

COURT FILE NUMBER 1801-05767

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF C.K.V. DEVELOPMENTS INC.

DEFENDANTS CENTRO MOTEL INC.

DOCUMENT **SECOND REPORT OF THE COURT APPOINTED RECEIVER
OF C.K.V. DEVELOPMENTS INC.**

DATED OCTOBER 23, 2019

PREPARED BY DELOITTE RESTRUCTURING INC.

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

Counsel
Dentons Canada LLP
1500, 850 - 2 Street SW
Calgary, Alberta T2P 0R8
Attention: David Mann
Telephone: 403-268-7097

Receiver

Deloitte Restructuring Inc.
700, 850 - 2nd Street SW
Calgary, Alberta T2P 0R8
Attention: Robert J. Taylor
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- Appendix "B" Llewellyn correspondence
- Appendix "C" Statement of Receipts and Disbursements and Estimated Costs to Close as at October 21, 2019
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INTRODUCTION

- 1) On March 12, 2019, the Court of Queen's Bench of Alberta granted a Consent Order (the "**Receivership Order**") appointing a receiver and manager of the lands and premises described as Plan 7545FN, Block 11, Lot 8 to 10 inclusive and the motel assets and business ("**Centro Motel**" or the "**Property**") of C.K.V. Developments Inc. (the "**Debtor**" or "**CKV**"). On June 4, 2019 (the "**Date of Receivership**"), Deloitte Restructuring Inc. (the "**Receiver**") consented to act as receiver and manager of Centro Motel.
- 2) The Receivership Order was granted as a result of an application by Centro Management & Consulting Ltd. ("**Centro Management**"), formerly known as Centro Motel Inc. pursuant to its contractual rights under the seller finance Agreement (the "**Agreement**") dated May 31, 2017.
- 3) Following the issuance of the consent to act, the Receiver issued a statutory Notice and Statement of the Receiver (the "**Notice to Creditors**") pursuant to subsections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act* (Canada).
- 4) On July 24, 2019, the First Report of the Receiver (the "**First Report**"), along with the confidential supplement to the First Report, was filed in support of the Order pronounced on August 1, 2019 (the "**August 1 Order**"), approving the Sale Process as defined in the First Report, along with the actions of the Receiver.
- 5) The Order, together with related Court documents, the Notice to Creditors, the First Report and this second report (the "**Second Report**") have been posted on the Receiver's website (the "**Receiver's Website**") at:
<https://www.insolvencies.deloitte.ca/en-ca/Pages/CKV-Developments-Inc.-operating-as-Centro-Motel-.aspx>.
- 6) Unless otherwise provided, all other capitalized terms not defined in this Second Report are as defined in the Receivership Order or the First Report, as the context requires.

Purpose

- 7) The purpose of this Second Report is to:
 - a) Provide the Court with an update of the Receiver's activities since the date of the First Report;
 - b) Provide the Court with additional information regarding the Sale Process; and
 - c) Respectfully recommend that this Honourable Court:
 - i. Approve the activities of the Receiver as described in this Second Report, including, without limitation, the steps taken by the Receiver pursuant to the Receivership Order;
 - ii. Authorizing and directing the Receiver to enter into and carry out the terms of the asset purchase agreement (the "**APA**") dated September 16, 2019, together with any further amendments thereto deemed necessary by the Receiver in its sole opinion, for the sale of the Property as described in the APA in connection with the Centro Motel operations. A copy of the APA is attached as Appendix "**B**" to the confidential supplemental report to this Second Report (the "**Confidential Supplement**");

- iii. Approve the Receiver's statement of receipts and disbursements (the "SRD") for the period June 4, 2019 to October 21, 2019; and
- iv. Provide such further and other relief that the Court considers just and warranted in the circumstances.

Terms of Reference

- 8) In developing the Second Report, the Receiver has relied upon unaudited financial information prepared by the Debtor's management, the Debtor's books and records and discussions with its management. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the information.

