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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 SIXTH REPORT

May 9, 2018

ADDRESS FOR

Norton Rose Fulbright Canada LLP 400 3rd Avenue SW, Suite 3700 Calgary, Alberta T2P 4H2

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Attention: Howard A. Gorman, Q.C. / Aditya M. Badami

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APPENDICES

Appendix A - Letter from Norton Rose Fulbright Canada LLP to Affected Lien Holders dated May 9, 2018

1.0 INTRODUCTION

- 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. ("RBH"), Reid Worldwide Corporation ("RWW"), Builder's Direct Supply Ltd., Reid Built Homes Calgary Ltd., Reid Investments Ltd., and Reid Capital Corp. ("Capital") (collectively, the "Reid Group").
- 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, amongst 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.
- 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 On April 11, 2018 and April 20, 2018, this Honourable Court granted orders that provide for, among other things, approval of the sale of fifteen parcels of real property assets to prospective purchasers.
- 1.6 Concurrent with this sixth report of the Receiver (the "Sixth Report"), the Receiver intends to file a notice of application for the following orders:
 - a) orders approving the sale of nine 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) orders approving the sale of three commercial and development real property assets pursuant to cash offers submitted by prospective purchasers and accepted by the Receiver, subject to the approval of this Honourable Court (the "Commercial SAVOs");
 - c) an order approving the sale of the Deerfoot Professional Building ("**Deerfoot**") located at 7136, 11th St. NE, Calgary pursuant to a credit bid offer (the "**KV Credit Bid**") submitted by

- KV Capital Inc. ("KV Capital") and accepted by the Receiver, subject to the approval of this Honourable Court (the "KV Credit Bid Order"); and
- d) an order directing the release of hold-back funds in respect of the sale of Reid Group owned properties and authorizing the Receiver to distribute the funds in accordance with the administration of the receivership estate (the "Hold-back Release 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 Sixth Report are as defined in the Receivership Order.
- 1.9 All references to dollars in the Sixth Report are in Canadian currency.

2.0 PURPOSE

2.1 This Sixth 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, Commercial SAVOs, KV Credit Bid Order and Hold-back Release Order.

3.0 RESIDENTIAL SAVOS

Accepted Residential Offers

3.1 A summary of the nine 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) | First Ranking Mortgage Excl. RBC (\$000s) |
|-------------------------------|---------------------|-----------|-------------------------|--------------------------|----------------|-------------------------------|---|--|---|
| 1 More | Westmere | N/A | 167 | 1 | - | \$ 320 | \$ - | \$ (134) | \$ - |
| 2 I. Toor | Westmere | Melcor | 167 | 1 | - | 500 | (148) | (171) | - |
| 3 Amazon Hauling Ltd. | Westmere | N/A | 167 | 2 | 13 | 3,186 | _ | _ | - |
| 4 Green Cedar Homes Inc. | Westmere | Melcor | 167 | 9 | - | 1,870 | (576) | (3) | _ |
| 5 A. Toor | Westmere | Melcor | 167 | 1 | - | 400 | (148) | (172) | _ |
| 6 Dhaliwal | Westmere | Melcor | 167 | 1 | - | 300 | (148) | (113) | - |
| 7 La Vita Land Inc. (Note 2) | Fireside | La Vita | 167 | 8 | 18 | 863 | _ | (214) | (180) |
| 8 S. Hammoud | Kinniburgh | N/A | 167 | 1 | - | 475 | _ | (1) | ` - |
| 9 First Avenue Properties Ltd | l Rosenthal | Melcor | RBH | 8 | - | 1,810 | (344) | (695) | - |
| | | | | 32 | 31 | \$ 9,724 | \$ (1,365) | \$ (1,504) | \$ (180) |

Notes:

- 1 Total builders' lien claims of approximately \$1.5 million include \$809,000 of liens registered against Reid Group-owned lots and \$695,000 of liens registered against developer-owned lots.
- 2 The purchase price for the accepted offer from La Vita Land Inc. ("La Vita") is presented net of developer land payables of approximately \$3.5 million and builders' liens of \$200,000.

