



COURT FILE NUMBER 1701 – 04943

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF RECEIVERSHIP OF 1508686 ALBERTA LTD., PAUL LACKAN CONSULTING INC., and PMBRK HOLDINGS LTD.

PLAINTIFF BANK OF MONTREAL

DEFENDANTS 1508686 ALBERTA LTD., PAUL LACKAN CONSULTING INC., PMBRK HOLDINGS LTD., PAUL LACKAN and MELANIE LACKAN, also known as MELANIE OSTROSKY

DOCUMENT **SECOND REPORT OF DELOITTE RESTRUCTURING INC. AS THE COURT-APPOINTED RECEIVER AND MANAGER OF 1508686 ALBERTA LTD., PAUL LACKAN CONSULTING INC., and PMBRK HOLDINGS LTD.**

DATED MARCH 26, 2018

PREPARED BY DELOITTE RESTRUCTURING INC.

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

- 1) Pursuant to an Order (the "**Receivership Order**") of the Court of Queen's Bench of Alberta (the "**Court**") dated June 23, 2017 (the "**Date of Receivership**"), Deloitte Restructuring Inc. ("**Deloitte**") was appointed as receiver and manager (the "**Receiver**") of all of the current and future assets, undertakings and properties (the "**Property**") of 1508686 Alberta Ltd. operating as Macleod Guardian Pharmacy ("**1508686**" or the "**Pharmacy**"), Paul Lackan Consulting Inc. ("**PLC**"), and PMBRK Holdings Ltd. ("**Holdings**") (collectively, the "**Companies**" or the "**Debtors**").
- 2) The Receivership Order was granted as a result of an application by Bank of Montreal ("**BMO**") which was owed approximately \$986,000 from the Debtors at the Date of Receivership. BMO holds various registered security over the Property of the Companies along with a personal guarantee from the principal and sole director of the Companies, Mr. Paul Lackan (the "**Guarantor**" or "**Lackan**"). BMO also provided \$25,000 in Receiver Borrowings pursuant to the Receivership Order that remain outstanding (the "**Receiver Borrowings**").
- 3) On August 11, 2017, the First Report of the Receiver (the "**First Report**"), along with the confidential supplement to the First Report, was filed in support of the Approval and Vesting Order (the "**Vesting Order**") pronounced on August 18, 2017, approving the sale of the Pharmacy as a going concern to Nuaid Pharmacy Inc. ("**Nuaid**"), along with the related sales process and actions of the Receiver.
- 4) This report constitutes the second and final report of the Receiver (the "**Second Report**") which will be posted on the Receiver's website (the "**Receiver's Website**") at <http://www.insolvencies.deloitte.ca/en-ca/Pages/Lackan-et-al.aspx>.
- 5) Unless otherwise provided, all other capitalized terms not defined in this Second Report are as defined in the First Report.

PURPOSE

- 6) The purpose of this Second Report is to:
 - a) Provide an update on the administration of the receiverships since the date of the First Report; and
 - b) Respectfully recommend that this Honourable Court make orders:
 - i. Approving the actions taken by the Receiver as outlined in the Second Report;
 - ii. Approving the Receiver's Combined Actual and Estimated Statement of Receipts and Disbursements for the period from June 23, 2017 to March 26, 2018 (the "**Final SRD**");
 - iii. Approving the professional fees and disbursements of the Receiver as set out herein;
 - iv. Approving the payment of the GST Refund (as defined later in this Second Report), if any, as defined later in this Second Report, to BMO as a partial repayment of the Receiver's Borrowings;
 - v. Approving the discharge of the Receiver after disbursement of all funds held and concluding administrative matters with respect to the filing of a final GST return, submission of a final statutory report to the Office of the Superintendent of Bankruptcy pursuant to section 246(3) of the Bankruptcy and Insolvency Act (the "**BIA**"), and performing a final reconciliation of the Receiver's estate bank account; and

- vi. Providing such further or other relief that the Court considers just and warranted in the circumstances.