Currency

- 9) All dollar amounts in this Second Report are in Canadian dollars, unless otherwise indicated.

BACKGROUND

- 10) CKV is an Alberta-based corporation owned by Mr. Diego Rossi ("**Rossi**"). CKV operates the Centro Motel pursuant to the Agreement. Rossi advised the Receiver that CKV also operates as a property development company that owns 11 condominium units, which are not subject to these receivership proceedings.
- 11) The Centro Motel is a 31 room "L-shaped" boutique motel located at 4540 16 Avenue NW, Calgary, Alberta.
- 12) Centro Management holds registered security against CKV as it relates to the Centro Motel property. Centro Management is owed approximately \$2.67 million (excluding fees and costs it has incurred in connection with the receivership). Alberta Treasury Branches ("**ATB**") and Mr. David Newsome ("**Newsome**") hold registered security against the Property ranking in priority to Centro Management.
- 13) As at the date of this Second Report, there remain 10 employees retained by the Receiver to operate the Centro Motel in the normal course during the sales process in an effort to maximize realizations for the benefit of all creditors.

RECEIVER'S ACTIVITIES

- 14) The Receiver has undertaken the following activities since the date of the First Report:
 - a) Continued to operate the Centro Motel pursuant to the Receivership Order;
 - b) Listed the Centro Motel for sale pursuant to the August 1 Order and addressed numerous sale matters as further described in this Second Report, including extensive discussions with the listing agent;
 - c) Dealt with various operational matters as they arose from time to time;
 - d) Supervised and directed the employees;

- e) Attended to various employee matters including Wage Earner Protection Program claims;
- f) Dealt with goods and services tax matters;
- g) Corresponded with various parties in respect of the administration of the receivership;
- h) Dealt with Rossi and his wife on several occasions in respect of the Centro Motel's operations and other matters described later in this Second Report;
- i) Provided updates to Centro Management and ATB;
- j) Updated from time to time a 13-week operating receivership cash flow;
- k) Drafted, reviewed and finalized this Second Report along with the interim SRD; and
- l) Addressed additional matters as they arose from time to time.

SECURED CREDITORS AND INDEPENDENT LEGAL OPINION

- 15) Pursuant to the Agreement, as previously discussed in the First Report, CKV paid Centro Management \$10,500 monthly, which was for Centro Management to service the ATB and Newsome mortgages.
- 16) It is the Receiver's view that by rendering these payments, CKV has acknowledged that the ATB and Newsome mortgages rank in priority to CKV's purchase interest. Accordingly, the Receiver, because of CKV's acknowledgement and the Receiver's attempt to keep costs to a minimum, has not commissioned an independent legal opinion on the ATB and Newsome mortgages.

SALE AND MARKETING PROCESS

- 17) Pursuant to the August 1 Order, the Receiver undertook a Sale Process of the Centro Motel as set out in paragraphs 27 and 29 of the First Report.
- 18) Royal LePage Mission ("**Royal LePage**") was retained by the Receiver to list the Centro Motel for sale. The listing price was set at \$3.3 million. Royal LePage commenced its marketing program on August 2, 2019. The listing period expired on September 16, 2019.
- 19) Royal LePage undertook an extensive sales and marketing process deploying various marketing tools including, but not limited to, an online listing of the Property on Royal LePage's commercial website and MLS Commercial listing website, posting the listing on Royal LePage's in-house marketing database, and sending brochures to potential interested parties.
- 20) Royal LePage provided the Receiver with regular reporting of its marketing activities including the number of prospective purchasers expressing an interest in the Centro Motel.

