ongoing updating on a weekly basis, as part of its monitoring of the Business.

51. An updated cash flow forecast for the period of June 3 to September 1, 2023 (the “**Second Cash Flow Projection**”) has been prepared in support of the Company’s request for a further 45-day extension of time for the Company to file a Proposal.
52. A copy of the Second Cash Flow Projection, together with the key notes and assumptions made therein, is attached hereto as **Appendix “E”**.
53. The Second Cash Flow Projection has been prepared solely for the purposes set out in this Second Report. It is not the statutory revised cash flow to be filed with the OSB set out in S. 50(6) of the BIA, as that is only required upon the Company filing its Proposal under S. 62(1) of the BIA.
54. The Second Cash Flow Projection indicates that the Company will operate within its increased Operating Loan limit and keep current its post-NOI obligations.
55. The Second Cash Flow Projection does not incorporate the effects of any possible sale of the La Salle Property or Business that may take place in accordance with the SISP process as described later in this Second Report.
56. The Company projects increased usage of its Operating Loan during the Second Cash Flow Projection as a result of large payments for:
- i) HST remittance of approximately \$72,000 for the post-NOI period will be due for the quarter ending June 30, 2023 (payment is due July 31, 2023). HST is collected in trust for the Receiver General. These funds do not belong to the Company and are tracked separately to ensure that they are remitted (net of input tax credits) by their due date.

We note that the \$133,450 of HST owing for the two preceding quarters (October 1 to December 31, 2022, and January 1 to March 31, 2023) is stayed by the NOI. HST loses its deemed trust status under an NOI and is treated as an unsecured claim in the Proposal.

- ii) Insurance premium of \$23,151 is due on June 20, 2023. Insurance premiums are paid in three instalments throughout the year.
- iii) A property tax instalment of approximately \$57,000 due by June 30, 2023. Property taxes are paid in two instalments during the year.

We note that approximately \$15,000 of water and sewer arrears owing as at the NOI Date were recently transferred to the Company's property tax account. The Company is in the process of determining the proper treatment of this arrears transfer before making a payment beyond its regularly scheduled instalment amount.

6.2.1 Fire Suppression System Replacement

57. As noted above, the Company has had to spend little on repairs and maintenance since the NOI Date but had budgeted \$5,000 per week given the age and condition of the building.

58. In reviewing the Company's fire and safety records it came to the attention of the Interim General Manager Gina Karkoulis ("**Gina**") and the Proposal Trustee that the kitchen fire suppression system has needed replacement for quite some time.

59. Gina arranged for quotes for system replacement and notified the insurer and kept them informed to ensure insurance policy compliance while cooking operations continue. BMO

has also been made aware of the issue as it relates to their status as loss payee under the insurance policy.

60. It is anticipated that the replacement cost of between \$20,000 to \$30,000 will be accommodated by the funds already budgeted for repairs and maintenance but is an indication of the issues that this aging hotel could be faced with at any time.

VII. PROPOSED SALES AND INVESTMENT SOLICITATION PROCESS

61. In its First Report the Proposal Trustee indicated the Company's desire to present to the Court a proposed sales and investment solicitation process (the "**SISP**") and that it expected to bring an application for approval for same within the first Extended Period.

62. The Company has prepared an application record which includes a proposed SISP. The SISP provides for the following main actions and timeline:

- i) The Company proposes to engage Janis Biro ("**Biro**") of Royal LePage Realty Plus to act as the listing agent and SISP Advisor (the "**SISP Advisor**").
- ii) Upon Court approval of the SISP process, the SISP Advisor will forthwith list for sale on MLS the La Salle Property and the assets of the Company necessary to continue to operate the Business as a going concern.
- iii) The SISP Advisor, in consultation with the Company and the Proposal Trustee, will develop a list of potential interested buyers and will distribute an Information Package and Confidentiality Agreements to Known Potential Bidders by June 25, 2023.

- iv) The SISP Advisor will solicit bids for the Business and the La Salle Property, with a deadline for delivery of non-binding Letters of Intent (“LOIs”) by Potential Bidders on July 5, 2023.
 - v) Site visits and inspections will be arranged through the SISP Advisor, who will conduct property tours on agreed-upon dates.
 - vi) The Proposal Trustee, in consultation with the SISP Advisor and the Company, will review LOIs submitted and determine bidders to designate as Qualified Bidders.
 - vii) Following a due diligence period facilitated by the SISP Advisor, Qualified Bidders are to deliver definitive offers to the SISP Advisor by July 20, 2023.
63. Assuming the SISP process generates suitable Qualified Bids, the Company will promptly select a Winning Bid and enter into a final agreement of purchase and sale by July 28, 2023.
64. The Company shall thereafter apply for Court approval of the final agreement of purchase and sale on or around August 16, 2023, with closing to take place as soon as possible thereafter and no later than August 31, 2023.

7.1 Proposal Trustee’s Position on SISP and SISP Advisor

65. The Proposal Trustee has reviewed the Company’s proposed SISP process and the proposed MLS listing agreement.
66. The proposed MLS listing agreement, which contains a list price of \$9.75 million and proposed commission structure of 3% (with 1.5% allocated to any cooperating broker) is appropriate in these circumstances.

67. The Proposal Trustee is satisfied with the structure of the SISP and the selection of the SISP Advisor.

68. Biro is an arm's length real estate sales professional who previously marketed the Business and the La Salle Property, which resulted in the accepted offer from 686. Her past involvement and direct knowledge of the La Salle Property and Business is an asset and makes her a good candidate for this engagement.

7.2 Benefits of a SISP Process

69. The proposed SISP provides ample opportunity for all interested parties to make their best and final offer under a court-supervised process. It affords the flexibility to an interested party to make an offer strictly for the real estate, or for both the real estate and the Business together to operate as a going concern.

70. The SISP should alleviate any concerns over the transparency or propriety of a sale and will provide the eventual purchaser with the comfort of an Order issued by this Honourable Court vesting title in and to the La Salle Property and/or Business assets free and clear of all claims and encumbrances.

71. Any and all claims against the Company will thereafter attach to the net proceeds of sale and shall be dealt with in the Proposal process or as otherwise ordered by the Court.

7.3 Timing Considerations

72. The BIA prescribes that a debtor must file its Proposal no later than six months from the NOI Date. There are no provisions or authority that permit an extension beyond the six months. In the case of the Company, it must file its Proposal on or before October 3, 2023.

73. Therefore, it is appropriate that the Company be authorized to take the steps necessary to monetize its assets as soon as possible so that it may fulfill its obligations under the BIA and make a Proposal to its creditors.
74. The proposed timing of the SISP is suitable. The nature of the assets being offered for sale are not particularly unique or specialized. Potential buyers in this price range are most likely experienced and sophisticated with the ability to act quickly, efficiently and professionally.
75. The SISP Advisor's past involvement with the previous listing of the La Salle Property and Business allows for the SISP to get underway immediately. Considering the age and condition of the building and the potential for more intensive repairs, time is of the essence.

7.4 Impact on Ability to Make a Proposal

76. The Company's assets are comprised primarily of the La Salle Property and related hotel equipment and furnishings pertaining to the operation of the Business.
77. The La Salle Property itself possesses significant equity. The Company's known and quantifiable liabilities are approximately \$1.75 million (combination of BMO secured loans, unpaid suppliers and HST at NOI Date) which equates to approximately 17% of the proposed list price for the La Salle Property and Business.
78. While there will be a large amount of income tax to be paid by the Company as part of any sale, the net after-tax proceeds of a sale will be more than sufficient to repay the BMO secured debt and to fund the Company's Proposal to its known unsecured creditors.

79. However, it should be noted that there are additional liabilities that may or may not crystallize (i.e. employee claims for termination and severance, contractual agreement termination costs) depending upon whether the La Salle Property is sold as a land deal only, or if the land and Business are sold together which would likely include the assumption of employees and/or certain operating agreements to continue as a going concern.
80. Furthermore, there are also claims which have yet to be proven and/or quantified, namely the contingent claims arising from litigation brought against the Company and its directors by Peter Jr., 686, and Andrea Karkoulis (widow of George), all of which are more particularly set out in the four lawsuits against the Company as described in the First Report. All such claims will need to be addressed in the context of the Proposal.

