Court File. No.:

ONTARIO

SUPERIOR COURT OF JUSTICE

(COMMERCIAL LIST)

BETWEEN:

PACE SAVINGS & CREDIT UNION LIMITED

Applicant

-and-

692536 ONTARIO LIMITED

Respondent

PROPOSED RECEIVER'S REPORT TO THE COURT

September 23, 2019

GrantThornton

Grant Thornton Limited

200 King Street West, 11th Floor

Toronto, Ontario

M5H 3T4

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INTRODUCTION

1. This proposed receiver's report to the Court (the "**Proposed Receiver's Report**") is filed by Grant Thornton Limited as the proposed receiver (the "**Proposed Receiver**") of 692536 Ontario Limited ("**Applefest**" or the "**Company**"). The Company operates a retirement home known as Applefest Lodge Retirement Residence located at 120 Elizabeth Street, Brighton, Ontario.

2. This Proposed Receiver's Report is filed in connection with an application made to the Ontario Superior Court of Justice (Commercial List) (the "**Court**") by Pace Savings & Credit Union Limited ("**Pace**") seeking an order pursuant to the *Bankruptcy and Insolvency Act (Canada)* ("**BIA**") and Section 101 of the *Courts of Justice Act (Ontario)* appointing the Proposed Receiver as receiver and receiver manager (the "**Receiver**") over all of the assets, property and undertakings of Applefest (the "**Receivership Order**"), substantially in the form included in the Pace application record.

3. Grant Thornton Limited is a licensed trustee within the meaning of section 2 of the BIA and has consented to act as Receiver in these proceedings, should this Court grant the relief sought by Pace.

4. Prior to preparing this Proposed Receiver's Report, Grant Thornton Limited was engaged by Pace as its financial advisor to assist in reviewing the cash flow forecasts and funding requirements of Applefest while Pace considered its options, as well as consideration to Applefest's options.

PURPOSE OF THIS REPORT

5. The purpose of this Proposed Receiver's Report is to provide the Court with background information to assist the Court in determining whether or not to grant the Receivership Order requested by Pace.

LIMITATIONS OF THIS REPORT

6. The information contained in this Proposed Receiver's Report has been obtained from the records of the Company, publicly available information, and/or is based upon discussions with, and representations made by, the Company's management and other professional advisors retained in this matter. The information was not audited by the Proposed Receiver as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally acceptable accounting principles and the reader is, therefore, cautioned that this Proposed Receiver's Report may not disclose all significant matters about the Company.

7. The Proposed Receiver assumes no responsibility or liability for any loss or damage occasioned by any party because of the circulation, publication, reproduction or use of this Proposed Receiver's Report. Any use that a party makes of this Proposed Receiver's Report, or any reliance on or decisions to be made based on it, is the responsibility of such party.

8. A copy of this Proposed Receiver's Report and other relevant documents with respect to these proceedings would be made available on the Proposed Receiver's website at: http://www.GrantThornton.ca/ApplefestLodge, should the Receivership Order be granted.

BACKGROUND & FINANCIAL DIFFICULTY

9. Applefest opened in 1984 as a retirement residence in Brighton, Ontario. In 2010, the residence was expanded by opening a new wing with an additional 31 suites (the "**New Wing**") resulting in a total of 67 suites. Based on discussions with the Company's external chartered accountant, John Milnes ("**Milnes**"), we understand that because of construction delays, expensive financing and low occupancy, the New Wing created financial difficulty for Applefest.

10. Applefest employs a total of 23 people – 4 managers and 19 unionized employees. The unionized employees are represented by S.E.I.U. Local 1 Canada, 123 Mural Street, Suite 201, Richmond Hill Ontario L4M 1M4 ("**SEIU**"). We have been advised that the union contract was up for renewal on December 31, 2018 and that SEIU would like to negotiate a new collective agreement. In the interim, the unionized employees continue to work in the ordinary course under the terms of the expired collective agreement.

11. The Company has experienced more severe profitability challenges in 2019. Internally prepared financial statements show monthly sales of between approximately $129,000 to $148,000 and monthly losses of approximately $11,000 to $80,000 from January to August of 2019. The losses appear to have been driven primarily by insufficient occupancy. Occupancy rates from January to August of 2019 have fluctuated between 77% to 88%. Based on the current rent rates (which are materially below market), the Company needs over 90% occupancy to achieve break-even profitability. The Proposed Receiver understands that as of the date of this Proposed Receiver's Report that 8 of the 67 units at Applefest are vacant (i.e. 88% occupancy).

12. In 2017, Bill Dillane ("**Dillane**") a private investor and personal friend of the owner and sole shareholder of Applefest, Stephen Bordo ("**Bordo**"), began providing additional financing to cover cash flow shortfalls. The financing started as short-term loans which were repaid by Applefest, but over time the advances increased. The Proposed Receiver understands from Milnes and Dillane that in 2018, Bordo, who was 79 years old, decided to commence a sales process to sell Applefest; the objective of the sales process was to generate sufficient capital to pay out Pace and Dillane and provide additional equity capital for Bordo. While efforts were underway to sell Applefest, the indebtedness to Dillane increased substantially. The Proposed Receiver understands that there were agreements with two prospective purchasers – one in 2018 and one in the spring of 2019, but that for various reasons, each did not result in a definitive sale agreement.

