

COURT FILE NUMBER 1703-21274

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE EDMONTON

PLAINTIFF ROYAL BANK OF CANADA

DEFENDANTS 1679775 ALBERTA LTD., REID-BUILT HOMES LTD., REID WORLDWIDE CORPORATION, BUILDER'S DIRECT SUPPLY LTD., REID BUILT HOMES CALGARY LTD., REID INVESTMENTS LTD., and REID CAPITAL CORP.

IN THE MATTER OF THE RECEIVERSHIP OF 1679775 ALBERTA LTD., REID-BUILT HOMES LTD., REID WORLDWIDE CORPORATION, BUILDER'S DIRECT SUPPLY LTD., REID BUILT HOMES CALGARY LTD., REID INVESTMENTS LTD., 1852512 ALBERTA LTD., and REID CAPITAL CORP.

APPLICANT ALVAREZ & MARSAL CANADA INC. in its capacity as Court-appointed Receiver and Manager of the current and future assets, undertakings and properties of 1679775 ALBERTA LTD., REID-BUILT HOMES LTD., REID WORLDWIDE CORPORATION, BUILDER'S DIRECT SUPPLY LTD., REID BUILT HOMES CALGARY LTD., REID INVESTMENTS LTD., 1852512 ALBERTA LTD., and REID CAPITAL CORP.

DOCUMENT **RECEIVER'S EIGHTH REPORT**
June 13, 2018

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ALVAREZ & MARSAL

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1.0 INTRODUCTION

- 1.1 On November 2, 2017, upon application of the Royal Bank of Canada (“RBC”), Alvarez & Marsal Canada Inc. was appointed as Receiver and Manager (the “Receiver”) pursuant to a consent receivership order (“Receivership Order”) granted by the Honourable Justice Hillier in respect of the current and future assets, undertakings and properties of 1679775 Alberta Ltd. (“167”), Reid-Built Homes Ltd., Reid Worldwide Corporation (“RWW”), Builder’s Direct Supply Ltd., Reid Built Homes Calgary Ltd., Reid Investments Ltd., and Reid Capital Corp. (“Capital”) (collectively, “Reid Group” or the “Companies”).
- 1.2 On March 21, 2018, this Honourable Court granted an order extending the Receivership Order to include the current and future assets, undertakings and properties of 1852512 Alberta Ltd. which is a wholly owned subsidiary of Capital.
- 1.3 The Receivership Order authorizes the Receiver to, among other things, solicit offers in respect of the Reid Group’s property and sell any such property or parts thereof with the approval of this Honourable Court for any transactions for which the purchase price exceeds \$150,000.
- 1.4 On January 22, 2018, the Receiver commenced a sales process to solicit offers to purchase the Receiver’s right, title and interest in certain of Reid Group’s assets (the “Sales Process”). Certain details of the Sales Process are set out in the Second Report of the Receiver dated February 28, 2018 and Fourth Report of the Receiver dated April 5, 2018 and are not repeated herein.
- 1.5 To date, this Honourable Court has granted orders that provide for, among other things, approval of the sale of twenty-eight parcels of real property assets to prospective purchasers with an aggregate gross value of \$79.7 million.
- 1.6 Concurrent with this eighth report of the Receiver (the “Eighth Report”), the Receiver intends to file an application seeking the following:
- a) orders approving the sale of two parcels of residential real property assets pursuant to offers submitted by prospective purchasers and accepted by the Receiver, subject to the approval of this Honourable Court (the “Residential SAVOs”);
 - b) an order approving the sale of the Riverside development lands located in St. Albert, Alberta and certain related cost recoveries receivable pursuant to an offer (the “Genstar Offer”) submitted by Genstar Development Limited Partnership #3 by its general partner, Genstar Development Company #3 Limited (collectively, “Genstar”) and accepted by the Receiver, subject to the approval of this Honourable Court (the “Genstar SAVO”); and

c) an order approving the assignment of a loan (the “**Canterbury Mortgage**”) due from Canterbury Park Developments Inc. (“**Canterbury**”) to 167 secured by a second mortgage against a one-third undivided interest in an approximately 160-acre parcel of un-developed land in southeast Calgary, Alberta (the “**Canterbury Land Interest**”) to a nominee of Canterbury (the “**Canterbury Assignment Order**”).