- 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) for all Accepted Residential Offers other than the offer by La Vita (the "La Vita Offer"), the
 purchaser offers to purchase all of the Receiver's interest in and to the purchased assets, free
 and clear of any encumbrances;
 - b) for the La Vita Offer, the purchaser offers to purchase all of the Receiver's interest in and to the purchased assets, free and clear of any encumbrances with the exception of developer land payables of approximately \$3.5 million and developer lot liens of approximately \$200,000, which are to be assumed by La Vita (note that La Vita is also the owner of the developer lots);
 - c) 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;
 - d) 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
 - e) 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 any 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 mortgages;
 - e) where available, confidential third party appraisals and other indications of value; and
 - f) 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 the best interests of the creditors of Reid Group.
- 3.5 The homes and lots included in the nine Accepted Residential Offers were the subject of 21 separate competing offers that were received by the Receiver in various forms. A number of the offers overlapped competing offers and most offers included some but not all of one or more subdivisions. Accordingly, extensive follow-up and negotiation with respective purchasers was required in order to ensure that maximum realizations were achieved while maintaining the integrity and fairness of the Sales Process.
- 3.6 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

- 3.7 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.
- 3.8 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. For Residential SAVOs which include developer titled lots among the purchased assets, the Residential SAVOs also provide for vesting of the applicable developer's interest in the purchased assets 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 Residential SAVOs which include developer titled lots among the purchased assets, and with the exception of the Residential SAVO in respect of the La Vita Offer, 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) direction to the Receiver to hold back from the net proceeds from developer titled lots, with the exception of the Residential SAVO in respect of the La Vita Offer, 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, direction that there is no holdback or security in respect of registered builders' liens;
- g) for Residential SAVOs which include lots encumbered by priority ranking mortgages among the purchased assets, direction and authorization for the Receiver to repay the priority ranking mortgagee subject to the Receiver's confirmation of the validity of the priority registered mortgagee's security and outstanding indebtedness; and
- h) following the payments referenced in paragraphs 3.8(d-g) 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.
- 3.9 The estimated distributions of sales proceeds as contemplated by the Residential SAVOs total approximately \$9.7 million, of which approximately \$1.4 million will be paid to developers to pay out lot payables, \$765,000 will be held in place of the lands as security for builders' lien claims against developer titled lots (including 10% for costs) and \$180,000 will be available to a third party mortgagee pending confirmation of the priority of their mortgage and amount of indebtedness. The remaining approximately \$7.4 million will be made available to RBC as mortgagee on Reid Group properties and/or the receivership estate.

4.0 COMMERCIAL SAVOS

4.1 A summary of the three cash offers for commercial and development real property submitted by prospective purchasers and accepted by the Receiver, subject to the approval of this Honourable Court (the "Accepted Commercial Offers") is as follows:

| Property | Description | Purchaser | Purchase Price | First Mortgage Debt Due to Canada ICI Capital Corp. (Note 1) |
|------------------------------|--|------------------------------------|----------------|---|
| Hawkstone Shopping Centre | 4903 - 184th St., Edmonton 7.56 acres; ~88,000 sq. ft. | Voiture Capital 2011 Inc. | \$29,200,000 | \$22,949,776 |
| Park West Square | 18904 - 87th Ave., Edmonton 1.69 acres; ~14,000 sq. ft. | Elite Real Estate Investments Inc. | \$5,730,000 | \$2,461,931 |
| Granville Lands | 6941 Winterburn Rd., Edmonton 3.5 acres | Footprint Development Group Inc. | \$2,636,000 | \$2,523,469 |

Note 1: Amounts due to Canada ICI are as at April 25, 2018 as per the Affidavit of Mr. William Yu dated May 2, 2018.