VIII. REQUEST FOR EXTENSION TO TIME TO FILE PROPOSAL

81. The timeline for the proposed SISP will require a further extension of time for the Company to formulate and file its Proposal.
82. As presently drafted, the Company and the proposed SISP Advisor anticipate being able to consider and negotiate offers during the month of July, 2023, and seek Court approval thereafter in the month of August, 2023 on a date to be determined and subject to the Court's availability.
83. The First Extension Period for the time to file a Proposal expires on June 19, 2023. While the present motion date to is not until June 21, 2023, the filing of the application for an extension by the Company prior to the expiry date is sufficient pending the making of an Order authorizing a further extension.

84. To allow the Company sufficient time to implement the SISP and advance the restructuring and Proposal process, it is seeking a further 45-day extension of time within which to file a Proposal, which extension would expire on August 4, 2023 (the “**Second Extended Period**”).
85. The Second Cash Flow Projection appended to this Second Report fully covers the proposed Second Extended Period.
86. Ultimately the Proposal is expected to be funded from the net sales proceeds of the Business and/or La Salle Property. A Proposal cannot realistically be made without a sale and therefore a further extension is necessary and appropriate in the circumstances.
87. In view of the foregoing, the Proposal Trustee supports the Company’s request for an extension and has also considered that:
- i) The Company is acting in good faith and with due diligence;
 - ii) The additional time will allow the Company to proceed with the proposed SISP process, which is expected to provide the funding to repay BMO in full and provide the funding for the Company’s Proposal to its unsecured creditors.
 - iii) The requested extension shall not adversely affect or materially prejudice any party.

IX. CONCLUSION AND RECOMMENDATIONS

88. Based on the foregoing, the Proposal Trustee respectfully recommends that the Court make an order granting the relief detailed in paragraph 22 of this Second Report.

DATED AT the City of Woodbridge, in the Province of Ontario, this 12th day of June, 2023.

LINK & ASSOCIATES INC.

Trustee in re Proposal of

La Salle Motel Co. (Kingston) Ltd.

Per: 

Robert G. Link, LIT

District of Ontario
Division No. 11 – Kingston
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**FIRST REPORT OF LINK & ASSOCIATES INC.
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April 14, 2023

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April 14, 2023

I. INTRODUCTION

1. On April 3, 2023, La Salle Motel Co. (Kingston) Ltd. (“**La Salle**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) under Division I, Part III, of the Bankruptcy and Insolvency Act (the “**BIA**”). Link & Associates Inc., Licensed Insolvency Trustee, provided its consent to act as Proposal Trustee (the “**Proposal Trustee**”).
2. A copy of the certificate of filing of the NOI is attached hereto and marked as **Exhibit “A”**.
3. Notice of the NOI (the “**Notice to Creditors**”), as prescribed by the BIA, was sent on April 4, 2023 to all of the Company’s known creditors, including secured, unsecured and contingent creditors. A copy of the Notice to Creditors is attached hereto and marked **Exhibit “B”**.
4. Information regarding the NOI proceedings has been posted to the Proposal Trustee’s case website at www.linkassociates.ca under Files in Progress/La Salle Motel Co. (Kingston) Ltd.

5. This report (the “**First Report**”) is made by the Proposal Trustee in support of a motion by the Company for the following:

- i) An extension of time to file a Proposal to June 19, 2023;
- ii) An Administrative Charge for professional fees;
- iii) Authorization to increase its operating loan facility with Bank of Montreal from \$300,000 to \$450,000; and
- iv) An Order directing the return of Company books and records and personal property to the Company.

II. NOTICE TO READER

6. In preparing this First Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, has reviewed materials filed in the four litigation proceedings in which the Company is a defendant, has held discussions and meetings with ownership, Company counsel, employees, and has received information from other third-party sources (collectively, the “**Information**”).

7. Except as specifically noted in this First Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards of the Chartered Professional Accountants of Canada. Certain of the information referred to in this First Report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, in accordance with standards set by the Chartered Professional Accountants of Canada, has not been

performed. Future oriented financial information referred to in this First Report was prepared based on estimates and assumptions provided by management. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variations could be material.

8. Unless otherwise stated, all monetary amounts contained in this First Report are expressed in Canadian dollars.

III. BACKGROUND

9. In 1966, three brothers, Peter, John and George Karkoulis purchased the La Salle Motel and Cavelier Room in Kingston, Ontario. The Company was formally incorporated in 1974. It currently owns and operates a full-service hotel under the Travelodge name and is referred to as the “Travelodge Hotel La Salle” with a restaurant (still called the Cavelier Room) and separate motel facilities.
10. It is situated on a 7.55 +/- acre parcel located at 2360 Princess Street, Kingston, Ontario (the “**La Salle Property**”) and currently employs upwards of 55 people. The Company is owned in equal thirds by brothers John and Peter Karkoulis and the Estate of the late George Karkoulis (“**George**”). George passed away in 1995 and Peter and John Karkoulis are the trustees of George’s Estate.
11. For clarity and ease of reference, Peter Karkoulis, 92 years of age, a shareholder and director, shall hereafter be referred to as “**Peter Sr.**” to distinguish him from his nephew, Peter J. Karkoulis, who is a former employee and is a plaintiff in two lawsuits against the

Company (and his uncles) and shall be referred to as **“Peter Jr.”**. John Karkoulis, 96 years of age, a shareholder and director, shall hereafter be referred to as **“John”**.

12. Peter Jr. was employed by the Company for many years, most recently as General Manager. His employment was terminated on March 15, 2023.

3.1 Sale of Property and Certificate of Pending Litigation

13. There have been previous efforts to list and sell the La Salle Property in the past few years. These efforts are recounted in detail in related litigation and will not be repeated in this First Report.

14. Most recently, the Company listed the La Salle Property for sale with Royal LePage Realty Plus in September 2021. The Company negotiated an offer and ultimately entered into an agreement of purchase and sale dated December 14, 2021 (the **“APS”**) with an arms-length purchaser 1000073686 Ontario Inc. (**“686”**).

15. At the agreed purchase price, after satisfying debts and corporate taxes on the sale and all other closing adjustments, it was estimated that each one-third shareholder would be the recipient of a meaningful cash return on capital.

16. The Proposal Trustee understands that under the terms of the APS, 686 had agreed to offer employment to all existing Company employees (over 50 people), some of which have been with the Company for decades, save and except for any of the shareholders and their relatives, including Peter Jr.

17. All required deposits were paid by 686 towards the sale price in trust to counsel acting for the vendor in the transaction. These deposit funds remain in trust with vendor’s counsel.

18. The APS was initially set to close in the Spring of 2022 but was delayed due to the necessity of removing an oil storage tank on the La Salle Property and related remediation efforts and testing. After all conditions were finally waived, the closing was scheduled for August 10, 2022.
19. The closing did not occur as scheduled. On August 5, 2022, on an *ex-parte* basis, Peter Jr. sought and obtained a Certificate of Pending Litigation (“CPL”) to be registered on title against the La Salle Property, which enjoined the Company from completing the sale or otherwise dealing with the La Salle Property.
20. The closing date was subsequently extended three times as efforts were made to resolve matters to allow the sale to proceed.
21. The Company took steps to have the CPL overturned but was unsuccessful.
22. 686 has commenced litigation against the Company as a result of its inability to close the APS.

IV. PURPOSE OF THIS REPORT

23. The purpose of this First Report is to:
 - a) Provide information to the Court with respect to the administration of La Salle’s proposal proceedings, including:
 - i) background information regarding the Company’s operations and the circumstances leading to the filing of the NOI; and
 - ii) reporting on the Cash Flow Projection (defined below) and related financial matters;

b) Provide the Court with the Proposal Trustee's support for, and observations in respect of the Company's request that the Court grant an Order, *inter alia*:

- i) approving a first ranking charge on the properties, assets and undertakings (collectively the **"Property"**) of the Company in an amount not to exceed \$100,000 in favour of the Proposal Trustee, the Proposal Trustee's independent legal counsel Ricketts Harris LLP (**"Independent Counsel"**) and the Company's legal counsel Borden Ladner Gervais LLP (collectively, the **"Administrative Professionals"**) to secure payment of their reasonable fees and disbursements;
- ii) approving an extension of the time for the Company to file a Proposal to June 19, 2023 (the **"Extended Period"**);
- iii) approving an increased operating loan borrowing limit with Bank of Montreal as more particularly set out herein; and
- iv) ordering the return of books and records and personal property to the Company.