1.7 The Receivership Order and other motion materials are posted on the Receiver’s website at www.alvarezandmarsal.com/reidbuilt.

1.8 Capitalized terms not defined in this Eighth Report are as defined in the Receivership Order.

1.9 All references to dollars in the Eighth Report are in Canadian currency.

2.0 PURPOSE

2.1 This Eighth Report is a special purpose report that is intended to provide this Honourable Court with information with respect to the Receiver’s application for the Residential SAVOs, Genstar SAVO and the Canterbury Assignment Order.

3.0 RESIDENTIAL SAVOS

Accepted Residential Offers

3.1 A summary of the two offers for residential homes and lots submitted by prospective purchasers and accepted by the Receiver, subject to the approval of this Honourable Court (the “**Accepted Residential Offers**”) is as follows:

Purchaser	Reid Subdivision	Developer	Reid Group Entity	No. of Homes & WIP	No. of Lots	Purchase Price (\$000s)	Developer Land Payables (\$000s)	Builders' Lien Claims (Note 1) (\$000s)
1 Douglas Homes Ltd.	Westmere	N/A	167	3	-	\$ 802	\$ -	\$ (390)
2 2014695 Alberta Ltd.	Westmere	Melcor	167	4	-	1,131	(152)	(610)
				7	-	\$ 1,933	\$ (152)	\$ (999)

Notes:

1 Total builders' lien claims of approximately \$1.0 million include \$843,000 of liens registered against Reid Group-owned lots and \$156,000 of liens registered against a developer-owned lot.

3.2 Each Accepted Residential Offer includes a purchase price and legal description of the purchased assets as well as, among other things, the following key commercial terms:

a) the purchasers offer to purchase all of the Receiver’s interest in and to the purchased assets, free and clear of any encumbrances;

- b) the execution of the subject offers by the Receiver converts the offers into binding agreements for the purchase and sale of the Receivers' interest in and to the purchased assets, subject to this Honourable Court granting a Residential SAVO for each transaction;
- c) the closing date for the subject transactions will be the date 30 days following the date on which all conditions are satisfied or waived or such earlier date as may be mutually agreed upon between the purchasers and the Receiver; and
- d) the sales are "as is, where is" with no representations and warranties of the Receiver.

Receiver's Review of the Accepted Residential Offers

3.3 The Receiver's review of the Accepted Residential Offers included consideration of the following:

- a) the results of the Sales Process and whether the Accepted Residential Offers represent the highest and best price for the applicable purchased assets;
- b) the net proceeds available to the Receiver after payment of developer land payables and interest;
- c) the nature and stage of construction of work-in-progress inventory and the risks, costs and time associated with completing construction and listing completed inventory for sale;
- d) the potential for the Receiver to incur additional holding costs in respect of the purchased assets if transactions are not concluded in a timely manner including preservation costs, professional fees and interest accruing in respect of the developer land payables and first ranking mortgages; and
- e) the economic interests of land developers, lien holders, senior secured creditors and other stakeholders with interests in the purchased assets.

3.4 The Receiver is of the view that the Sales Process was comprehensive and conducted in a manner which was fair and reasonable, that the market has been adequately canvassed for potential purchasers and that the transactions contemplated by the Accepted Residential Offers are in the best interests of the creditors of Reid Group.

3.5 The Receiver is reviewing and considering additional offers resulting from the Sales Process and may bring additional accepted offers to purchase real property assets of the Reid Group before this Honourable Court in the future.