Hawkstone

- 4.2 The Receiver retained CBRE Limited ("CBRE") to act as exclusive real estate broker with respect to Hawkstone. Highlights of CBRE's marketing efforts include:
 - a) distributing a sales brochure to more than 300 prospective purchasers from CBRE's client list and the commercial real estate brokerage community;
 - b) uploading property information to the CBRE website;
 - c) placing print advertising in the Globe & Mail National Edition on April 10 and 12, 2018;
 - d) executing confidentiality agreements with 30 prospective purchasers;
 - e) granting qualified prospective purchasers access to an electronic data room including due diligence materials and a standard form of offer; and
 - f) establishing an offer deadline of April 20, 2018.
- 4.3 Following the offer deadline, CBRE presented the Receiver with eight offers from prospective purchasers. The purchase price and key terms of the highest bids were not sufficiently differentiated to clearly determine a preferred offer. CBRE responded to the four highest bidders and requested that they revisit their offers and consider resubmitting a revised bid on or before May 2, 2018 which resulted in two of the prospective purchasers submitting revised offers.
- 4.4 After reviewing the revised offers, the Receiver has accepted an offer from Voiture Capital 2011 Inc. ("Voiture") to purchase Hawkstone that includes the following key commercial terms:

- a) Voiture offers to purchase RWW's interest in Hawkstone, free and clear of any encumbrances for a purchase price of \$29,200,000;
- b) the acceptance of the Voiture offer by the Receiver converted the offer into a binding agreement for the purchase and sale of RWW's interest in and to Hawkstone, subject to the terms thereof, including:
 - i. expiry or waiver of certain rights-of-first-refusal ("ROFRs") held by two tenants, the longest of which expires unless exercised within 21 days;
 - ii. the Receiver obtaining certain amendments (the "Lease Amendments") with respect to one of the Hawkstone tenant leases; and
 - iii. this Honourable Court granting a Commercial SAVO.
- the closing date will be 30 business days following the date on which all conditions are satisfied or waived or such earlier date as may be mutually agreed upon between Voiture and the Receiver; and
- d) the sale is "as is, where is" with no representations and warranties of the Receiver.
- 4.5 The Receiver has discussed the Lease Amendments with the applicable tenant and the tenant has agreed to accept the changes to the terms of their lease.
- 4.6 The Receiver is in the process of notifying the ROFR parties of the accepted offer from Voiture and has not yet received responses as to whether they intend to exercise their ROFRs.

Park West

- 4.7 The Receiver retained Colliers International ("Colliers") to act as exclusive real estate broker with respect to Park West. Highlights of Colliers' marketing efforts include:
 - a) distributing a sales brochure to more than 1,800 prospective purchasers from Colliers' client list and the commercial real estate brokerage community;
 - b) uploading property information to the Colliers website;
 - c) placing print advertising in the Globe & Mail National Edition on April 3, 2018;
 - d) executing confidentiality agreements with 49 prospective purchasers;
 - e) granting qualified prospective purchasers access to an electronic data room including due diligence materials and a standard form of offer; and
 - f) establishing an offer deadline of April 19, 2018.
- 4.8 Following the offer deadline, Colliers presented the Receiver with 13 offers from prospective purchasers. The purchase price and key terms of the highest bids were not sufficiently differentiated to clearly determine a preferred offer. Colliers responded to the two highest bidders

- and requested that they revisit their offers and consider resubmitting a revised bid on or before April 26, 2018 which resulted in two of the prospective purchasers submitting revised offers.
- 4.9 After reviewing the revised offers, the Receiver has accepted an offer from Elite Real Estate Investments Inc. ("Elite") to purchase Park West that includes the following key commercial terms:
 - a) Elite offers to purchase RWW's interest in Hawkstone, free and clear of any encumbrances for a purchase price of \$5,730,000;
 - b) the acceptance of the Elite offer by the Receiver converted the offer into a binding agreement for the purchase and sale of RWW's interest in and to Park West, subject to the terms thereof, including expiry or waiver of a ROFR held by one tenant, which tenant subsequently notified the Receiver of its election not to exercise its ROFR, and this Honourable Court granting a Commercial SAVO;
 - c) the closing date will be 30 business days following the date on which all conditions are satisfied or waived or such earlier date as may be mutually agreed upon between Elite and the Receiver; and
 - d) the sale is "as is, where is" with no representations and warranties of the Receiver.