- 21) Royal LePage has advised that more than 25 potential interested parties were contacted and that 19 parties executed the confidentially agreement (the "**CA**") with Royal LePage and were provided with detailed financial information on the Centro Motel. A total of twelve parties toured the site.
- 22) Five APAs were submitted to the Receiver. Four APAs were provided to the Receiver as at the September 16, 2019 bid deadline date and the fifth APA was received on September 30, 2019, approximately two weeks subsequent to the bid deadline date. The Centro Management APA was a credit bid. The four other APAs were for an outright purchase of the Property.
- 23) Three of the APAs for outright purchase of the Property received at the bid deadline date, were significantly below the listing price of \$3.3 million, and were not considered commercially reasonable in the circumstances by either Royal LePage or the Receiver. Consequently, the Receiver, through Royal LePage, made counter-offers to each of the respective parties and extended the listing with Royal LePage to September 20, 2019. No revised APAs were received with respect to the Receiver's counter-offers.
- 24) A comparative summary of the five APAs and the Receiver's counter-offers are detailed in the Confidential Supplement.
- 25) Based on the five APAs received, the Receiver, subject to obtaining Court approval, accepted the credit bid offer made by Centro Management (the "**Centro APA**") as further described in the Confidential Supplement to the Second Report.
- 26) The Receiver is of the view that the Centro APA should be accepted for the following reasons:
 - a) Royal LePage undertook a strategic and broad canvassing of the market to obtain the highest sale price for the Centro Motel;
 - b) The Centro APA purchase price is consistent with the appraisal obtained by the Receiver which was provided to this Honourable Court by way of a Confidential Supplement to the First Report;
 - c) The Centro APA results in the continuing servicing of the loans to ATB and Newsome and addresses all professional fees incurred in respect of the receivership;
 - d) We are advised by Centro Management that both ATB and Newsome support the Centro APA; and
 - e) There are no other parties prepared to offer a higher amount than the Centro APA.
- 27) As Centro Management is the owner of the Property, it does not intend to re-register its ownership at Alberta Land Titles, but rather wishes to obtain a Court Order authorizing the removal of CKV from title. Based on the results of the Receiver's Sale process there is no equity in the Property above that which is owed to ATB, Newsome and the professional fees incurred. Accordingly, the Receiver supports Centro Managements application to have CKV removed from title.

- 28) Based on the Sales Process undertaken by Royal LePage, the appraised value of the Centro Motel and a comparison of the offers received, the Receiver respectfully requests this Honourable Court approve the Centro APA for the reasons outlined herein.

ROSSI PROPOSED FINANCING

- 29) On September 20, 2019, Rossi attended the Receiver's office to provide the Receiver with a letter (the "**Rossi Letter**"), attached as Appendix "**A**", indicating that Rossi had obtained funding for \$2.8 million to pay out Centro Management.
- 30) Subsequent to the receipt of the Rossi Letter, Rossi's legal counsel, Llewellyn Law ("**Llewellyn**"), also reached out to the Receiver requesting an accounting of the receivership administration to date, the amount required to pay out Centro Management and the quantum of professional fees including the Receiver's Fees and its legal counsel fees to administer and subsequently conclude the receivership. A copy of the request is attached as Appendix "**B**".
- 31) On September 24, 2019, the Receiver provided the requested accounting to Llewellyn. On September 25, 2019 the Receiver provided Llewellyn with an updated accounting, a copy of which is attached as Appendix "**C**".
- 32) If Rossi has sufficient funds to address the loans to ATB, David Newsome, and the various professional fees incurred by Centro Management, the Receiver (and Centro Management) would support a sale to Rossi.
- 33) As at the date of this Second Report, the Receiver has not been provided with any information indicating that Rossi has the required funds. Accordingly, the Receiver is recommending to this Honourable Court that the Centro Offer be accepted.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

- 34) The Receiver has prepared the SRD for the period of June 4, 2019 to October 21, 2019, attached as Appendix "**D**" which outlines the administration of the receivership.