Residential SAVOs

- 3.6 The Receiver is seeking the Residential SAVOs to approve each of Accepted Residential Offers and provide authorization and direction with respect to the distribution of the sales proceeds.
- 3.7 The Residential SAVOs provide for, among other things:
- a) approval of the Accepted Residential Offers and direction to the Receiver to take such steps and execute such additional documents as may be necessary or required to complete the transactions contemplated by the Accepted Residential Offers or for the conveyance of the purchased assets to the purchasers;
 - b) upon delivery of a Receiver's Certificate to the purchasers, the Reid Group's interest in the purchased assets shall vest in the applicable purchaser, free and clear from security interests, hypothecs, caveats, mortgages, trusts or deemed trusts, liens, executions, levies, charges or other financial or monetary claims. The Residential SAVO in respect of the sale to 2014695 Alberta Ltd. (the "201 SAVO"), which includes a developer titled lot among the purchased assets, also provides for vesting of the applicable developer's interest in the purchased asset in the purchaser free and clear from security interests, hypothecs, caveats, mortgages, trusts or deemed trusts, liens, executions, levies, charges or other financial or monetary claims;
 - c) upon delivery of a Receiver's Certificate, and upon filing of a copy of the applicable Residential SAVO, together with applicable registration fees, the Registrar of Land Titles of Alberta is authorized and directed to cancel the Certificate(s) of Title for the applicable purchased assets and to issue new Certificate(s) of Title in the name of the purchaser;
 - d) for the 201 SAVO, concurrent with delivery of the Receiver's Certificate, the Receiver is directed to pay the land payable owing to the land developer including accrued interest from the net sales proceeds;
 - e) for the 201 SAVO, direction to the Receiver to hold back from the net proceeds, in the place of the lands with the same rights and priority, the total amount of registered lien claims (noting duplicate registrations where applicable) against the purchased assets plus 10% as security for costs, with such hold back being held by the Receiver's counsel pending further order or direction from this Honourable Court or agreement among the lien claimants, the Receiver and any affected stakeholders;
 - f) from the net proceeds from Reid Group titled lots, no holdback or security in respect of registered builders' liens; and

g) following the payments referenced in paragraphs 3.7(d-f) above, authorization for the Receiver to distribute any remaining proceeds from the sale of the purchased assets in accordance with the administration of the receivership estate.

3.8 The estimated distributions of sales proceeds as contemplated by the Residential SAVOs total approximately \$1.9 million, of which approximately \$152,000 will be paid to developers to pay out lot payables and \$172,000 will be held in place of the lands as security for builders' lien claims against a developer titled lot (including 10% for costs). The remaining approximately \$1.6 million will be made available to RBC and/or the receivership estate.

3.9 The Receiver is planning to make a distribution to RBC on or before June 30, 2018 of a portion of the net proceeds from the Accepted Residential Offers and other previous sales of Reid Group properties by the Receiver in satisfaction of the Receiver's Borrowing Charge (as defined in the Receivership Order) and in respect of RBC's various loans and mortgages secured against the assets of the Reid Group. Such distribution is in accordance with the Sale Approval and Vesting Orders previously granted by this Honourable Court, which authorized the Receiver to make distributions to the first-registered mortgagee on title to the sold assets and otherwise in accordance with the administration of the receivership estate.

4.0 GENSTAR SAVO

Riverside Assets

4.1 The Sales Process sought offers for, among other things, the Receiver's right, title and interest in the Riverside Assets which are comprised of the following:

- a) approximately 56 acres of development land owned by RWW and located in St. Albert, Alberta (the "**Riverside Lands**"); and
- b) cost recoveries reported as receivable from Genstar of approximately \$5.2 million (the "**Genstar Receivable**") relating to an agreement between RWW and Genstar dated August 7, 2012, as subsequently amended (the "**Cost Sharing Agreement**"), for the construction of a lift station and other municipal works (the "**Municipal Works**").

4.2 Genstar disputes the quantum of the Genstar Receivable and has asserted that the amounts owing to RWW are subject to rights of set-off for un-remediated deficiencies, consequential damages and other charge-backs and counterclaims.