Granville Lands

- 4.10 The Receiver retained JLL Real Estate Services, Inc. ("JLL") to act as exclusive real estate broker with respect to the Granville Lands. Highlights of JLL's marketing efforts include:
 - a) distributing a sales brochure to more than 2,900 prospective purchasers from JLL's client list and the commercial real estate brokerage community;
 - b) uploading property information to the JLL website;
 - c) placing print advertising in the Western Investor magazine on April 9, 16 and 23, 2018;
 - d) executing confidentiality agreements with eight prospective purchasers;
 - e) granting qualified prospective purchasers with access to an electronic data room including due diligence materials and a standard form of offer; and
 - f) establishing an offer deadline of April 20, 2018.
- 4.11 After reviewing the revised offers, the Receiver has accepted an offer from Footprint Development Group Inc. ("Footprint") to purchase the Granville Lands that includes the following key commercial terms:
 - a) Footprint offers to purchase RWW's interest in the Granville Lands, free and clear of any encumbrances for a purchase price of approximately \$2,636,000;

- b) the acceptance of the Footprint offer by the Receiver converted the offer into a binding agreement for the purchase and sale of RWW's interest in and to the Granville Lands, subject to the terms thereof, including this Honourable Court granting a Commercial SAVO;
- c) the closing date will be 30 business days following the date on which all conditions are satisfied or waived or such earlier date as may be mutually agreed upon between Footprint and the Receiver; and
- d) the sale is "as is, where is" with no representations and warranties of the Receiver.
- 4.12 The net proceeds from the sale of the Granville Lands to Footprint are estimated to be sufficient to pay for property taxes, realtor commissions and other costs attributable to the Granville Lands and repay most or possibly all of the amounts owed to Canada ICI Capital Corp. ("Canada ICI") in respect of its mortgage.

Receiver's Review and Consideration

- 4.13 The Receiver's review of the Accepted Commercial Offers included consideration of the following:
 - a) the results of the marketing efforts undertaken by established and market leading real estate listing brokers for the commercial and development properties and whether the Accepted Commercial Offers represent the highest and best price for the applicable purchased assets;
 - b) the reputation and wherewithal of the prospective purchasers and the likelihood of the offerors being able to conclude a successful transaction;
 - c) the potential for the Receiver to incur additional holding costs in respect of the commercial and development properties if transactions are not concluded in a timely manner including preservation costs, professional fees and interest accruing in respect of first ranking mortgages;
 - d) confidential third party appraisals commissioned by the Receiver and other indications of value; and
 - e) the economic interests of senior secured creditors, leaseholders and other stakeholders with interests in the purchased assets. The Receiver consulted with the primary secured creditors with respect to the subject commercial properties, Canada ICI, and RBC, and understands that the affected secured creditors are supportive of the Receiver accepting the Accepted Commercial Offers.
- 4.14 The Receiver is of the view that the commercial assets were marketed comprehensively and 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 Commercial Offers are in the best interests of the creditors of Reid Group.

Commercial SAVOs

- 4.15 The Receiver is seeking the Commercial SAVOs to approve each of Accepted Commercial Offers and provide authorization and direction with respect to the distribution of the sales proceeds.
- 4.16 The Commercial SAVOs provide for, among other things:
 - a) approval of the Accepted Commercial 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 Commercial 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;
 - c) upon delivery of a Receiver's certificate, and upon filing of a copy of the applicable Commercial 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) direction and authorization for the Receiver to repay from the net sales proceeds, after deducting amounts due for property taxes, real estate broker commissions and other transaction costs, amounts owed to Canada ICI under its first ranking mortgages against the commercial and development properties, subject to the Receiver's confirmation of the validity of Canada ICI's security and outstanding indebtedness; and
 - e) following the payments referenced in paragraph 4.16(d) 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.