V. REASONS FOR FILING THE NOI

24. The purpose of filing the NOI was for the Company to obtain a stay of proceedings while taking steps to create a stabilized environment to continue operating the hotel as a going concern business while the Company works with the Proposal Trustee to restructure its affairs and formulate a plan to deal with the many issues facing the Company.

25. The Company has quickly gone from the brink of closing an APS for the La Salle Property, paying all of its creditors in full and making a return of capital to its shareholders, to being

a named defendant in four lawsuits that have been disclosed the Proposal Trustee, one of which was filed to prevent the sale of the La Salle Property and another as a result of not being able to close the sale of the La Salle Property.

26. The Company is unable to meet its current obligations to creditors. It suspended payment of dividends to all of its shareholders in or around January, 2023.
27. The Company fell noticeably behind with its food suppliers and major utility providers, as evidenced by the number of past due notices and threats of utility disconnections and unpaid food suppliers making frequent attendances in person seeking payment for past due accounts.
28. The Company did not make its quarterly HST remittance for the period of October 1 – December 31, 2022 (\$69,604) which was due no later than January 31, 2023, and would have likely been unable to pay its quarterly remittance for the period of January 1 to March 31, 2023 (estimated to be \$72,705) due no later than April 30, 2023.
29. HST is a trust and is subject to enforcement under the enhanced garnishment powers of the Canada Revenue Agency. The NOI has afforded the Company a necessary stay against such action.
30. Gina Karkoulis was hired by the Company as interim General Manager in early April, 2023. She previously held the position several years ago and is familiar with the La Salle Property and its operations. The appointment of Ms. Karkoulis is intended to be temporary until a permanent replacement is hired or the La Salle Property or the business is sold.

31. The Company has expressed to the Proposal Trustee its desire to present to the Court a proposed sales and investment solicitation process (the “SISP”). It is anticipated that Court approval of the SISP will be sought within the Extended Period.

VI. LITIGATION MATTERS

32. The Company was a defendant in the following four lawsuits commenced in Kingston as at the date of the NOI:

- i) CV-22-00000223 Commenced by Peter Jr against the Company, John and Peter Sr., wherein Peter Jr. obtained a CPL registered on the La Salle Property;
- ii) CV-23-00000090 commenced by Peter Jr. claiming damages for wrongful dismissal arising out of his termination by the Company on March 15, 2023;
- iii) CV-23-00000080 commenced by Andrea Karkoulis by her litigation guardian Valerie Demitt seeking damages against the Company, John and Peter Sr., and various declaratory relief under section 248 of the *Ontario Business Corporations Act* including *inter alia* interim dividend payments that are the subject of a motion scheduled to be heard May 24, 2023, as described in further detail later in this First Report; and
- iv) CV-23-00000044 commenced by 686 and its principal against Peter Jr., Peter Sr., John and the Company for, *inter alia*, specific performance of the APS.

VII. ASSETS AND LIABILITIES

33. The Company's assets are comprised primarily of the La Salle Property and related hotel equipment and furnishings. Its book value is much lower than its market value due to the large amount of depreciation which has accumulated over the years.

34. Its current market value has been reasonably established through a listing process and the negotiation of an arms-length agreement of purchase and sale.

7.1 Unsecured Creditors

35. As set out in the Notice to Creditors, the Company lists liabilities of approximately \$10.5 million.

36. Of these liabilities, approximately \$8.85 million represents the global damages claimed in the litigation described above and has been classified as contingent. We note that the litigation brought by 686 does not specify a defined quantum for damages given that the relief sought is primarily for specific performance of the APS, so the total liabilities may be higher than currently stated.

37. The contingent litigation claims alone of \$8.85 million exceed what the expected net proceeds of sale of the La Salle Property would have been to the Company (i.e. after tax) under the APS with 686.

38. The amounts owed to food suppliers at the filing of the NOI were approximately \$143,000. Utility companies were owed approximately \$54,000.

39. Since the filing of the NOI, some adjustments have been made to update certain creditor balances listed in the Notice to Creditors including shareholder loans and HST, as follows:

- i) Unpaid HST is now estimated to be \$142,000 instead of \$120,000;
- ii) Shareholder Loan due to Peter Sr. is \$146,018, not \$110,000; and
- iii) Shareholder Loan due to John is \$69,505 not \$95,765.20.

7.2 Secured Creditors

40. A search of the Ontario Personal Property Security Act (the “**PPSA**”) registry confirms that the Company’s only known secured creditor is Bank of Montreal (“**BMO**”). The Proposal Trustee has not obtained an opinion confirming the validity and enforceability of the security held by BMO.

41. The BMO facilities consist of a \$300,000 revolving Operating Loan, three non-revolving demand loans totaling \$500,552 (within an overall sub-limit of \$795,000), and a corporate MasterCard with a \$50,000 limit, for total authorized credit facilities of \$1,145,000.

42. The demand loans are part of a facility which allows the Company to borrow for purposes such as major repairs and repay same with longer amortization periods. Most recently it was used for the costs of removing and remediating an oil tank on the property in 2022.

43. The credit facilities are all secured by, among other things, a General Security Agreement registered at PPSA, and a Collateral Mortgage registered at Land Titles.

VIII. CASH FLOW PROJECTION

44. In accordance with the provisions of the BIA, on April 12, 2023, the Proposal Trustee filed with the Official Receiver the Company's cash flow statement dated April 12, 2023, which was reviewed for reasonableness and signed by the Proposal Trustee and the Company (the **"Cash Flow Projection"**).
45. The Cash Flow Projection covers the period starting on the NOI date of April 3, 2023 and ending on July 7, 2023 (the **"Projection Period"**). A copy of the Cash Flow Projection, and ancillary reports, is attached hereto as **Exhibit "C"**.
46. The Cash Flow Projection was prepared utilizing the Company's internal reporting systems described later in this First Report, and other methods of evaluation and assessment. Many of the assumptions in the Cash Flow Projection are based upon historical performance, adjusted where necessary for known changes to operations or external factors.
47. The Proposal Trustee assisted the Company in the development and preparation of the Cash Flow Projection as the Company did not have the requisite skills and experience required to prepare it. The Company did not have any existing budgeting or forecasting procedures in place.
48. The principal assumptions of the Cash Flow Projection are that:
- i) No dividends will be paid to any shareholder;
 - ii) Company will have access to an increased operating loan to meet its obligations;
 - iii) The Company will be required to pay COD for food and supplies;

iv) Payroll costs (i.e. wages, benefits, government remittances, etc.) are based on the actual payroll costs prior to the NOI, adjusted to reflect the reductions arising out of downward revision of working hours of certain employees due to reduced restaurant hours and improved operational efficiencies.

49. The Cash Flow Projection forecasts the need for an increase to the Company's Operating Loan, and a request has been made to BMO to provide same.

50. Given the short time period between the Cash Flow Projection being filed on April 12, 2023, and the preparation of this First Report, no comparison of actual receipts and disbursements to forecasts has been prepared at this time.

8.1 Availability of Books and Records

51. To date, the Company has provided the Proposal Trustee with its full co-operation and unrestricted access to its books and records to the extent they are available.

52. The Company has made frequent use of credit cards to pay expenses. The Company advised the Proposal Trustee that it has been unable to locate many of the credit card statements or receipts for purchases made by credit card.

53. It is difficult to determine the details of many of the credit card purchases and determine proper allocation of same without copies of receipts, which the Company has indicated it will make efforts to try and obtain. The Company has also taken steps to obtain copies of the missing credit card statements.

8.2 Information Systems and Accounting

54. The Proposal Trustee was advised by the Company that it did not prepare operating budgets or forecasts.
55. The Company uses multiple systems to track and record revenues and expenses, and each is discussed briefly below. In addition to the systems used internally, the Company utilizes the services of an outside accounting firm to record its monthly financial information.
56. Maitre'D is a third-party point of sale software that is used in the Company's restaurant (the Cavalier Room). This customizable system tracks receipts by food-type, alcohol, taxes and gratuities, while breaking down by payment type (e.g. cash, VISA, etc.). The system also provides analytical information such as percentage revenue by identifiable groupings and hourly revenues, which can be useful in personnel staffing and menu preparation.
57. The hotel reservation system is provided by Wyndham. This system tracks reservations, check-in and check-out, revenues and taxes, and has a complement of reporting tools for analysis. Daily reports are prepared by the night auditor each night and provided to management.
58. The Company utilizes QuickBooks ("QB") accounting software. However, the Proposal Trustee observed that the Company does not enter supplier invoices into QB as they are received. It only enters them when it wants to issue a cheque for an invoice. Therefore the Company could not initially produce an aged accounts payable listing.
59. The Company was required to enter all outstanding invoices into the QB system just to produce a list of creditors for the Proposal Trustee. Prior to this, it appears that the

Company could have been unaware of its level of outstanding payables and debts at any given time.