4.3 The Riverside Lands are encumbered by a first ranking mortgage in favour of Laurentian Bank, which is owed approximately \$3.3 million (after certain other Court-approved sales transactions

have closed), a “bonus fee” arrangement with Canada ICI for an estimated \$200,000 and approximately \$200,000 of property tax owed to the city of St. Albert. Builders’ liens of approximately \$1,200,000 have been registered against the Riverside Lands and adjoining parcels owned by Genstar and the City of St. Albert by subcontractors of RWW relating to the Municipal Works and MCAN Financial Corp. (“MCAN”) has issued a letter of credit for approximately \$1.4 million in favour of the City of St. Albert with respect to completion of the Municipal Works (the “Riverside LCs”).

- 4.4 On May 25, 2018 the Receiver accepted the Genstar Offer, subject to this Honourable Court granting the Genstar SAVO.

Genstar Offer

- 4.5 The Genstar Offer includes the following key commercial terms:
- a) Genstar offers to purchase all of the Receiver’s interest in and to the Riverside Assets, free and clear of any encumbrances for a purchase price of \$9,946,000;
 - b) the execution of the Genstar Offer by the Receiver converts the offer into a binding agreement for the purchase and sale of the Receivers’ interest in and to the Riverside Assets, subject to this Honourable Court granting the Genstar SAVO;
 - c) the Receiver shall assign and Genstar shall assume all of the rights and obligations of RWW pursuant to the Cost Sharing Agreement;
 - d) Genstar agrees to complete all of the remaining incomplete Municipal Works contemplated by the Cost Sharing Agreement, to apply for and obtain construction completion certificates from the City of St. Albert, perform maintenance requirements on the Municipal Works as required by the City of St. Albert and obtain final acceptance certificates in respect of the Municipal Works;
 - e) as soon as practical after closing, Genstar will replace the Riverside LCs with security from Genstar in a form and amount acceptable by the City of St. Albert;
 - f) Genstar is to do all such acts and pay all such amounts as necessary in order to obtain discharge of all the existing builders’ liens currently registered against title to the Riverside Lands arising from the construction of the Municipal Works;
 - g) the closing date for the subject transactions will be the date 30 days following the date on which all conditions are satisfied or waived or such earlier date as may be mutually agreed upon between the purchasers and the Receiver; and
 - h) the sales are “as is, where is” with no representations and warranties of the Receiver.

Receiver's Review and Consideration

- 4.6 The Receiver's review of the Genstar Offer included consideration of the following:
- a) the results of the Sales Process and whether the Genstar Offer represents the highest and best offer for the Genstar Assets;
 - b) the nature of the Cost Sharing Agreement and risks associated with recovering on the Genstar Receivable;
 - c) the values ascribed to the Riverside Lands in a recent confidential third party appraisal report obtained by the Receiver;
 - d) the overall execution risk associated with the transaction including the reputation and financial wherewithal of Genstar to complete the transaction;
 - e) the enhanced prospects of concluding a successful transaction with Genstar in its capacity as counterparty to the Cost Sharing Agreement and avoiding potential expensive and protracted litigation;
 - f) the potential for the Receiver to incur additional professional fees and holding costs and bear the risk of the value of its interest in the Riverside Lands and Genstar Receivable diminishing if a transaction is not concluded in a timely manner;
 - g) the economic interest of builders' lien holders, Laurentian Bank, Canada ICI and MCAN; and
 - h) the economic interests of RBC, the fulcrum creditor with respect to the Receiver's interest in the Riverside Assets, who have confirmed their support of the Receiver pursuing a transaction with Genstar at the stated terms.