5.0 KV CREDIT BID – DEERFOOT PROFESSIONAL BUILDING

Deerfoot is a three storey mixed commercial property with net rentable area of approximately 49,000 square feet located in the northeast commercial corridor of Calgary, Alberta. Deerfoot is owned by RWW and was completed in 2017 at a cost in excess of \$17 million. As at the date of the Receivership Order, Deerfoot was unoccupied and had been informally marketed for lease

- and/or sale by the Reid Group at various times during 2017. The general contractor engaged by RWW to construct Deerfoot was Clark Builders Ltd. ("Clark") which has registered builder's liens (among other third party liens) against Deerfoot which totals in excess of \$2.0 million.
- After consultation with the primary and secondary ranking secured creditors holding mortgage security against Deerfoot (KV Capital and RBC), the Receiver retained Colliers effective January 24, 2018 to act as exclusive real estate broker with respect to Deerfoot. Summary highlights of Colliers' marketing efforts include:
 - a) distributing a sales brochure to more than 380 prospective purchasers from Colliers' client list and the Canadian commercial real estate brokerage community;
 - b) uploading property information to the Colliers website;
 - c) placing online advertisements in the Globe & Mail and Calgary Herald on February 6, 2018;
 - d) executing confidentiality agreements with 15 prospective purchasers;
 - e) granting qualified prospective purchasers with access to an electronic data room including due diligence materials and a standard form of offer; and
 - f) establishing an offer deadline of March 28, 2018.
- 5.3 The Receiver, through legal counsel, had contacted and conferred with legal counsel to Clark prior to the commencement of and during the Colliers' marketing process to confirm whether Clark would be interested in making an offer on Deerfoot.
- 5.4 Following the offer deadline, Colliers presented the Receiver with three offers from prospective purchasers. The purchase price of the highest offer received by Colliers is far less than the first mortgage debt owed to KV Capital (approximately \$9.86 million as at May 1, 2018).
- 5.5 The Receiver informed KV Capital that the offers were insufficient to repay KV Capital's mortgage in full, and KV Capital then advised the Receiver that it intended to submit a credit bid for Deerfoot. The Receiver instructed Colliers to reject the three prospective offers and arrangements have commenced to return cash deposits to the unsuccessful bidders.
- After consultation with second ranking mortgagee (RBC) and the guaranter under the KV Capital mortgage debt, Mrs. Emilie Reid, the Receiver has accepted the credit bid offer from KV Capital to purchase Deerfoot that includes the following key commercial terms:
 - a) KV Capital offers to purchase RWW's interest in Deerfoot, free and clear of any encumbrances for a purchase price of \$5,000,000;

- b) the acceptance of the KV Credit Bid by the Receiver converted the offer into a binding agreement for the purchase and sale of RWW's interest in and to Deerfoot, subject to the terms thereof, including this Honourable Court granting a Commercial SAVO;
- c) adjustments to the purchase price for property taxes, utility costs, real estate broker commissions and an allocation of costs from the Receiver, which will be settled prior to closing and paid from the proceeds of certain collateral security that KV Capital holds in respect of its first mortgage debt relating to Deerfoot;
- d) the closing date will be 30 business days following the date on which all conditions are satisfied or waived or such earlier date as may be mutually agreed upon between KV Capital and the Receiver; and
- e) the sale is "as is, where is" with no representations and warranties of the Receiver.

Receiver's Review and Consideration

- 5.7 The Receiver's review of the KV Credit Bid included consideration of the following:
 - a) the results of the marketing efforts undertaken by an established and market leading real estate listing broker for Deerfoot;
 - b) whether the KV Credit Bid represents the highest and best price for the applicable purchased assets;
 - c) the reduced real estate commissions in the event of a credit bid provided for in the listing agreement entered into between the Receiver and Colliers;
 - d) the reputation and wherewithal of the prospective purchasers and the likelihood of the offerors being able to conclude a successful transaction;
 - e) the potential for the Receiver to incur additional holding costs in respect of Deerfoot if the transactions is not concluded in a timely manner including preservation costs, professional fees and interest accruing in respect of the first ranking mortgage;
 - f) confidential third-party appraisals commissioned by the Receiver and other indications of value; and
 - g) the economic interests of senior secured creditors and other stakeholders with interests in the purchased assets. The results of the Sales Process indicate that there is no equity in the property for lien holders or RBC.
- The Receiver is of the view that Deerfoot was marketed comprehensively and in a manner which was fair and reasonable, that the market has been adequately canvassed for potential purchasers and that the transaction contemplated by the KV Credit Bid is in the best interests of the creditors of Reid Group.