60. Each month, the Company assembles a package of financial information from each of the above systems, along with other source documents such as credit card statements and payroll reports and submits this package to the external accounting firm.
61. The accounting firm physically enters all of the information into its accounting system (also QB). This information is recorded on a monthly summary basis, rather than on a detailed basis. For example, you cannot look at daily sales, expenses, taxes or any other accounting activity on a basis other than monthly.
62. The lack of detail in the accounting system prevents simple analysis of key metrics as it requires the assembly of information from multiple systems into a database such as EXCEL. The Company would be better served by employing an accrual based daily accounting for revenues and expenses in order to streamline record keeping and analytical abilities.
63. The Proposal Trustee has implemented procedures for monitoring the Company's receipts and disbursements and has kept in close contact with management to ensure that operations are continuing in the normal course of business and in accordance with the Cash Flow Projection.

IX. ACTIVITIES OF THE PROPOSAL TRUSTEE

64. Since the NOI Filing Date, the Proposal Trustee has undertaken the following activities, inter alia:

- i) issued notices to creditors;
- ii) updated the Proposal Trustee's case website as necessary;
- iii) prepared drafts of written and oral communications to assist the Company in its correspondence with suppliers and employees;
- iv) frequent on-site attendance and meetings with ownership, and interaction with and communication with creditors;
- v) assisted in reviewing financial systems and reporting;
- vi) provided significant assistance to the Company in preparing its Cash Flow Projection;
- vii) established system to monitor actual cash flows in comparison with the Cash Flow Projection;
- viii) engaged in discussions with Bank of Montreal to assist the Company with its financing needs during the Proposal process;
- ix) prepared this First Report; and
- x) engaged in ongoing discussions with the Company and its counsel regarding the NOI filing and the Company's efforts to make a successful proposal.

X. SHAREHOLDER LOANS AND DIVIDENDS

65. A summary of the shareholder loan accounts, and activity, is set out below:

		Due to (From)		
		George Karkoulis (Estate of)	John Karkoulis	Peter Karkoulis
Balance per June 30, 2022 financials		(39,957)	(26,260)	36,018
29-Dec-22	Deposit		50,000	60,000
27-Jan-23	Deposit		100,000	
09-Mar-23	Withdrawal		(90,000)	
15-Mar-23	Deposit			50,000
15-Mar-23	Paid company legal fees		35,765	
Balance at March 31, 2023		(39,957)	69,505	146,018

66. While each of Peter Sr. and John are currently owed money by the Company, the financial records show that George's Estate is indebted to the Company for approximately \$40,000.

67. John and Peter Sr. contributed funds to the Company between December 2022 and March 2023 as set out above. Each of the deposits to and withdrawals from the Company account noted above have been matched to the Company's bank statements.

68. The deposits on December 29, 2022 made by John and Peter Sr. totalling \$110,000 were used to fund payments by the Company to its legal counsel.

10.1 Dividends

69. The Company paid semi-monthly dividends to the beneficial shareholders of the Company in the amount of \$3,500 each, on the 1st and 15th of each month. Andrea Karkoulis (widow of co-founder George Karkoulis), John and Peter Sr. each received these payments for

many years. We are advised that the amount has changed over the years up to its present level.

70. The last dividend was paid on January 15, 2023, after which the Company suspended all such payments to conserve cash. At the same time this decision was taken, the bank statements show that a \$40,308.32 cheque to the Company's main food supplier was returned NSF on January 20, 2023.
71. John advised the Proposal Trustee that he deposited \$100,000 to the Company account on January 27, 2023 at the request of Peter Jr. to cover supplier payments and operating expenses including the need to replace the bounced cheque.
72. John further advised the Proposal Trustee that he subsequently withdrew \$90,000 of his shareholder loan several weeks later. He then subsequently paid a legal bill for \$35,765 from his personal account.
73. The net effect is that each of Peter Sr. and John are creditors of the Company along with all of its suppliers, utility companies and the Receiver General.
74. Between December 29, 2022 and March 15, 2023, Peter Sr. and John together advanced to the Company net cash of \$170,000 and paid a further \$35,765 personally for legal fees on behalf of the Company.
75. The Proposal Trustee is aware that a motion is scheduled for May 24, 2023 in which Andrea Karkoulis, by her daughter acting in her capacity as Litigation Guardian, is seeking to have her \$7,000 monthly dividend payment reinstated retroactively to February 2023 and for it to continue to be paid as it has in the past.

76. Independent Counsel attended a case conference before the Honourable Justice Tranmer on April 6, 2023, where the motion brought on behalf of Ms. Karkoulis was timetabled. During that case conference counsel for Ms. Karkoulis advised the Court that Ms. Karkoulis would be seeking interim relief against John and Peter Sr. personally and would not be seeking this relief against the Company or against John and Peter Sr. in their capacity as directors of the Company.
77. Accordingly it is anticipated that the interim relief sought by Ms. Karkoulis will be addressed in parallel proceedings and will not have an impact on the NOI proceedings. A copy of Justice Tranmer's endorsement is attached as **Exhibit "D"**.
78. As set out in the Cash Flow Projection referred to earlier in this First Report, the Company projects that it will need upwards of \$150,000 of additional operating loan capacity to ensure that it can meet its obligations.
79. The Proposal Trustee has been informed by counsel to the Bank of Montreal that it will not support any use of funds for payment of dividends given the circumstances, and particularly not from any increased credit facilities if they were to be granted.

XI. PROPOSED INCREASED BORROWING LIMIT

80. The Company currently has an authorized operating loan of \$300,000 from Bank of Montreal, as well as a corporate credit card with a \$50,000 limit, and non-revolving demand loans outstanding of \$500,552 within an authorized demand loan facility sub-limit of \$795,000.
81. The credit facilities are all secured by, among other things, a General Security Agreement and Collateral Mortgage.

82. The Cash Flow Projection anticipates that the Company will require additional borrowing capacity to meet its obligations. The bulk of this funding requirement is during the last three weeks of the Projection Period due to the payment of property taxes, insurance and the remittance of HST. The amount of HST shown on the cash flow is the net amount to be remitted from monies collected in trust for the Crown after deducting eligible Input Tax Credits.
83. The amount of the additional borrowing capacity required is estimated to be \$150,000 but can be affected by many factors beyond the Company's control, including a forecasted recession in 2023, COVID-19, or any other negative or unforeseen event or occurrence.
84. Counsel to the Bank of Montreal has advised that it is considering the request for additional financing but no commitment for same has been made as at the date of preparing this First Report.

XII. PROPOSED ADMINISTRATIVE CHARGE

85. In order to protect the fees and expenses of the Administrative Professionals, the Company is seeking a charge (the "**Administrative Professionals Charge**") on the Property to secure payment of the reasonable fees and expenses of the Administrative Professionals in the aggregate amount of \$100,000.
86. The Company is requesting that the Administrative Professionals Charge rank in priority to the claims of all secured and unsecured creditors over the Property.
87. The Proposal Trustee recommends the Administrative Professional Charge be approved for the following reasons:

- i) each of the professionals whose fees are to be secured by the Administrative Professionals Charge has played and will continue to play a critical role in the Company's restructuring process; and
- ii) The Company intends to satisfy the fees and disbursements of the Administrative Professionals from cash flow during the NOI proceedings. The Administrative Professionals Charge is sought to protect the Administrative Professionals if the restructuring is not successful.

88. The Cash Flow Projection sets out the estimated fees and disbursements of the Administrative Professionals to be paid during the Projection Period.

XIII. REQUEST FOR EXTENSION TO TIME TO FILE PROPOSAL

89. The definitive terms of the Proposal will take additional time to develop in view of the various litigation matters and operational matters.

90. The Company seeks an initial 45-day extension of time within which to file a Proposal. The current 30-day period expires on May 3, 2023. A 45-day extension would expire on June 17, 2023, which is a Saturday. As a result, the Extended Period will run until Monday, June 19, 2023. The Cash Flow Projection fully covers the proposed Extended Period.

91. To allow the Company sufficient time to stabilize its operations and advance the restructuring process, it is seeking an extension of the time for filing of a proposal to June 19, 2023.

