

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**

TRUSTEE'S PRELIMINARY REPORT TO THE CREDITORS

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 ("**BIA**") on April 3, 2023 (the "**NOI Date**") and Link & Associates Inc. consented to act as the Trustee under the Proposal (the "**Proposal Trustee**").

Since the NOI Date, the Proposal Trustee has filed three (3) Reports to Court (the "**Court Reports**"), as follows:

- First Court Report dated April 14, 2023
- Second Court Report dated June 12, 2023
- Third Court Report dated September 18, 2023

Each of the above Court Reports and all related file documents are available on the Proposal Trustee's website at www.linkassociates.ca under Files in Progress/La Salle Motel Co. (Kingston) Ltd.

Since the NOI Date, the Company has obtained four (4) extensions of time under the BIA to file a proposal. On September 29, 2023, the Company filed its proposal (the "**Proposal**") with the Office of the Superintendent of Bankruptcy (the "**OSB**").

On September 27, 2023, the Ontario Superior Court of Justice, in Bankruptcy and Insolvency (the "**Court**") made an Order (the "**Approval and Vesting Order**") authorizing the sale of the Company's real property and business assets as set out herein.

PURPOSE OF THIS REPORT

The Trustee's Preliminary Report to the Creditors (the "**Preliminary Report**") provides the creditors with the following information:

- Company background;
- Causes of financial difficulties;
- Sales Process and Court-Approved Sale;
- Summary of the Proposal; and
- Proposal Trustee's recommendation

BACKGROUND

The Company owns and operates a full-service hotel under a Travelodge franchise and license agreement, along with separate (non-Travelodge) motel facilities and a restaurant known as the Cavalier Room (collectively the "**Business**").

The Business operates from real property owned by the Company, located at 2360 Princess Street in Kingston, Ontario (the "**La Salle Property**").

The Company is owned in equal 1/3 shares by brothers Peter Karkoulis ("**Peter Sr.**"), John Karkoulis ("**John**"), and the estate of their late brother George Karkoulis ("**George**") (collectively the "**Shareholders**").

The Shareholders have owned and operated the Business since the late 1960's. John and Peter Sr. are the directors (the "**Directors**") of the Company.

On December 14, 2021 the Company entered into an agreement of purchase and sale to sell the La Salle Property and the Business as a going concern (the "**APS**"). The APS was scheduled to close on August 10, 2022.

Litigation brought against the Company and its Directors on August 5, 2022 by Peter Karkoulis Jr. ("**Peter Jr.**") resulted in a Certificate of Pending Litigation ("**CPL**") being registered on title to the La Salle Property, which prevented the closing of the APS.

The Company and its Directors are named defendants in four lawsuits commenced as at the NOI Date, as follows:

- i) CV-22-00000223 commenced on August 5, 2022, by Peter Jr. against the Company and the Directors, wherein Peter Jr. obtained leave to register a CPL on title to the La Salle Property, as noted above;
- ii) CV-23-00000044 commenced on February 15, 2023 by 1000073686 Ontario Inc. and its principal Hao Chen against Peter Jr., the Company and the Directors for, *inter alia*, specific performance of the APS as noted above;
- iii) CV-23-00000080 commenced on March 21, 2023 by Andrea Karkoulis (widow of George) by her litigation guardian Valerie Demitt, against the Company and the Directors, seeking damages and various declaratory relief under section 248 of the *Ontario Business Corporations Act* including *inter alia* interim dividend payments; and
- iv) CV-23-00000090 commenced March 28, 2023 by Peter Jr. against the Company and the Directors, claiming damages for wrongful dismissal arising out of his termination by the Company on March 15, 2023.

FINANCIAL DIFFICULTIES AND NOI FILING

The Business began to encounter cash flow problems and became unable to meet its obligations generally as they came due in or about December, 2022. It had fallen significantly past due with its suppliers, had a cheque issued to a major food supplier returned NSF, and had received notices of disconnection from utility companies for non-payment.

Two of the Shareholders advanced additional funds to the Company between December 2022 and March, 2023. The Company suspended payment of dividends to all of its Shareholders in or around January, 2023.

The Company did not make its quarterly HST remittances for the periods of October 1 – December 31, 2022, and January 1 to March 31, 2023, and is in arrears of HST for approximately \$135,000 as at the NOI Date.