Deerfoot SAVO

5.9 The Deerfoot SAVO will conform in most respects to the other Commercial SAVO's as set out in sections 4.15 and 4.16.

6.0 TREATMENT OF LIENS

- The Receiver, in conjunction with its legal counsel, has conducted an analysis of the security and liens in connection with the series of Sale Approval and Vesting Orders granted by this Honourable Court on April 11, 2018 (the "April 11 SAVOs"). The April 11 SAVOs directed the Receiver to hold-back 110% of lien claims asserted against both Reid Group and non-Reid Group properties (such as those held by developers).
- Group properties are sufficient to address both the claims of the prior-registered security claimants as against the Reid Group properties, and the subsequently registered lien claimants against those same Reid Group properties. The Receiver confirms that given the overwhelming prior registered mortgages and other secured debt as against the Reid Group registered properties which were vested pursuant to the April 11 SAVOs, there are insufficient funds from the sale proceeds to satisfy lien claims as against such properties.
- In this regard, the Receiver has reviewed the affidavits filed or submitted in the within proceedings by secured claimants including KV Capital, RBC, Laurentian Bank, Canada ICI and Jovica Investments which demonstrate that their mortgage advances and registrations preceded the builders' liens registered on the subject titles. The Receiver also understands that the mortgage debt owed to Cobra Mortgage Services Ltd. ranks in priority to the subject lien claims and is expecting an affidavit from that secured claimant attesting to the advance of such mortgage funds prior to the registration of the subject liens.
- 6.4 The Receiver is also guided by section 11(4) of the Builders' Lien Act which provides that a registered mortgagee who had advanced funds has priority over a lien.
- 6.5 Accordingly, the Receiver seeks the Hold-back Release Order to amend the April 11 SAVOs to remove the obligation to hold back 110% of liens claimed against Reid Group owned properties and authorizing the Receiver to distribute those same funds in accordance with the administration of the receivership estate. To be clear, the Receiver is not proposing to release the funds held-back in respect of non-Reid Group properties (i.e. third-party developer owned properties) subject to the April 11 SAVOs.

- The Receiver submits that this treatment of liens is consistent with the treatment afforded to lien claimants in the series of Sale Approval and Vesting Orders granted April 20, 2018, in respect of which the Receiver did not hold-back any funds for liens given the overwhelming prior-registered mortgage and other secured debt.
- 6.7 The Receiver has written a letter to affected lien claimants indicating that the above relief would be sought on May 16, 2018. A copy of that letter is attached as Appendix "A".
- 6.8 The Receiver does not propose to hold-back any funds for lien claimants going forward, where it is apparent that the sale proceeds will be insufficient to satisfy the lien claims in light of prior-registered and higher-ranking security interests.

7.0 RECEIVER'S CONCLUSION AND RECOMMENDATION

- 7.1 It is the view of the Receiver that the purchase price and other terms of the Accepted Residential Offers, Accepted Commercial Offers and the KV Credit Bid are commercially reasonable in the circumstances and have high prospects of concluding in successful transactions. The process undertaken by the Receiver to select the preferred offers was conducted in a manner which was fair and reasonable and took the economic interests of the various competing financial stakeholders into consideration.
- 7.2 Based on the forgoing, the Receiver respectfully recommends that this Honourable Court grant the following orders:
 - a) the nine Residential SAVOs;
 - b) the three Commercial SAVOs;
 - c) the KV Credit Bid Order; and
 - d) the Hold-back Release Order.

All of which is respectfully submitted to this Honourable Court this 9th day of May, 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:

Ton Powell
Vice President

APPENDIX A

May 9, 2018



Barristers & Solicitors / Patent & Trade-mark Agents

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Our reference 1001004429

Dear Lienholder:

In the Matter of the Receivership of Reid Built Homes Ltd. et. al., Court File No. 1703-21274

Assessment of Lien Claims in Light of Prior-Registered Security

Our offices are counsel to Alvarez & Marsal Canada Inc. in its capacity as receiver and manager of the Reid Built group of companies (the **Receiver**), appointed pursuant to a Consent Receivership Order of the Court of Queen's Bench of Alberta dated November 2, 2017. A copy of the Receivership Order and all related materials can be found online at the Receiver's website at: https://www.alvarezandmarsal.com/reidbuilt.