92. In view of the foregoing, the Proposal Trustee supports the Company's request for an extension and has also considered that:

- i) The Company is acting in good faith and with due diligence;
- ii) The additional time will allow the Company to more fully engage with its stakeholders, ideally to include discussions with the various litigants that may form the basis to settle matters and allow a sale of the La Salle Property to proceed under a court-supervised process such as a SISP, which could then form the basis for a successful Proposal.
- iii) The requested extension shall not adversely affect or materially prejudice any party.

XIV. CONCLUSION AND RECOMMENDATIONS

93. Based on the foregoing, the Proposal Trustee respectfully recommends that the Court make an order granting the relief detailed in paragraph 5 of this First Report.

DATED AT the City of Woodbridge, in the Province of Ontario, this 14th day of April 2023.

LINK & ASSOCIATES INC.
Trustee in re Proposal of
La Salle Motel Co. (Kingston) Ltd.

Per: _____


Robert G. Link, LIT



Estate/Court File No. 33-2929085

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

THE HONOURABLE
JUSTICE KERSHMAN

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WEDNESDAY, THE 19th
DAY OF APRIL, 2023

**IN THE MATTER OF *THE BANKRUPTCY AND INSOLVENCY ACT*
R.S.C., 1985, c. B-3, AS AMENDED**

**AND IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF LA SALLE MOTEL CO. (KINGSTON) LTD., A
CORPORATION INCORPORATED UNDER THE LAWS OF THE
PROVINCE OF ONTARIO**

ORDER

THIS MOTION, made by La Salle Motel Co. (Kingston) Ltd. (the "**Applicant**") for an order pursuant to the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**"), was heard this day by judicial videoconference via Zoom.

ON READING the Notice of Motion, the Affidavit of Gina Karkoulis, affirmed April 17, 2023, and the Exhibits thereto (the "**Karkoulis Affidavit**"), filed, the Affidavit of Sandra Noe, sworn April 17, 2023, and the Exhibits thereto (the "**Noe Affidavit**"), the First Report of Link & Associates Inc, in its capacity as Proposal Trustee (the "**Proposal Trustee**"), dated April 14, 2023 (the "**First Report**"), filed, and on reading the Applicant's cash-flow statement, appended to the First Report, and on being advised that the secured creditor of the Applicant who is likely to be affected by the charges created herein were given notice of the motion for this Order, and on hearing the submissions of counsel to the Applicant, counsel for the Proposal Trustee, counsel for the Bank of Montreal ("**BMO**"), and such other counsel that were present, no one appearing for any other party, although duly served as appears from the Affidavits of Service sworn April 17, 2023, both filed;

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion, the Motion Record and the First Report is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

EXTENSION OF TIME TO MAKE A PROPOSAL

2. **THIS COURT ORDERS** that the time within which to make a proposal pursuant to section 62(1) of the BIA and the corresponding stay of proceedings provided for in section 69 of the BIA, be and are hereby extended in accordance with section 50.4(9) of the BIA to and including June 19, 2023.

INCREASE COMPANY'S EXISTING CREDIT FACILITY

3. **THIS COURT ORDERS** that the Applicant is hereby authorized to execute and deliver to BMO such credit agreements and other documents as may be reasonably required by BMO to increase the amount of credit to be made available by BMO to the Applicant under its current revolving lending facility (the "**Increased Credit Availability**"), and the Applicant is hereby authorized and empowered to perform its obligations thereunder and to make the borrowings permitted thereunder from BMO, as lender, in order to finance the Applicant's working capital requirements (including those of its operating facilities), these proposal proceedings, and other general corporate purposes and capital expenditures, provided that borrowing under such credit facility shall not exceed \$450,000.00, unless permitted by further order of this Court.

4. **THIS COURT ORDERS** that the Increased Credit Availability shall be on the terms and conditions set forth in the Letter of Agreement – Amendment & Restatement dated June 18, 2020 made between the Applicant and BMO, as amended by the Letter of Agreement – Amendment ("**Letter of Agreement – Amendment**") attached to this Order as **Schedule "A"**, subject to such further amendments as may be agreed between the Applicant and BMO.

5. **THIS COURT ORDERS** that the Increased Credit Availability shall be secured under the security previously granted by the Applicant to BMO and that BMO shall also be entitled to the benefit of and is hereby granted a charge (the "**DIP Charge**") on the property and assets of the Applicant, which DIP Charge shall not exceed \$150,000, for all amounts advanced by it under the Increased Credit Availability, plus interest thereon. The DIP Charge shall have the priority set out in paragraph 9 of this Order and shall be enforceable against any trustee in bankruptcy of the Applicant or its property.

6. **THIS COURT ORDERS** that, unless agreed by BMO, BMO shall be treated as unaffected in any proposal filed by the Applicant, with respect to any advances made under the Increased Credit Availability.

ADMINISTRATION CHARGE

7. **THIS COURT ORDERS** that that the Proposal Trustee, the Proposal Trustee's counsel, and the Applicant's counsel, shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant as part of the costs of these proceedings, both before and after the making of this Order. The Applicant is hereby authorized to pay the accounts of the Proposal Trustee, the Proposal Trustee's counsel and the Applicant's counsel as accounts are rendered from time to time, provided that the accounts of the Proposal Trustee and the Proposal Trustee's counsel as paid are passed from time to time, and for this purpose the accounts are hereby referred to a judge of the Ontario Superior Court of Justice at Ottawa, Ontario.

8. **THIS COURT ORDERS** that the Proposal Trustee, the Proposal Trustee's counsel and the Applicant's counsel shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the current and future assets, undertakings and properties of the Applicant of every nature and kind whatsoever (including all real and personal property), and wherever situate including all proceeds thereof (collectively, the "**Property**"), which charge shall not exceed an aggregate amount of \$100,000.00, as security for their professional fees and disbursements incurred at their standard rates and charges, both before and after the making of this Order.

VALIDITY AND PRIORITY OF THE CHARGES CREATED BY THIS ORDER

9. **THIS COURT ORDERS** that the priorities of the Administration Charge, and the DIP Charge (collectively, the "**Charges**"), as among them, shall be as follows:

First - Administration Charge (up to the maximum amount of \$100,000.00); and

Second – DIP Charge (up to a maximum amount of \$150,000).

10. **THIS COURT ORDERS** that the filing, registration or perfection of the Charges shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

11. **THIS COURT ORDERS** that the Charges shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**"), in favour of any individual, firm, corporation, governmental body or agency, or any other entities notwithstanding the order of perfection or attachment.

12. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that ranks in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Proposal Trustee and the chargees entitled to the benefit of such Charges (collectively, the "**Chargees**"), or further Order of this Court.

13. **THIS COURT ORDERS** that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the Chargees thereunder shall not otherwise be limited or impaired in any way by: (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the

general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- a. neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Letter of Agreement – Amendment shall create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- b. none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicant entering into the Letter of Agreement – Amendment, the creation of the Charges, or the execution, delivery or performance of the Letter of Agreement - Amendment; and
- c. the payments made by the Applicant pursuant to this Order, the Letter of Agreement - Amendment, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

BOOKS, RECORDS AND PROPERTY OF THE COMPANY

14. **THIS COURT ORDERS** and hereby directs all of the Company's former directors, officers, current and former employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "**Persons**" and each being a "**Person**") to forthwith advise the Company of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Company, and any computer programs, computer tapes, computer disks, or other data storage

media containing any such information (the foregoing, collectively, the "Records") and/or Property in that Person's possession or control, and deliver said Records and/or Property to the Company. *within 10 days. ~~to~~*

APPROVAL OF FIRST REPORT

15. **THIS COURT ORDERS** that the First Report and the activities of the Proposal Trustee, as applicable, referred to therein, be and are hereby approved.

SERVICE AND NOTICE

16. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "Protocol") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website)¹ shall be valid and effective service. Subject to Rule 17.05, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended (the "Rules"). Subject to Rule 3.01(d) of the Rules and paragraph 13 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission.

17. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable (including, without limitation, due to COVID-19), the Applicant and the Proposal Trustee are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

¹See <https://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservicecommercial/>

18. **THIS COURT ORDERS** that the Applicant and the Proposal Trustee and each of their counsel are at liberty to serve or distribute this Order, any other materials and orders as may be reasonably required in these proceedings, including any notices, or other correspondence, by forwarding true copies thereof by electronic message to the Applicant's creditors or other interested parties and their advisors. For greater certainty, any such distribution or service shall be deemed to be in satisfaction of a legal or judicial obligation, and notice requirements within the meaning of clause 3(c) of the *Electronic Commerce Protection Regulations* (SOR/2013-221).