NOTICE TO READER

- 7) In preparing this Second Report, the Receiver has relied upon unaudited financial information prepared by the Debtors' management ("**Management**"), the Debtors' books and records and discussions with 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. Further, readers are cautioned that the Receiver has found the available books and records of the Debtors to be incomplete, inaccurate, and to contain material misstatements; accordingly, the Receiver is unable to place any reliance on the financial reports of the Debtors or the representations of Lackan. Additionally, none of the Receiver's procedures were intended to disclose defalcations or other irregularities. If the Receiver were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to the Receiver's attention. Accordingly, the Receiver does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein. The Receiver may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.
- 8) The Receiver assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this Second Report. Any use which any party makes of this Second Report, or any reliance or decision to be made based on this Second Report, is the sole responsibility of such party.
- 9) All dollar amounts in this Second Report are in Canadian dollars, unless otherwise indicated.

RECEIVER'S ACTIVITIES

- 10) The Receiver has undertaken the following activities since the date of the First Report:
 - a) Continued to operate the Pharmacy business until the closing of the sale with Nuaid on August 23, 2017 (the "**Closing Date**") pursuant to the Vesting Order;
 - b) Dealt with the various sale closing matters as further detailed in this Second Report;
 - c) Notified McKesson Canada Corporation ("**McKesson**") and the Alberta College of Pharmacists (the "**College**") of the sale of the Pharmacy and co-ordinated the transfer of contracts and licenses to facilitate a safe and timely transition of the operations to Nuaid;
 - d) Attended to various employee matters and related records of employment, T4's and Wage Earner Protection Program ("**WEPP**") claims;
 - e) Dealt with GST matters and the pursuit of a post-receivership GST refund;
 - f) Corresponded with various parties around the status of the receiverships;
 - g) Provided updates to BMO;

- h) Drafted this Second Report along with the final SRD; and
- i) Addressed additional matters as they arose from time to time.

CLOSING OF THE PHARMACY SALE

- 11) The Receiver continued with the daily monitoring of the Pharmacy along with the review of the daily reporting and compliance with security protocol up until the Closing Date.
- 12) All employees retained by the Receiver were provided one week's notice that their employment was terminated effective the Closing Date and the Receiver ensured a smooth transition to Nuaid.
- 13) An inventory count was completed, as required by the College, at the Closing Date.
- 14) The Receiver met with Nuaid on the Closing Date to turn over the Pharmacy's operations. Nuaid was unable to set up accounts with certain inventory and point of sale ("**POS**") vendors by the Closing Date and requested the Receiver's assistance to facilitate continued purchases on Nuaid's behalf and collecting of prescription sales by way of automatic deposit, through the POS system, from McKesson and Alberta Blue Cross until such time that Nuaid could set up or transfer all of the necessary accounts.
- 15) The Receiver agreed to Nuaid's request in order to maintain patient safety and minimize disruptions in day-to-day operations, and continued to order inventory on an as-needed basis provided that, Nuaid either advanced funds to the Receiver for such inventory before any order was finalized or paid the inventory vendors directly and provided the Receiver confirmation of same.
- 16) On or around September 15, 2017, the Receiver advised Nuaid that all accounts held by the Receiver had been terminated and requested a summary of all revenues from McKesson and Alberta Blue Cross to complete a reconciliation of prescription sales owing to Nuaid. The reconciliation was completed on or around October 15, 2017 and prescription sales totaling approximately \$4,100 were paid to Nuaid.
- 17) The Receiver also arranged for the transfer of the required utilities and leased equipment and the lease for the leased premises to Nuaid and ensured a smooth transition without disruption to customer care.