13. Records of the Company show over $850,000 owing to Dillane as at September 5, 2019, which balance has likely increased as at the date of this Proposed Receiver's Report as Dillane is continuing to pay for operating expenses of Applefest. Dillane provided the Proposed Receiver with historical bank statements and a cash flow forecast for the balance of September and the month of October. The cash flow, which the Proposed Receiver has reviewed, shows a requirement for a further $15,000 to be injected by Dillane and no mortgage payments to be paid to Pace for the month of September. The Company has generated a loss in each of the past eight months. The Company has only been able to continue operating due to cash advances provided by Dillane. The Company is insolvent.

DEATH OF BORDO

14. Bordo was admitted to hospital in June of 2019 and passed away on July 6, 2019. The Proposed Receiver has been advised by Milnes that Bordo died without a will. Bordo was

sole officer and director of Applefest and we understand from Milnes that there is no mechanism in the articles of incorporation to replace him as officer or director. The Proposed Receiver understands that there is no other signing officer of the Company. Some of the Company payments, such as payroll, are automatically withdrawn from the Company's account with the Royal Bank of Canada. However, other payments such as those to pay the food supplier and other vendors, or to replenish petty cash, are paid manually. Since Bordo's death, these expenditures have been paid personally by Dillane. Dillane has in turn been reimbursed out of the Company account by using pre-signed cheques provided by Bordo prior to his death. Dillane advises that he has one remaining pre-signed cheque remaining and, thereafter, will have no mechanism for reimbursing himself for expenditures he is incurring on Applefest's behalf.

15. The absence of an officer, director or even a signing officer at the Company has, in the Proposed Receiver's view, created a void in management. Temporarily, Dillane has continued to personally pay for expenditures and then seek reimbursement from the Applefest account as part of a 'gentleman's agreement' between Dillane and Pace, but there is no formal agreement to do so. We understand that Dillane has also assisted management of the Company. For example, following a review of the premises by the fire marshal, Dillane funded the costs to remediate damaged drywall as required by the fire marshal.

16. While the arrangement with Dillane has been essential to keep Applefest operating, it is not a sustainable arrangement, nor is it possible to continue given the existence of only one more pre-signed cheque. Should Dillane become unable or unwilling to continue to fund ongoing operating costs which are not automatically withdrawn out of the Company's bank account, this would create serious operational challenges for the employees, creditors and residents at Applefest.

17. In the Proposed Receiver's view, interim financing with a Court-ordered priority charge is needed to fund ongoing operating costs and a receiver should be appointed with the authority to deal with any matters related to operations or managing the unionized and non-unionized employees. Furthermore, the Proposed Receiver supports the conduct of a proper sale process by the appointed receiver. A completed sale transaction would provide long-term stability for the employees and residents of Applefest.

CREDITORS

18. The mortgage with Pace is in default and has matured. On August 29, 2019, Pace provided a notice of intention to enforce security and issued a demand letter. The notice indicates a total indebtedness of $6,351,640.15 and was sent to Milnes as his office is the registered address for the Company. The time period under the demand letter has expired. We understand that Pace has not received mortgage payments for July, August and September of 2019.

19. As noted earlier in this Proposed Receiver's Report, there is over $850,000 owing to Dillane. Accounts payable and accrued liabilities according to the financial statements total approximately $248,000. Records of the Company do not reflect any payroll taxes or HST owing and this understanding was confirmed by Milnes. The Proposed Receiver is not aware of any secured creditors, except for Pace and Dillane. All of the known creditors appear to be unsecured, though there is the possibility of a small amount of priority supplier claims pursuant to section 81.1 of the BIA.

CONCLUSION

20. The Company is insolvent. Pace has made demand and the notice period has expired. There is no director or officer at the Company or mechanism to appoint such a person. The Company has no signing officer and has only been able to continue to operate because of the advances and assistance provided by Dillane. Without some form of receivership proceeding, the stakeholders (i.e. residents, employees, creditors, Dillane and Pace) of Applefest will be negatively impacted.

21. If the Receivership Order is made and the Proposed Receiver is appointed, it is the Proposed Receiver's intention to seek a formal management services agreement with a company that has experience in managing retirement homes. The Proposed Receiver would focus on improving the operational and financial results of Applefest, borrow interim financing as needed to stabilize operations, hold discussions with SEIU, engage a qualified broker to assist with the commencement of a sale process and to report to the Court as required and in anticipation of completing a sale to a new owner.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 23rd day of September, 2019.

GRANT THORNTON LIMITED
as Proposed Receiver of 692536 Ontario Limited
and not in its personal or corporate capacity
Per:

Rob Stelzer, CPA, CA, CIRP, LIT
Vice President