In view of the foregoing cash flow difficulties and litigation, the Company filed an NOI on April 3, 2023.

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.

SALE AND INVESTMENT SOLICITATION PROCESS

On June 23, 2023, the Court made an Order (the **"SISP Order"**) which authorized the Company to engage Avison Young Commercial Real Estate Services, LP (the **"SISP Advisor"**) to conduct a Sale and Investment Solicitation Process (the **"SISP"**) to allow the La Salle Property and Business to be listed for sale and for a bidding process to be implemented. The listing price was established at \$9.75 million.

The SISP culminated in an Agreement of Purchase and Sale for the La Salle Property and Business (the **"SISP APS"**) between the Company and the successful bidder (the **"Buyer"**) which was finalized and executed on September 18, 2023.

On September 27, 2023, the Court approved the SISP APS and issued an Approval and Vesting Order for same. The sale pursuant to the SISP APS (the **"Transaction"**) is scheduled to close on or before November 27, 2023 (the **"Closing Date"**).

While certain of the specific terms of the SISP APS and the Transaction, including the purchase price, are subject to an Order which seals that information, the Buyer intends to continue operating the Business and will be offering employment to all of the Company's employees (excluding Shareholders or their relatives) as at the Closing Date.

It is from the net proceeds of the Transaction that the Company is able to make its Proposal to its Unsecured Creditors.

GENERAL INTENT

The Company's intent is to close the Transaction on the Closing Date and to dedicate a portion of the after-tax net proceeds (i.e. purchase price less secured debt owed to Bank of Montreal, commissions and closing costs and an estimate for income tax on the sale) to fund the Proposal

to the Company's Ordinary Unsecured Creditors and to settle all claims against the Company and its Directors.

SUMMARY OF ASSETS AND LIABILITIES

On the Company's Statement of Affairs which was filed with the Proposal, a copy of which was sent to all Unsecured Creditors, the Company lists assets of \$9.795 million, which consists primarily of the La Salle Property, and all of the related hotel and restaurant equipment and furnishings used in the operation of the Business.

The Company lists liabilities of approximately \$10.4 million, which are comprised of:

- i) Bank of Montreal ("**BMO**") is the Company's Secured Creditor for operating, term loan and credit card facilities. BMO was owed approximately \$800,000 as at the NOI Date. The Company obtained a \$150,000 debtor in possession facility from BMO (the "**DIP Loan**") to increase its operating loan during the NOI, to accommodate its cash flow requirements. The amount of the BMO secured debt may be higher or lower than \$800,000 as at the Closing Date;
- ii) Unsecured Creditors (including trade creditors, utility companies, food suppliers, HST and shareholder loans) total approximately \$736,000;
- iii) Contingent Claims are in excess of \$8.85 million based upon the damages claimed in lawsuits filed against the Company and its Directors (and one other defendant in one of the lawsuits).

THE PROPOSAL

On September 29, 2023 the Company filed its Proposal with the OSB. The Proposal offers payment of 100 cents on the dollar to each of the Ordinary Unsecured Creditors, to a maximum of \$200,000 for each proven Claim.

As noted previously in this Report, the Company is a defendant in four (4) lawsuits, all of which are currently stayed and subject to the Proposal proceedings. The three (3) plaintiffs in those lawsuits are classified as Contingent Creditors. A Contingent Creditor may become an Ordinary Unsecured Creditor if it files a proof of claim and is determined by the Trustee, or the Court, to have a Claim which is that of an Ordinary Unsecured Creditor.

The Proposal is not being made to BMO, the Secured Creditor. The secured indebtedness owed to BMO will be repaid on the Closing Date of the Transaction.

Any and all payments made by the Proposal Trustee to the Ordinary Unsecured Creditors under the Proposal shall be paid net of levy payable under Section 147 of the BIA.

The terms "Ordinary Unsecured Creditors" and "Claim" are defined in the Proposal.

PROJECTED DISTRIBUTION

In the event that all known unsecured creditors file proofs of claim for amounts set out in the Statement of Affairs, and if all such claims are determined to be proven Ordinary Unsecured Claims, the amount to be distributed is \$736,364.32.

In the further event that all Contingent Creditors file proofs of claim, and if all are determined to be provable Claims of an Ordinary Unsecured Creditor, the Proposal provides for up to \$200,000 per Claim, or a total of \$600,000, to be distributed.

