

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
VI FITNESS CENTRES INC.**

TRUSTEE'S REPORT TO CREDITORS

MAY 16, 2018

INTRODUCTION

VI Fitness Centres Inc. (the "Company" or "VI") is a health and fitness services provider. VI commenced operations in 1993 and over the last 24 years grew into one of the largest fitness centres on Vancouver Island with eight locations.

The eight fitness centres operated from leased facilities.

VI had approximately 9,000 gym members, 138 employees and 118 contractors at the date of bankruptcy.

In December 2014, VI purchased all the assets of the eight fitness centre locations. The current owners (the InnHouse Group of Companies and its principals collectively referred to as "InnHouse") held 75% of the shares of VI and the former President/CEO held the remaining 25%.

In January 2016, the former President/CEO was terminated, and his shares were subsequently redeemed by the Company.

On March 20, 2016, there was an amalgamation of two companies to form the current VI Fitness Centres Inc. and 100% of the shares are owned by InnHouse.

The Company's management operations team performed their duties from an office in Victoria, B.C. and the accounting, finance, and certain administration functions were performed at an office in East Vancouver. Neither of the locations were owned by the Company.

Commencing in 2016, VI experienced increased competition due to fitness centres that opened at more convenient locations with new equipment and lower monthly membership rates than VI. In addition, the competition were offering no term memberships. At that time, VI was selling memberships with terms greater than 1 year at a rate of approximately \$48 per month.

To maintain or increase the number of members, VI offered promotions for memberships with no term contracts at approximately \$38 per month. This VI promotional rate was between \$10 to \$28 per month higher than the low-cost competition. All of which resulted in declining revenues and losses for the Company.

Over the last 18 months, VI incurred operating losses of \$1.4 million.

The shareholders advanced \$2,093,284 to the Company to fund the operating losses, capital investment and principal payments on secured loans from December 1, 2016 to May 1, 2018. In addition, all head office costs including administrative, accounting, financing and executive management time were paid by the shareholders and not charged back to VI.

VI made various restructuring efforts to sustain the business by attempting to reduce costs, offering discounted memberships, personal training sessions, and lowering rates to its new members. However, the Company's restructuring efforts were not enough to operate the eight fitness centres without the continued cash injections from the shareholders.

In addition to the restructuring efforts of the Company, the shareholders were attempting to sell the business. Unfortunately, the time required to sell the business would require additional cash injections by the shareholders that would likely not be recovered from any potential sale. The shareholders were not willing to fund any further operating losses of the business and accordingly the director assigned the Company into bankruptcy on May 1, 2018.

The Bowra Group Inc. was appointed Licensed Insolvency Trustee (the "Trustee") of the Company.

FINANCIAL SITUATION

The table below is a summary of the Income Statements for the periods:

- December 1, 2015 to March 20, 2016;
- March 21, 2016 to November 30, 2016;
- December 1, 2016 to November 30, 2017; and
- December 1, 2017 to April 30, 2018.

	Dec. 1, 2015 to Mar. 20, 2016	Mar. 21, 2016 to Nov. 30, 2016	Dec. 1, 2016 to Nov. 30, 2017	Dec. 1, 2017 to Apr. 30, 2018
	\$000's			
Revenue	2,380	5,632	6,050	2,573
Rent	611	1,360	1,992	828
Wages and Benefits	828	1,559	2,495	983
Other Operating Costs	519	2,720	2,667	1,052
	1,958	5,640	7,154	2,862
Net Income / (Loss)	422	(8)	(1,104)	(290)

CREDITORS AND PRIORITY CREDITORS

The Trustee is aware of the following claims, as per the Statement of Affairs, which have priority over the claims of unsecured creditors:

Secured Creditor	Assets Secured	Estimated Claim \$000's
InnHouse Licensed Retail Concept Ltd.	All property	3,596
Quayside Investments Ltd	All property	1,165
CRA - Unremitted source deductions	All property	17

In March 2018, while attempting to restructure the business, the shareholders decided to take an assignment of the secured debt owed to Royal Bank of Canada (“RBC”) through InnHouse Licensed Retail Concept Ltd (“ILRC”). ILRC is a company that is related to the shareholders of VI. The shareholders of VI had given their personal guarantees to RBC and it was inevitable that VI was going to be in breach of its financial lending covenants to RBC because of the continued losses of the business. The shareholders of VI decided to take on the financial risk as secured creditor rather than having RBC potentially taking actions against the Company for the breach of financial covenants. The assignment of the secured RBC debt to ILRC is dated April 27, 2018.

UNSECURED CREDITORS

The Company’s records indicate unsecured creditors of approximately \$766,345.

IDENTIFICATION AND VALUATION OF ASSETS

A preliminary estimate of the realizable value of the assets of the Company is summarized below:

Assets	Estimated Realization \$000's
Equipment	200

The estimated realization values are before realization costs.

LEGAL ACTIONS

Khaled Shariff v. VI Fitness Centres Inc. et al (“VI Fitness”)

1. British Columbia Supreme Court Action No. S-161562, Vancouver Registry

The Plaintiff’s action against VI Fitness and its shareholders arises from the January 2016 termination of his employment as VI Fitness’ President and CEO, his subsequent removal as a director, and the redemption of his shares by VI Fitness. Shariff was an initial shareholder in VI from the time of the December 2014 asset purchase. Prior to the redemption of his shares, he held 25% of the issued and outstanding Class “A” common shares of company. Trial for this action has not been scheduled.

2. Employment Litigation

Khaled Shariff commenced a wrongful dismissal action against VI Fitness Centres Inc. in January 2016 in which he alleged that he was dismissed from employment as President and CEO of VI without adequate notice or pay in lieu. VI has defended this claim. Documents with respect to this action have not been exchanged and examinations for discovery have not taken place.

The Trustee will not be continuing or defending either of the actions listed above.

The Trustee is not aware of any other ongoing litigation. The Trustee has not commenced or will continue any actions on behalf of the Company.

REVIEW OF RECORDS

The Trustee has performed a preliminary review of the Company’s bank statements for 12 months prior to the date of the bankruptcy and reviewed the financial statements of the Company for the past three years.

The Trustee has not identified any transactions that could be regarded as reviewable transactions or transfers at undervalue. There may be further investigations conducted that could reveal such transactions.

CONFLICT OF INTEREST

The Trustee is in the process of obtaining an independent legal opinion with respect to the validity of the security claim of ILRC. The Trustee is not concerned as to the validity of the ILRC security. The Trustee would require an independent legal opinion in the event that ILRC decides to appoint a receiver.

CONCLUSION

Based on our estimates, the realization of assets will not satisfy the claims of the secured creditors. Therefore, we believe there will be no recovery to the unsecured creditors.

THE BOWRA GROUP INC.

Licensed Insolvency Trustee of
VI Fitness Centres Inc.

Per:

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, positioned to the right of the word "Per:".

Mario Mainella, CPA, CA, CIRP