You are receiving this letter because you registered liens in respect of Reid Built properties sold pursuant to a series of sale approval and vesting orders granted on April 11, 2018 (as discussed below).

As stated in previous correspondence to you, the Receiver is appointed a Court Officer reporting to all stakeholders in this receivership.

The Receiver brought Court Applications which were heard on April 11, 2018, and April 20, 2018, at the Edmonton Law Courts. The purpose of those Court Applications was to seek the Court's approval of numerous sale transactions entered into between the Receiver and various third-party arm's length purchasers for good value. This letter updates you on the status of those Applications and the Receiver's determinations with respect to your lien claims.

April 11, 2018, Application and Vesting Orders

Regarding the April 11, 2018, Application, and the resulting Sale Approval and Vesting Orders granted by the Court, you will recall that the Receiver held-back 110% of lien amounts claimed as against both Reid



Built and non-Reid Built properties (such as those held by developers) sold to third-party purchasers.

With the benefit of further analysis the Receiver can confirm that given the overwhelming prior registered mortgage and other secured debt as against the Reid Built registered properties which were sold, there are insufficient funds from the sale proceeds to satisfy lien claims as against such properties.

There is unfortunately nothing that can be done about this state of affairs which arises from the priority scheme under the Alberta *Builders' Lien Act*. As a result, there will be no recovery for your lien as against the properties registered in the name of a Reid Built entity that has been sold pursuant to the Sale Approval and Vesting Orders granted on April 11, 2018.

Accordingly, the Receiver anticipates bringing an Application to be heard in the Edmonton Law Courts on May 16, 2018 at 1:00 P.M., one objective of which will be to release the hold-back funds and authorize distribution of such funds by the Receiver to prior-registered security claimants (a copy of the proposed form of Order to this end is attached as Schedule "A" to this letter, and if you would like a copy of the filed application, please provide us with an e-mail address to contact you). We note that in many instances even the prior-registered security claimants will not be paid in full and will suffer a shortfall.

We expect affidavits from the prior-registered security claimants evidencing their security and indebtedness in due course. As with the affidavits posted to the Receiver's website with respect to the April 20, 2018, Application, we expect these affidavits to indicate the significant mortgage debt registered ahead of your, or any, builders' liens.

The Receiver confirms that amounts held by the Receiver with respect to <u>non-Reid Built</u> properties remain held in accordance with the applicable Sale Approval and Vesting Orders granted by the Court and will be adjudicated or settled in due course.

April 20, 2018, Application and Vesting Orders

For your information, and to put into context what the Receiver is proposing to do with the hold-back funds from April 11, 2018, we take this opportunity to inform you about the April 20, 2018, Application. We can advise that affidavits were filed from the Royal Bank of Canada and KV Capital demonstrating the significant mortgage debt registered prior to the filing of your, or any, builders' liens. Also with respect to the April 20, 2018, Application the Court approved the determination that there would be no recovery for liens as against sold properties registered in the name of a Reid Built entity given the aforementioned prior-registered mortgage debt.

With respect to properties proposed to be sold by the Receiver and registered in the name of a non-Reid Built entity (i.e. a third-party developer), we confirm that the Court approved vesting the subject properties free and clear but ordered the Receiver to hold-back 110% of the value of the registered liens against such non-Reid Built entity pending further order of the court or agreement with those lien holders.

May 16, 2018, and Future Vesting Orders

We anticipate that future sale approval and vesting orders where any Reid-owned property values are not sufficient to satisfy mortgages registered prior to the filing of builders' liens will similarly not include any hold-back or provide for payment of any subsequent builders' liens claims.

In this regard, we can advise that on May 16, 2018, we will also be seeking sale approval and vesting

NORTON ROSE FULBRIGHT

orders in respect of various properties, certain of which may be subject to your lien claims and will receive the treatment identified in the last paragraph.

Yours very truly,

Howard A. Gorman, Q.C.