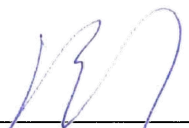
CONCLUSIONS AND RECOMMENDATIONS

- 35) Based on the foregoing, the Receiver respectfully recommends that this Honourable Court grant the relief detailed in Section 7c) of this Second Report and such further and other relief, as this Honourable Court deems appropriate in the circumstances.

All of which is respectfully submitted at Calgary, Alberta this 23rd day of October 2019.

DELOITTE RESTRUCTURING INC.

Solely in its capacity as
Court appointed Receiver of
The Property (as defined herein)
and not in its personal or corporate capacity



Robert J. Taylor, FCA, FCPA, CIRP, LIT, CFE
Senior Vice-President

APPENDIX A

C.K.V DEV INC.

SEPT 19-2019

CENTRO MOTEL; 4540 16 AVE N.W

THIS IS WHAT CLIVE LLEWELLYN LAW
TEL# 403-521-6369 WE HAVE THE MONEY
OUR LAWYER NEEDS.
TO PAY OUT THE SELLER VTB AND WE
WANT THE MONEY BACK FROM; DELOITTE RECEIVER
FOR THE RECEIVER CLIVE NEEDS FOR IMMEDIATE
ACCOUNTING AT LEAST AUG 31-2019 AND
ALL FEES TO THAT DATE.

THEN WE NEED A BREAKDOWN OF THE
RECEIVER'S ACCOUNTS FOR THEIR FEES

THIS ARE THE GROSS SALES IN COMPUTER
FROM WEBREZPRO FOR EVERY DAY AND
EVERY MONTH

JUNE 30-2019 SALES GROSS AMOUNT \$ 78,537.33

JULY 31-2019 SALES GROSS AMOUNT \$ 110,428.51

AUG 31-2019 SALES GROSS AMOUNT \$ 100,995.20

SEPT 19-2019 SALES GROSS AMOUNT \$ 46,502.79

TOTAL SALES GROSS AMOUNT FOR 3 MONTHS
AND 19 DAYS IS \$ 336,461.83

PLEASE SEND THIS TO OUR EMAIL; JAYNE.
ROSSI@GMAIL.COM

DINO & JAYNE ROSSI TEL# 403-241-8339

THIS IS FOR; DELOITTE MANAGEMENT RECEIVER

APPENDIX B

McGregor, Naomi

From: Gaspar, Dana <dgaspar@deloitte.ca>
Sent: Friday, September 20, 2019 2:15 PM
To: McGregor, Naomi <naomcmgregor@deloitte.ca>; Taylor, Bob <bobtaylor@deloitte.ca>
Subject: FW: Centro Motel operations in receivership,

Dana Gaspar
Senior Associate | Financial Advisory/Restructuring Services
D: (403) 267-0660 | F: (403) 718-3681
dgaspar@deloitte.ca | deloitte.ca
Deloitte is proud to be a National Partner
of the Canadian Olympic team

Please consider the environment before printing.

From: Clive Llewellyn <cllewellyn@llewellynlp.com>
Sent: Friday, September 20, 2019 2:03 PM
To: Gaspar, Dana <dgaspar@deloitte.ca>
Subject: [EXT] Centro Motel operations in receivership,

Dana Gaspar

We are counsel for Dino Rossi and his company operating the Centro motel.

Our client has advised that he has financing arranged for the \$2,800,000 more or less required to complete the purchase agreement and which will result in the discharge of the receiver. For this purpose I have requested counsel for the seller represented by Robert Hawkes to obtain a statement of the purchase price now to be paid under the agreement.

I have asked Dino to obtain from you an accounting of the operations and confirmation of what may be required to pay out the receiver. By this letter we directly make this request to the Receiver. If you wish to provide a "preliminary subject to review approximation, so we are in the ball park, please do so asap.

We are waiting for counsel to send the mortgage security documentation for the purchase money financing, and I understand that funding would be imminent.