5.0 CANTERBURY ASSIGNMENT

- 5.1 In 2014, Canterbury purchased the Canterbury Land Interest, which was financed in part by a first mortgage of \$3.5 million granted by a third party (the "**First Mortgagee**") and the Canterbury Mortgage which holds second ranking mortgage security.
- 5.2 The Canterbury Mortgage is for the principal amount of \$1.67 million and is subject to annual interest at the RBC prime rate plus 3%. The Canterbury Mortgage had a maturity date of December 31, 2017 and the Receiver has agreed to extend the maturity date until June 15, 2018 while it seeks to conclude a transaction to monetize its interest in the loan.
- 5.3 On June 12, 2018 the Receiver and Canterbury agreed to enter into an assignment and assumption agreement (the "**Canterbury Assignment**") for the Receiver to sell, assign and transfer the Canterbury Mortgage and all of the Receiver's rights and obligations in the underlying loan

agreement and security documents (the “Assigned Documents”) to a nominee of Canterbury for \$750,000.

5.4 The Canterbury Assignment includes the following key commercial terms:

- a) the Receiver will sell, assign, and transfer to a nominee of Canterbury all of its rights and obligations as a lender under the Assigned Documents, all payments due or become due, and all claims, causes of action and any other rights of the Receiver as a lender as of August 31, 2018;
- b) the completion of the transaction is subject to this Honourable Court granting an approval and vesting order on or before June 29, 2018 and obtaining approval from the First Mortgagee within 10 days of the execution of the Canterbury Assignment;
- c) the Receiver makes no representation or warranty with respect to the Assigned Documents and their legality, validity, enforceability, genuineness or sufficiency, the value of the Canterbury Land Interest or the financial condition of Canterbury or any guarantor; and
- d) upon completion of the transaction, the Receiver shall have no further right, title or interest in the Canterbury Land Interest including by way of security and the Receiver agrees to release and discharge any and all security interests it may hold provided that, without limitation, such release and discharge shall not constitute a release of Canterbury, the Canterbury Land Interest or any other security granted by Canterbury under the Assigned Documents.

5.5 The Receiver is seeking the Canterbury Assignment Order to approve the Canterbury Assignment and provide authorization to distribute the net proceeds in accordance with the administration of the receivership estate.

5.6 The Receiver’s review of the Canterbury Assignment included consideration of the following:

- a) the complexities of enforcing and realizing on an undivided one-third interest that is subject to a prior ranking first mortgage;
- b) confidential third-party valuation reports commissioned by the Receiver and other indications of value of the underlying Canterbury Land Interest; and
- c) the prospect of immediate recoveries to the estate from the Canterbury Assignment.

5.7 Based on the foregoing, the Receiver is of the view that the transaction contemplated by the Canterbury Assignment is in the best interests of the creditors of Reid Group.

6.0 RECEIVER'S CONCLUSION AND RECOMMENDATION

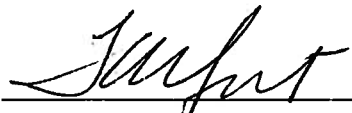
6.1 It is the view of the Receiver that the purchase prices and other terms of the Accepted Residential Offers, the Genstar Offer, and the Canterbury Assignment are commercially reasonable in the circumstances and have high prospects of concluding in successful transactions. The processes undertaken by the Receiver to select the preferred offers and negotiate the Canterbury Assignment were conducted in a manner which was fair and reasonable and took the economic interests of the various competing financial stakeholders into consideration.

6.2 Based on the forgoing, the Receiver respectfully recommends that this Honourable Court grant the following orders:

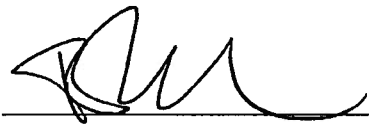
- a) the two Residential SAVOs;
- b) the Genstar SAVO; and
- c) the Canterbury Assignment Order.

All of which is respectfully submitted to this Honourable Court this 13th day of June, 2018.

**Alvarez & Marsal Canada Inc., in its capacity as
Receiver and Manager of the assets, undertakings and
properties of the Reid Group and not in its personal capacity**



Per: Todd M. Martin
Senior Vice President



Per: Tom Powell
Vice President