Senior Partner

Copies to:

Todd Martin / Tom Powell, Alvarez & Marsal Canada Inc.

Aditya Badami, Norton Rose Fulbright Canada LLP

Reid Built Service List

SCHEDULE "A"

COURT FILE NUMBER

1703-21274

Clerk's Stamp

COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

PLAINTIFF

ROYAL BANK OF CANADA

DEFENDANTS

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

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

and REID CAPITAL CORP.

APPLICANT

ALVAREZ & MARSAL CANADA INC. in its capacity as Court-appointed Receiver of the current and future assets, undertakings and properties of REID-BUILT HOMES LTD.,

1679775 ALBERTA LTD., REID

WORLDWIDE CORPORATION, BUILDER'S DIRECT SUPPLY LTD., REID BUILT HOMES CALGARY LTD, REID INVESTMENTS LTD.,

and REID CAPITAL CORP.

DOCUMENT

ORDER

(Release of Liens Holdback and

Distribution)

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS

DOCUMENT

Norton Rose Fulbright Canada LLP 400 3rd Avenue SW, Suite 3700 Calgary, Alberta T2P 4H2

Phone:

+1 403.267.8222

Fax:

+1 403.264.5973

1001004429

Email:

howard.gorman@nortonrosefulbright.com / aditya.badami@nortonrosefulbright.com

Attention:

Howard A. Gorman, Q.C. / Aditya M. Badami

File No.:

DATE ON WHICH ORDER WAS PRONOUNCED: May 16, 2018

LOCATION WHERE ORDER WAS PRONOUNCED: Edmonton, Alberta

NAME OF JUSTICE WHO MADE THIS ORDER: Honourable Mr. Justice Graesser

NORTON ROSE FULBRIGHT

UPON THE APPLICATION of Alvarez & Marsal Canada Inc. in its capacity as Court-appointed receiver and manager (Receiver) of the current and future assets, undertakings and properties of REID-BUILT HOMES LTD., 1679775 ALBERTA LTD., REID WORLDWIDE CORPORATION, BUILDER'S DIRECT SUPPLY LTD., REID BUILT HOMES CALGARY LTD, REID INVESTMENTS LTD., 1852512 ALBERTA LTD., and REID CAPITAL CORP. (collectively, Reid Built); AND UPON HAVING READ the Consent Receivership Order dated November 2, 2017 (the Receivership Order) and the Sixth Report of the Receiver dated May 9, 2018, (Sixth Report); AND UPON HEARING counsel for the Receiver and any other interested parties that may be present; AND UPON IT APPEARING that all interested and affected parties have been served with notice of this Application; AND UPON having read the pleadings, proceedings, orders and other materials filed in this action;

IT IS HEREBY ORDERED AND DECLARED THAT:

SERVICE

1. Service of notice of this application and supporting materials is hereby declared to be good and sufficient, and no other person is required to have been served with notice of this application, and time for service of this application is abridged to that actually given.

APRIL 11, 2018, LIEN HOLDBACK RELEASE AND DISTRIBUTION AUTHORIZED

- 2. The Sale Approval and Vesting Orders related to Reid Built owned properties being titled, respectively, the "Prairie Pipe Sales Ltd. Transaction", "Homexx Transaction", "Grimsdale Transaction", "Adnan Hammoud Transaction", "Nevada Trucking Limited Transaction", "2014695 Alberta Ltd. o/a Streetview Homes Transaction", "2103908 Alberta Ltd. Transaction", "Pacesetter Homes Ltd. Transaction" (for clarity, only with respect to Reid Built properties), and "2072604 Alberta Ltd. Transaction" (for clarity, only with respect to Reid Built properties), are hereby amended so as to remove any obligation for the Receiver to hold-back from any sales proceeds any security for builders' liens claims registered against Reid Built properties which are subordinate to claims asserted by secured lenders or other secured creditors (the Released Funds).
- 3. The Receiver is hereby authorized to distribute the Released Funds to any valid prior registered secured creditors in accordance with the administration of the receivership estate.

| | | J.C. C.Q.B.A |
|--|--|--------------|