Therefore, in total, it is anticipated that up to \$1,336,364.32 will be available for distribution pursuant to the Proposal (subject to levy).

MEETING OF CREDITORS

A meeting of creditors (the "**Meeting**") will be held on October 19, 2023 at 11:00 a.m. at the Travelodge La Salle Kingston, 2360 Princess Street, Kingston, Ontario, K7M 3G4, to consider the Proposal.

Creditors must file a properly completed proof of claim with the Proposal Trustee prior to the commencement of the Meeting to be eligible to vote at the Meeting. Creditors may vote in person, or by voting letter submitted to the Proposal Trustee prior to the commencement of the vote on the Proposal.

A Proof of Claim, Proxy, and Voting Letter were all included in the creditor package mailed to the creditors on October 3, 2023. All of the forms are also available on the Trustee's website www.linkassociates.ca under Files in Progress/La Salle Motel Co. (Kingston) Ltd.

Voting Procedures

Voting at the Meeting, except for the vote on the Proposal itself, is by ordinary resolution. Ordinary resolution means that each dollar of every proven Unsecured Claim present in person or by proxy counts for one vote.

The threshold of the vote for approval of the Proposal requires a majority in the number of proven Ordinary Unsecured Creditors present in person or by proxy holding at least two-thirds dollar value of the proven Unsecured Claims.

Amendments and Adjournments

The BIA provides that amendments may be made to a Proposal at the Meeting. It also provides for Meetings to be adjourned from time to time.

PROPOSAL VS. BANKRUPTCY

The Company filed the NOI and sought a Court-approved sales process so that it would be in a position to continue operating the Business while it monetized its assets to make its Proposal to settle all claims and liabilities. The Company achieved a sale of the La Salle Property and Business which will provide continued employment for its employees (except Shareholders and their family members), while providing the best possible result for all of the stakeholders in the circumstances.

If the Proposal is not accepted at the Meeting, or not subsequently approved by the Court, the Company will be deemed to have filed an assignment in bankruptcy.

Upon bankruptcy, all contracts of employment are terminated, and if a bankruptcy occurs prior to the Closing Date, it is likely that the Business could cease operating for an undetermined period of time. The negative impact of a bankruptcy on the Business could include the disruption of the pending Transaction and availability of proceeds to carry out the Proposal, which could be detrimental to all stakeholders. A bankruptcy may also serve to potentially delay any distribution to the Unsecured Creditors for an unknown length of time.

The Proposal provides certainty. The Proposal offers 100 cents on the dollar to all proven Ordinary Unsecured Creditors up to a maximum of \$200,000 per Claim. This applies to any

Contingent Creditors which are ultimately determined by the Trustee or the Court to have a Claim which is that of a proven Ordinary Unsecured Creditor.

In a bankruptcy, all Ordinary Unsecured Creditors share pro-rata in the net amount available for distribution.

PROPOSAL TRUSTEE'S INVESTIGATION AND FINDINGS

Following a preliminary review of the financial records of the Company, the Proposal Trustee has satisfied itself, on a preliminary basis, that there are no transactions, sales of assets, or causes of action that the could be challenged as reviewable, or preferences that would benefit the estate.

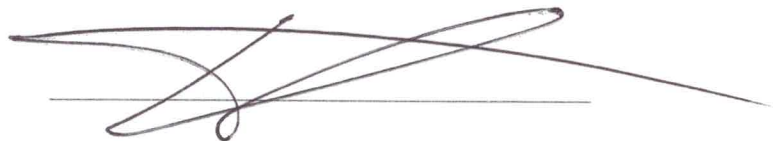
RECOMMENDATION OF THE PROPOSAL TRUSTEE

The Proposal Trustee recommends acceptance of the Proposal. If a bankruptcy were to occur as a result of the Proposal not being accepted at the meeting of creditors, the negative impact on the Business could be detrimental to the pending closing of the Transaction and disrupt the availability of proceeds to carry out the Proposal and potentially cause delay in any creditor distribution.

DATED at Woodbridge, Ontario this 6th day of October, 2023.

LINK & ASSOCIATES INC.

Licensed Insolvency Trustee in re Proposal of
La Salle Motel Co. (Kingston) Ltd.

A handwritten signature in dark ink, consisting of a series of loops and a long horizontal stroke extending to the right, positioned over a horizontal line.