STATUTORY CLAIMS AND DUTIES

- 18) As outlined in the First Report, the Receiver understood from Lackan that all accounts with Canada Revenue Agency ("**CRA**") were current and in good standing in relation to payroll source deductions and GST. The Pharmacy also used a third-party payroll processing company and the Receiver understood that payroll source deductions were current. The Receiver made requests to CRA for access to the Debtors' tax information and to schedule audits following the Date of Receivership. Subsequently, CRA sent a letter to the Receiver dated July 28, 2017 indicating that there were approximately \$59,000 of outstanding payroll source deductions owing from 1508686 and \$67,000 of outstanding payroll source deductions and GST owing from PLC. The Receiver wrote to CRA to request that it allow the Receiver Borrowings and certain operating costs of the receivership to be paid in priority to any CRA deemed trust claims. CRA did agree to allow up to \$75,000 in reasonable fees and costs to be paid ahead of CRA's priority claim pursuant to a letter dated August 17, 2017 (the "**CRA Administration Agreement**").
- 19) As a result of the CRA Administration Agreement and the net realizations in the receiverships of only approximately \$57,000, before any Receiver Borrowings or Receiver's fees, there are no CRA priority claims ahead of BMO and no payments are expected to be made to CRA.

- 20) There is a statutory claim pursuant to section 81.4 of the BIA and WEPP with respect to six (6) former employees who were eligible to file claims. Service Canada reported to the Receiver that it paid approximately \$13,600 to these employees, and assessed a limited super priority claim against the estate for \$5,500. The Receiver has since paid this WEPP priority claim of \$5,500, and the Receiver is not aware of any other statutory or priority claims against the Companies.
- 21) The Receiver has filed all of the required post-receivership payroll returns and has paid all of the related amounts. However, CRA has advised of a discrepancy with the 2017 T4 slips and has issued a notice of unpaid payroll source deductions of approximately \$1,000. The Receiver understands that the amount is in part due to an error made by the payroll service provider who filed the 2017 T4 slips on the Receiver's behalf and due to CRA inadvertently applying post-receivership payroll source deduction remittances made by the Receiver to the Company's pre-receivership payroll account. The Receiver is currently working with CRA to reconcile and resolve this issue and has recently provided amended post-receivership 2017 T4 slips and a reconciliation of the pre and post CRA payroll accounts to CRA for its review. The Receiver does not expect any funds to be owing to CRA.
- 22) The Receiver has filed all of the required post-receivership GST returns to January 2018 and may receive, if there are no outstanding issues, a GST refund for a maximum of approximately \$5,300 (the "**GST Refund**") after the final GST return is filed with CRA.
- 23) Aside from the post-receivership payroll account issue still being addressed by the Receiver and the filing of the final GST return, the Receiver has completed all aspects concerning the administration of the receiverships and is not aware of any other statutory obligations it is required to fulfill.

CREDITORS

- 24) As previously noted, BMO is the principal secured creditor of the Debtors and was owed approximately \$986,000 at the Date of Receivership. BMO also provided \$25,000 in Receiver Borrowings that remain outstanding. The Receiver intends to use any proceeds received from the GST Refund to repay a portion of the Receiver Borrowings.
- 25) The Receiver is currently holding approximately \$6,700 of funds in trust to pay its final fees. There will be not be sufficient funds available for full settlement of the Receiver's fees or Receiver Borrowings or for distribution to any other secured or unsecured creditors.
- 26) The Vesting Order also granted the Receiver the power to assign the Companies into bankruptcy, but no steps have been taken by any creditors to date to do this.

FEES AND DISBURSEMENTS OF THE RECEIVER

- 27) The Receiver's fees in relation to the administration of the Receivership total approximately \$81,100 (excluding taxes). This total includes a final invoice for Receiver's fees from September 18, 2017 to closing for approximately \$6,100 (excluding taxes). The Receiver's fees have been discounted by approximately \$40,000 to January 30, 2018 as a result of the complexities of the file and overall low recoveries for the creditors. The Receiver notes that approximately \$57,000 of its professional fees and disbursements have been paid out of the net proceeds in the estates pursuant to the CRA Administration Agreement with the remainder to be paid from the Receiver's Borrowings.
- 28) A summary of the professional fees and disbursements is attached to this Second Report as Appendix "A".