Clive Llewellyn

LLEWELLYN LAW
2440 Kensington Road NW Calgary Alberta T2N 3S1
Phone: 403-457-1550 | Fax: 403-457-1552

McGregor, Naomi

From: Taylor, Bob <bobtaylor@deloitte.ca>
Sent: Friday, September 20, 2019 4:27 PM
To: McGregor, Naomi <naomcmgregor@deloitte.ca>
Cc: Afshan Naveed <afshan.naveed@dentons.com>; Dave Mann <david.mann@dentons.com>
Subject: Fwd: [EXT] RE: Centro v CKV

Thanks.

Bob Taylor
Deloitte Restructuring Inc.
W 403-267-0501
M 403-835-1164

Begin forwarded message:

From: Robert Hawkes QC <hawkesr@jssbarristers.ca>
Date: September 20, 2019 at 3:17:14 PM PDT
To: 'Clive Llewellyn' <cllewellyn@llewellynllp.com>
Cc: "Bob Taylor (bobtaylor@deloitte.ca)" <bobtaylor@deloitte.ca>
Subject: [EXT] RE: Centro v CKV

Clive,

As I understand it, the payout for principal and interest would be \$2,671,499.82 as at September 30, 2019. If the payout date extends beyond September 30, it will depend on receiving the AFS payment of \$10,500 that is due on September 30 from the Receiver.

Our firms legal fees and disbursements up to mid-late August were \$61,110.77. Centro has also incurred solicitor's fees under the Sale Agreement in relation to the receiver process. Those fees and disbursements are over \$5,000, but Centro will cap them at \$5,000.

That just leaves the cost of the Receivership, including the Receivers fees and disbursements along with those of its counsel. I have cc'd Bob Taylor for those numbers.

From: Clive Llewellyn <cllewellyn@llewellynllp.com>
Sent: Friday, September 20, 2019 8:27 AM
To: Robert Hawkes QC <hawkesr@jssbarristers.ca>
Subject: RE: Centro v CKV

Yes.. what exactly is required to payout your client say as of September 30.

If that is independent of the receiver, please say so.

Clive Llewellyn

LLEWELLYN LAW
2440 Kensington Road NW Calgary Alberta T2N 3S1
Phone: 403-457-1550 | Fax: 403-457-1552

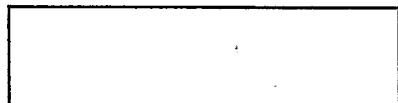
From: Robert Hawkes QC [<mailto:hawkesr@jssbarristers.ca>]
Sent: September-19-19 8:24 PM
To: Clive Llewellyn <cllewellyn@llewellynllp.com>
Subject: RE: Centro v CKV

Clive

Our fees, disbursements and GST relating to the Action up to mid-late August were \$61,110.77. In addition though Centro has incurred solicitor's fees under the Sale Agreement in relation to the receiver process. I believe those are under \$5,000. Do you want an exact number?

Robert Hawkes QC
Partner
Direct: 403 571 1544
Bio: [Robert Hawkes QC](#)

Jensen Shawa Solomon Duguid Hawkes LLP



T 403 571 1520 F 403 571 1528 800, 304 - 8 Avenue SW, Calgary, Alberta T2P 1C2 www.jssbarristers.ca

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From: Clive Llewellyn <cllewellyn@llewellynllp.com>
Sent: Thursday, September 19, 2019 6:49 PM
To: Robert Hawkes QC <hawkesr@jssbarristers.ca>; Taran Dhanda <tdhanda@llewellynllp.com>
Subject: RE: Centro v CKV

Robert,
As I understand matters, to complete the purchase of the motel from your client we would need to have from your client, a statement of what is due under the purchase Agreement; That would include any charges the added to the purchase price under the agreement. Could you provide that amount?

I understand Dino/Jayne will get accounting regarding the operations and the receivers costs from the Receiver.

Is there anything else that would be need to be paid in order to close the purchase by my client by my client?