GENERAL

19. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada.

20. **THIS COURT ORDERS** that the Applicant or the Proposal Trustee may from time to time apply to this Court to amend, vary or supplement this Order or for advice and directions in the discharge of its powers and duties under this Order or in the interpretation or application of this Order. *within 7 days notice. 8*

21. **THIS COURT ORDERS** that nothing in this Order shall prevent the Proposal Trustee from acting as an interim receiver, receiver, receiver and manager, or trustee in bankruptcy of the Applicant or the Property.

22. **THIS COURT REQUESTS** the aid and recognition of any court, tribunal or any judicial, regulatory, or administrative body in any province or territory of Canada and the Federal Court of Canada and any judicial, regulatory, or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province and any court or any judicial, regulatory or administrative body of the United States and the states of other subdivisions of the United States and of any other nation or state to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

23. **THIS COURT ORDERS** that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Applicant, the Proposal Trustee, BMO and any other party or parties likely to be affected by the Order sought or upon such other notice as this Court may order.

24. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. (Eastern Time) on the date of this Order without the need for entry or filing.



Kershman J.

**THE HONOURABLE JUSTICE
STANLEY J. KERSHMAN**

IN THE MATTER OF *THE BANKRUPTCY AND INSOLVENCY ACT* R.S.C., 1985, c. B-3, AS AMENDED
AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF LA SALLE MOTEL CO. (KINGSTON)
LTD., A CORPORATION INCORPORATED UNDER THE LAWS OF THE PROVINCE OF ONTARIO

ONTARIO

**SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

Proceeding commenced at Ottawa

ORDER

BORDEN LADNER GERYAIS LLP
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Ottawa ON K1P 1J9

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Lawyers for the Applicant / Moving Party

IN THE MATTER OF THE PROPOSAL OF LA SALLE MOTEL CO. (KINGSTON) LTD.
OF THE CITY OF KINGSTON, IN THE PROVINCE OF ONTARIO
STATEMENT OF PROJECTED CASHFLOW

District of: Ontario
Division No. 11 - Kingston
Court No.: 33-2929085
Estate No.: 33-2929085

13 Week Cash Flow Forecast
April 3 to July 7, 2023

	7-Apr-23 Actual	14-Apr-23 Forecast	21-Apr-23 Forecast	28-Apr-23 Forecast	5-May-23 Forecast	12-May-23 Forecast	19-May-23 Forecast	26-May-23 Forecast	2-Jun-23 Forecast	9-Jun-23 Forecast	16-Jun-23 Forecast	23-Jun-23 Forecast	30-Jun-23 Forecast	7-Jul-23 Forecast	TOTAL
Opening Cash Balance (Overdraft)	(269,074)	(221,650)	(256,434)	(234,834)	(295,384)	(289,682)	(320,561)	(293,527)	(302,286)	(289,086)	(316,442)	(289,700)	(305,650)	(350,915)	(269,074)
Receipts															
Accommodations															
Hotel Rooms (Note 1)	15,570	22,400	22,400	22,400	25,400	26,600	26,600	26,600	29,800	37,800	37,800	37,800	37,800	49,000	417,970
Motel Rooms (Note 1)	2,159	3,500	3,500	3,500	4,000	4,200	4,200	4,200	3,600	2,100	2,100	2,100	2,100	3,500	44,759
Conference Rooms	1,820	300	300	300	300	300	300	300	300	300	300	300	300	300	5,720
Food & Beverage															
Food (Note 2)	33,202	25,200	25,200	25,200	25,700	25,900	25,900	25,900	25,900	25,900	25,900	25,900	25,900	25,200	366,902
Liquor	2,380	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	29,680
Other Receipts	631	786	786	786	891	933	933	933	1,011	1,206	1,206	1,206	1,206	1,584	14,098
HST collected (Note 3)	7,016	6,955	6,955	6,955	7,475	7,683	7,683	7,683	8,021	8,866	8,866	8,866	8,866	10,413	112,303
Total Receipts	62,777	61,241	61,241	61,241	65,866	67,716	67,716	67,716	70,732	78,272	78,272	78,272	78,272	92,097	991,431
Disbursements															
Purchases															
Food (Note 4)	9,487	8,820	8,820	8,820	8,995	9,065	9,065	9,065	9,065	9,065	9,065	9,065	9,065	8,820	126,282
Liquor	0	735	735	735	735	735	735	735	735	735	735	735	735	735	9,555
Operating Expenses															
Cleaning & Supplies	0	3,000	4,000	3,000	3,000	3,000	4,000	3,000	3,000	3,000	4,000	3,000	3,000	3,000	42,000
Commission	0	0	0	0	5,350	0	0	0	0	7,068	0	0	0	9,720	22,138
Insurance	0	0	0	0	0	0	0	0	0	0	0	23,151	0	0	23,151
Office Expenses	345	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	13,345
Repairs & Maintenance (Note 5)	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	65,000
Royalty Fees	0	0	0	0	8,917	0	0	0	11,780	0	0	0	0	16,200	36,897
Utilities & Communications	0	0	1,000	18,000	0	7,500	1,000	3,500	14,500	7,500	1,000	0	0	7,500	79,500
Property Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	55,000
Employee Expenses															
Wages - Hotel	540	21,900	0	21,000	0	22,200	0	24,700	0	25,300	0	25,300	0	31,000	171,940
Wages - Restaurant (Note 6)	0	37,000	0	28,900	0	23,800	0	26,300	0	23,800	0	23,800	0	26,300	189,900
Management	0	1,100	0	2,200	0	2,200	0	2,200	0	2,200	0	2,200	0	2,200	14,300
EHT/WSIB/Manulife/Other	0	0	0	0	0	0	1,700	0	0	0	1,700	0	0	0	3,400
Proposal Trustee	0	15,000	15,000	0	10,000	0	10,000	0	5,000	0	5,000	0	0	0	75,000
Legal-Proposal Trustee (Note 7)	0	0	0	0	5,000	0	5,000	0	5,000	0	0	0	0	0	20,000
Legal-Company (Note 7)	0	0	0	0	0	20,000	0	0	0	0	20,000	0	0	0	40,000
Accounting	0	0	1,200	0	0	0	400	0	0	0	0	0	0	0	2,000
BMO Demand Loans Payments	0	0	0	3,176	0	0	0	0	3,176	0	0	0	0	0	9,529
Bank Fees, Interest & MasterCard	4,981	0	0	27,750	4,623	0	0	0	3,875	5,232	0	0	0	5,844	56,055
HST on Expenses (Note 3)	0	2,470	2,886	2,210	4,325	4,095	2,782	975	3,055	3,945	4,030	572	4,810	4,865	41,020
Tax Remittances (Note 3)	0	0	0	0	3,220	0	0	0	4,128	0	0	0	0	70,901	78,249
Total Disbursements	15,353	96,025	39,641	121,791	60,164	98,595	40,682	76,475	57,534	105,625	51,530	94,223	123,536	193,085	1,117,260
Closing Cash Balance (Overdraft)	(221,650)	(256,434)	(234,834)	(295,384)	(289,682)	(320,561)	(293,527)	(302,286)	(289,086)	(316,442)	(289,700)	(305,650)	(350,915)	(451,902)	(451,902)
Available Credit Facility	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Surplus (Shortfall) (Note 8)	78,350	43,566	65,166	4,616	10,318	(20,561)	6,473	(2,286)	10,912	(16,442)	10,300	(5,650)	(50,915)	(151,902)	

LA SALLE MOTEL CO. (KINGSTON) LTD.
Per: John Karkoulis
April 12, 2023

LINK & ASSOCIATES INC.
Proposal Trustee
April 12, 2023

District of Ontario
Division No. 11 - Kingston
Court No.: 33-2929085
Estate No.:33-2929085

**IN THE MATTER OF THE PROPOSAL OF
LA SALLE MOTEL CO. (KINGSTON) LTD.
OF THE CITY OF KINGSTON, IN THE PROVINCE OF ONTARIO**

NOTES TO STATEMENT OF PROJECTED CASH FLOW

The purpose of this cash flow projection is to provide the creditors with sufficient information to make an informed decision about the proposal and to fully disclose to the Trustee and Official Receiver the state of our financial affairs.

This cash flow has been prepared pursuant to the requirements of Sections 50.4(2)(a) and 50(6)(a) of the Bankruptcy and Insolvency Act ("BIA") and for no other purpose. Use of this information for any other purposes may not be appropriate.

ASSUMPTIONS

This cash flow projection assumes that:

- A. The Company will be able to avail itself of increased credit facilities from its existing bank to cover any forecasted cash flow shortfalls such that hotel and restaurant operations, taxes, and the cost of the Proposal process are all adequately funded.
- B. The Company will not declare or pay any dividends to any shareholders during the cash flow period.
- C. There will be no new COVID-19 outbreaks or other similar events that would negatively impact the revenue of both the hotel accommodation and restaurant business.
- D. The current economic climate remains essentially the same and no recession occurs during the cash flow period.
- E. The Company will introduce and implement budgeting and cost control procedures and written and measurable policies regarding daily operations.
- F. The Company will need to pay COD for most food, materials and supplies for the cash flow period.
- G. Expenses are consistent with the first half of the fiscal year with the exception of categories where exceptional expenses have been identified for further review.
- H. It is assumed that the Property will not require major repairs during the cash flow period in excess of the weekly budgeted amount, even though portions of the Property are in a state of significant disrepair.

- I. The claims of creditors will be dealt with in the Proposal to be filed on or before May 3, 2023, subject to any extensions which may be sought by the Company and granted by the Court.
- J. The following numbered Notes correspond to the numbering on the attached Statement of Projected Cash Flow:

NOTES

1. Projected revenues for the hotel and motel for the cash flow period are based on April through July 2022 revenue, adjusted downward by 10%. The reasons for the downward adjustments are as follows:
 - a. COVID-19 flare-ups are unpredictable and can affect revenues in the leisure sector, including both accommodation and food services.
 - b. Leading economists are predicting a mild recession in 2023.
 - c. There are at least three motels/hotels in the vicinity of the Property that opened in the last few years, which are modern in style and in better condition than the Property.
 - d. A large percentage of the Property's business is walk-in or short notice rental, making it difficult to predict accommodation revenue reliably, even two weeks in advance.

As an example, if a recession or other extenuating circumstance should occur, and if those events cause the revenues to be 20% lower than 2022, we calculate that funding needs could increase by \$45,000-50,000 for the 13-week period.

A direct comparison for January through March 2023 versus 2022 is not considered a reliable indicator for current year sales trends due to the COVID-19 lockdown which took effect on January 4, 2022 and lasted until the end of the month.

2. Projected revenues for the restaurant are 20% lower than the comparable period last year, due to the following:
 - a. The Company is discontinuing the evening dinner service due to low customer volume and high staffing levels. An analysis of the previous ten weeks determined that this time period accounts for only 28% of total restaurant revenue while breakfast and lunch account for 72%.
 - b. The Company implemented a 10% increase in pricing on the menu (subject to peer comparison) which should result in mitigating some of the lost revenue.
3. HST is collected in trust for the Receiver General. These funds do not belong to the Company and are tracked separately to ensure that they are remitted (net of input tax credits) immediately following the quarter end. At the time of filing of the NOI, the Company owed approximately \$69,600 of HST for the quarter ending December 31, 2022. Another \$72,700 is estimated to be owed for the quarter ending March 31, 2023, resulting in a total HST liability of approximately \$142,000 which is currently stayed by the NOI.

4. Many food suppliers now require the Company to purchase on a COD basis as a result of unpaid overdue accounts. Unpaid food suppliers were owed an aggregate of approximately \$143,000 at the date of filing of the NOI. Food purchases are projected as a percentage of revenue.
5. The profit and loss statement for July 1 to December 31, 2022 shows repair and maintenance expense of \$234,598. It appears the majority of this expense was for oil tank remediation work on the Property during the year in preparation for the anticipated closing of the sale of the Property. The Property requires both short-term and long-term investment to adequately maintain. We have budgeted \$5,000 weekly to account for potential issues during the cash flow period.
6. Wages will be reduced as the dinner menu is phased out.
7. Fee estimates include amounts for work performed to date and forecasted costs for a scheduled April 2023 Court appearance, and other customary Proposal related activities during the cash flow period. Unanticipated events may increase professional costs.
8. The Company is expected to require funding in excess of its current authorized \$300,000 operating loan with Bank of Montreal. We project the maximum required to be in the range of \$150,000 closer to the end of the cash flow period due to property tax, insurance and HST payments due at that time. The Company is seeking additional operating credit from the Bank of Montreal in line with the cash flow projection.

IN THE MATTER OF THE PROPOSAL OF LA SALLE MOTEL CO. (KINGSTON) LTD.
OF THE CITY OF KINGSTON, IN THE PROVINCE OF ONTARIO
CASHFLOW VARIANCE REPORT - 8 WEEKS ENDED JUNE 2, 2023

	8 Weeks Ended June 2, 2023		
	Actual	Forecast	Variance
Opening Cash Balance	(223,097)	(221,650)	(1,448)
Bank Funding			
Receipts			
Accommodations (Note 1)			
Hotel Rooms	181,777	202,200	(20,423)
Motel Rooms	17,664	30,700	(13,037)
Conference Rooms	16,934	2,400	14,534
Food & Beverage			
Food (Note 2)	245,870	204,900	40,970
Liquor	17,807	16,800	1,007
Other Receipts	7,767	7,059	708
HST collected (Note 3)	64,398	59,410	4,988
Total Receipts	552,216	523,469	28,747
Disbursements			
Purchases			
Food (Note 2)	85,180	71,715	13,465
Liquor	4,293	5,880	(1,587)
Operating Expenses			
Cleaning & Supplies	5,773	26,000	(20,227)
Commission	5,218	5,350	(132)
Insurance	1,323	0	1,323
Office Expenses	4,754	8,000	(3,246)
Repairs & Maintenance (Note 4)	4,190	40,000	(35,810)
Royalty Fees	5,367	8,917	(3,550)
Utilities & Communications (Note 5)	65,651	45,500	20,151
Property Taxes	0	0	0
Employee Expenses (Note 6)			
Wages - Hotel	78,633	89,800	(11,167)
Wages - Restaurant	131,967	116,000	15,967
Management	10,358	7,700	2,658
EHT/WSIB/Manulife/Other	1,668	1,700	(32)
Proposal Trustee (Note 7)	58,673	55,000	3,673
Legal-Proposal Trustee (Note 7)	11,520	15,000	(3,480)
Legal-Company (Note 7)	34,048	20,000	14,048
Accounting	0	1,600	(1,600)
BMO Demand Loan Payments	6,353	6,353	0
Bank Fees, Interest & MasterCard	47,877	41,480	6,397
HST on Expenses (Note 3)	17,905	22,798	(4,893)
Tax Remittances (Note 3)	3,232	7,348	(4,116)
Total Disbursements	583,983	596,140	(12,157)
Closing Cash Balance	(254,863)	(294,320)	39,457

Notes to Cash Flow Variance Report (8 Weeks)

Note 1 – Accommodations

Hotel and Motel revenues are \$33,460 less than projected but are partially offset by \$14,534 positive variance in conference room revenue. In the original Cash Flow Projection, accommodation revenues were projected to decrease by 10% from 2022 levels, however the actual results for the months of April and May 2023 versus the same two months in 2022 show a decrease higher than 10% as shown below.

April			May		
2023	2022	Change	2023	2022	Change
68,855	106,080	(35.1%)	115,721	130,666	(11.4%)
17,648	17,941	(1.6%)	4,832	19,940	(75.8%)
\$ 86,503	\$ 124,021	(30.3%)	\$ 120,553	\$ 150,605	(20.0%)

Note 2- Food and Beverage

Food and beverage sales are \$41,977 higher than projected as a result of maintaining evening dinner service on Friday and Saturday evenings, instead of discontinuing dinner service altogether. This has also resulted in higher than projected food costs (\$13,465).

Note 3 – HST and Taxes

The Company files its HST returns quarterly. No remittances were required since the NOI Date during the cash flow period. The next HST reporting period ends June 30, 2023, and the net HST for the quarter will be due on July 31, 2023. The Company pays Municipal Accommodation Tax monthly.

Note 4 – Repairs and Maintenance

Positive variance of \$35,810. The Company budgets \$5,000 per week for Repairs and Maintenance given the age of the building and its overall condition. Only minor repairs were required during the first eight (8) weeks under the NOI.