Clive Llewellyn

LLEWELLYN LAW

2440 Kensington Road NW Calgary Alberta T2N 3S1

Phone: 403-457-1550 | Fax: 403-457-1552

APPENDIX C

C.K.V. Developments Inc. - in Receivership
Interim Statement of Receipts and Disbursements
For the period June 4, 2019 to November 15, 2019

Notes	Actual		Projected	
	June 4, 2019 to October 21, 2019	October 22, 2019 to November 15, 2019	Projected Total	
Receipts				
Operating income	\$ 335,007	\$ 39,671	\$ 374,678	
Cash on hand - TD Bank	2,324		2,324	
Miscellaneous refunds	167		167	
Interest	93		93	
Total receipts	337,591	39,671	377,261	
Disbursements				
Payroll	126,596	24,157	150,753	
Operating expenses	56,453	8,807	65,260	
Payment to Centro Management & Consulting Ltd.	40,724	10,500	51,224	
Legal fees	21,872		21,872	
Property and business taxes	16,380		16,380	
Software and online booking fees	20,667	4,594	25,260	
Appraisal fee	7,500		7,500	
Employee expenses	3,700		3,700	
Insurance	3,036		3,036	
GST	3,263	670	3,933	
Filing fees	70		70	
Total disbursements	300,261	48,728	348,989	
Estate balance as at October 21, 2019	\$ 37,330	\$ (9,057)	\$ 28,272	
Accrued Receiver's fees	1		136,722	
Accrued legal fees	2		26,490	
GST on professional fees			8,161	
Estimated Estate deficit			(143,100)	
Centro Management loan balance	3		2,665,347	
Centro Management - solicitor's fees - APA	3		5,000	
JSS Barrister legal fees incurred to August 2019	3		61,111	
Total funds required to pay out Secured Creditors			\$ (2,874,558)	

General notes:

This analysis assumes that the Centro Motel will continue to be maintained by the Receiver until the sales process concludes effective November 15, 2019. This analysis is based on various assumptions, and actual results will vary, and the variance may be material.

Specific notes:

1. The Receiver's fees and disbursements up to and including October 18, 2019 total approximately \$136,722 (excluding GST). This total includes interim invoices for Receiver's fees and disbursements from May 30, 2019 to August 12, 2019 for approximately \$89,905 (excluding GST) and work-in-progress for the period August 13, 2019 to October 18, 2019 in the amount of \$36,816 (excluding GST).

The Receiver estimates it will incur approximately \$10,000 (excluding GST) in additional fees in connection with administering and subsequently concluding the receivership administration.

2. Dentons fees and disbursements up to and including October 18, 2019 total approximately \$48,362 (excluding GST). This total includes interim invoices for legal fees for approximately \$36,362 (excluding GST) and unbilled work in progress totaling \$7,000 (excluding GST) and estimates it will incur approximately \$5,000 (excluding GST) in connection with attending Court to obtaining the Receiver's discharge.

3. On September 22, 2019, JSS Barristers confirmed its professional fees to August 2019, the Centro Management loan balance, and the solicitor's fees with respect to Centro Management's offer to purchase provided to the Receiver.

APPENDIX D

C.K.V. Developments Inc. - in Receivership
Interim Statement of Receipts and Disbursements
For the period June 4, 2019 to October 21, 2019

Receipts	Amount
Operating income	\$ 335,007
Cash on hand - TD Bank	2,324
Miscellaneous refunds	167
Interest	93
Total receipts	<u>337,591</u>
Disbursements	
Payroll	126,596
Operating expenses	56,453
Payment to Centro Management & Consulting Ltd.	40,724
Legal fees	21,872
Property and business taxes	16,380
Software and online booking fees	20,667
Appraisal fee	7,500
Employee expenses	3,700
Insurance	3,036
GST	3,263
Filing fees	70
Total disbursements	<u>300,261</u>
Estate balance as at October 21, 2019	<u>\$ 37,330</u>