Note 5 – Utilities and Communications

Negative variance of \$20,151, due to the higher-than-expected security deposits totaling of \$47,286 (Enbridge \$9,995; Hydro One \$28,778; Utilities Kingston \$8,513).

Note 6 – Employee Expenses

Restaurant wages are \$15,697 higher than projected due to maintaining Friday and Saturday dinner service. Hotel wages are \$11,157 less than projected due to a vacation pay adjustment.

Note 7 - Professional fees

Proposal Trustee fees and its legal fees have largely been paid in accordance with the cashflow projections. Company legal fees were \$14,048 higher than budgeted to be paid in the period.

IN THE MATTER OF THE PROPOSAL OF LASALLE MOTEL CO. (KINGSTON) LTD.
OF THE CITY OF KINGSTON, IN THE PROVINCE OF ONTARIO
STATEMENT OF PROJECTED CASHFLOW

District of: Ontario
Division No. 11 - Kingston
Court No.: 33-2929085
Estate No.: 33-2929085

**13 Week Cash Flow Forecast
June 3 to September 1, 2023**

	Week 1 9-Jun-23 Actual	Week 2 16-Jun-23 Forecast	Week 3 23-Jun-23 Forecast	Week 4 30-Jun-23 Forecast	Week 5 7-Jul-23 Forecast	Week 6 14-Jul-23 Forecast	Week 7 21-Jul-23 Forecast	Week 8 28-Jul-23 Forecast	Week 9 4-Aug-23 Forecast	Week 10 11-Aug-23 Forecast	Week 11 18-Aug-23 Forecast	Week 12 25-Aug-23 Forecast	Week 13 1-Sep-23 Forecast	TOTAL
Opening Cash Balance	(254,863)	(261,236)	(243,360)	(277,602)	(361,529)	(370,734)	(319,754)	(327,177)	(408,543)	(418,214)	(385,400)	(411,744)	(350,443)	(254,863)
Receipts														
Accommodations (Note 1)														
Hotel Rooms	31,315	35,700	35,700	35,700	46,200	46,200	46,200	46,200	44,768	42,700	42,700	42,700	41,999	538,082
Motel Rooms	572	700	700	700	700	700	700	700	700	700	700	700	700	8,972
Conference Rooms	1,525	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	13,525
Food & Beverage														
Food (Note 2)	23,082	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,350	28,000	28,000	28,000	28,133	364,465
Liquor	1,670	2,800	2,800	2,800	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,269	29,138
Other Receipts	1,308	1,496	1,496	1,496	1,916	1,916	1,916	1,916	1,859	1,776	1,776	1,776	1,748	22,395
HST collected (Note 3)	8,551	8,957	8,957	8,957	10,231	10,231	10,231	10,231	9,999	9,685	9,685	9,685	9,633	125,034
Total Receipts	68,023	79,353	79,353	79,353	90,847	90,847	90,847	90,847	88,776	85,961	85,961	85,961	85,482	1,101,611
Disbursements														
Purchases														
Food (Note 2)	10,705	10,045	10,045	10,045	10,045	10,045	10,045	10,045	9,922	9,800	9,800	9,800	9,847	130,189
Liquor	2,148	980	980	980	735	735	735	735	735	735	735	735	794	11,762
Operating Expenses														
Cleaning & Supplies	0	4,000	3,000	3,000	3,000	3,000	4,000	3,000	3,000	3,000	4,000	3,000	3,000	39,000
Commission	0	0	7,448	0	0	0	8,542	0	0	0	12,726	0	0	28,716
Insurance	0	0	23,151	0	0	0	0	0	0	0	0	0	0	23,151
Office Expenses	108	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,108
Repairs & Maintenance (Note 4)	1,156	10,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	66,156
Royalty Fees	0	9,462	0	0	0	14,236	0	0	0	21,210	0	0	0	44,908
Utilities & Communications	2,842	12,072	0	18,000	7,500	1,000	0	18,000	0	7,500	1,000	3,500	14,500	85,914
Property Taxes	0	0	0	56,959	0	0	0	0	0	0	0	0	0	56,959
Employee Expenses														
Wages - Hotel	22,095	718	25,400	0	31,100	0	28,600	0	28,600	0	30,000	0	27,500	194,014
Wages - Restaurant	26,555	1,272	28,900	0	31,400	0	28,900	0	28,900	0	31,400	0	28,900	206,227
Management	2,590	0	2,600	0	2,600	0	2,600	0	2,600	0	2,600	0	2,600	18,190
EHT/WSIB/Manulife/Other	639	1,700	0	500	0	1,700	0	500	0	0	1,700	0	500	7,239
Proposal Trustee (Note 5)	0	0	0	24,295	0	0	0	20,000	0	0	0	0	20,000	64,295
Legal-Proposal Trustee (Note 5)	0	0	3,080	0	0	0	0	7,500	0	0	0	0	7,500	18,080
Legal-Company (Note 5)	0	0	0	25,000	0	0	0	25,000	0	0	0	0	25,000	75,000
Accounting	0	1,305	400	0	0	0	400	0	0	0	400	0	0	2,505
BMO Demand Loan Payments	0	0	0	3,176	0	0	0	0	3,176	0	0	0	3,176	9,529
Bank Fees, Interest & MasterCard (Note 6)	24	0	0	6,056	5,527	0	0	0	14,343	0	0	0	14,153	40,103
HST on Expenses (Note 4)	5,532	4,995	2,591	9,268	2,145	3,151	2,462	9,685	1,170	4,902	3,136	1,625	9,230	59,893
Tax Remittances (Note 4)	0	4,928	0	0	0	0	5,986	71,748	0	0	8,808	0	0	91,470
Total Disbursements	74,396	61,477	113,595	163,280	100,052	39,867	98,270	172,213	98,447	53,147	112,305	24,660	172,700	1,284,408
Closing Cash Balance (Overdraft)	(261,236)	(243,360)	(277,602)	(361,529)	(370,734)	(319,754)	(327,177)	(408,543)	(418,214)	(385,400)	(411,744)	(350,443)	(437,660)	(437,660)
Available Credit Facility	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	
Surplus (Shortfall) (Note 6)	188,764	206,640	172,398	88,471	79,266	130,246	122,823	41,457	31,786	64,600	38,256	99,557	12,340	

Notes and Assumptions for Second Cash Flow Projection

Note 1 - Accommodations

Hotel revenues are projected to be 15% below the comparable periods last year. The original Cashflow Projection assumed 10%, but April and May 2023 results indicate that a larger reduction is in order. Hotel revenue is heavily dependent on both group bookings (such as sports teams or bus tours) and walk-in business. Motel revenues are projected to be 75% below the comparable period last year due to the Company no longer participating in immigrants' accommodation programs.

Note 2 – Food and Beverage

Food and Beverage revenue is projected to be approximately 12% lower than last year. This is less than the original Cash Flow Projections due to continuing evening dinner service on Friday and Saturday nights. All major food suppliers now require the Company to purchase on a COD basis as a result of unpaid overdue accounts as at the NOI Date. Food purchases are projected to be 35% of revenue.

Note 3 – HST and Taxes

HST is collected in trust for the Receiver General and remitted quarterly net of input tax credits. remittances include HST that is payable quarterly and Municipal Accommodation Tax that is payable monthly.

Note 4 – Repairs and Maintenance

Repairs and Maintenance are projected at \$5,000 per week. Most repairs are minor, but the projection amount also provides for major repairs that may arise. The Proposal Trustee is aware that the kitchen restaurant fire suppression system needs to be upgraded at a cost in the \$20,000-30,000 range.

Note 5 – Professional Fees

Professional fee estimates include work performed in May that will be paid in June, along with forecasted costs for a Court appearance in June, implementation of a SISF, and ongoing monitoring

by and assistance from the Proposal Trustee. Unanticipated events may increase professional costs.

Note 6 – Bank Fees and Interest

The interest rate on the BMO Operating Loan has been increased from prime + 2.5% to prime + 5.5% at the time of the DIP Facility being made available.

**IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF LA SALLE MOTEL CO. (KINGSTON) LTD.
OF THE CITY OF KINGSTON, IN THE PROVINCE OF ONTARIO**

Court/Estate File No. 33-2929085

PROCEEDING COMMENCED AT
OTTAWA

**SECOND REPORT OF LINK & ASSOCIATES INC.
in its capacity as Proposal Trustee**

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