- 29) In the Receiver's opinion, the services rendered in respect of these fees and disbursements have been duly rendered in response to the required and necessary duties of the Receiver hereunder, and are reasonable in the circumstances. Detailed time records supporting the invoices are available in the office of the Receiver.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

- 30) The Final SRD for the receiverships is attached to this Second Report as Appendix "B". The more significant receipts and disbursements are as follows:
- a) Net proceeds from the sale of the assets to Nuaid for approximately \$73,000;
 - b) Pharmacy fees and prescription sale proceeds for approximately \$93,000;
 - c) Receiver's borrowings for approximately \$25,000;
 - d) Receiver's fees for approximately \$81,100;
 - e) Payroll and contract labour costs for approximately \$59,000;
 - f) Purchase of medicine for approximately \$23,000; and
 - g) Occupancy rent of the leased premises for approximately \$12,000.
- 31) The Receiver is not currently holding any funds in trust and none of the Receiver Borrowings have been repaid. The Receiver is proposing to pay any proceeds received from the GST Refund towards the Receivers' Borrowings, up to a maximum of \$25,000.

CONCLUSIONS AND RECOMMENDATIONS

- 32) The Receiver has discussed and shared this Second Report with the applicant creditor, BMO, who is in agreement with the relief being sought in Section 6) b) of this Second Report.
- 33) Based on the foregoing, the Receiver respectfully recommends that this Honourable Court grant the relief detailed in Section 6) b) of this Second Report.

* * *

All of which is respectfully submitted at Calgary, Alberta this 26th day of March 2018.

DELOITTE RESTRUCTURING INC.,
solely in its capacity as
Receiver and Manager of 1508686 Alberta Ltd.
o/a Macleod Guardian Pharmacy, Paul Lackan
Consulting Inc., and PMBRK Holdings Ltd.,
and not in its personal capacity

Per:
For:



Jeff Keeble, CPA, CA, CRRP, LIT, CBV
Senior Vice-President

APPENDIX "A"

**IN THE MATTER OF THE RECEIVERSHIP OF 1508686 ALBERTA LTD.,
PAUL LACKAN CONSULTING INC., and PMBRK HOLDINGS INC.
SUMMARY OF RECEIVER'S FEES AND DISBURSEMENTS
FOR THE PERIOD JUNE 23, 2017 TO MARCH 26, 2018**

Invoice #	Period	Fees	Disbursements	GST	Total
4513780	June 21 to Sept. 15, 2017	\$ 75,000.00	\$ 323.30	\$ 3,766.17	\$ 79,089.47
8000037264	Sept. 18, 2017 to Closing	6,052.92	310.00	318.15	6,681.07
Total		\$ 81,052.92	\$ 633.30	\$ 4,084.31	\$ 85,770.53

APPENDIX "B"

**IN THE MATTER OF THE RECEIVERSHIP OF 1508686 ALBERTA LTD.,
PAUL LACKAN CONSULTING INC., and PMBRK HOLDINGS INC.
COMBINED FINAL STATEMENT OF ACTUAL AND ESTIMATED RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD JUNE 23, 2017 TO MARCH 26, 2018**

	Note	1508686 Alberta Ltd.	Paul Lackan Consulting Inc.	PMBRK Holdings Ltd.	Total
Receipts					
Court-approved Sale Transaction	1				
Initial deposit		\$ 20,000			\$ 20,000
Final installment & lease assignment costs		107,100			107,100
Lease assignment costs to landlord		(54,078)			(54,078)
Proceeds from sale before direct costs		73,022			73,022
Pharmacy fees and prescription sales		92,943			92,943
Receiver borrowings from Bank of Montreal	2	25,000			25,000
Cash on hand		4,756			4,756
WCB refunds		63			63
Utilities refund		230			230
Insurance refund		788			788
Transfer of funds from related Estates	3		70	70	140
Interest		118			118
Total receipts		196,921	70	70	197,061
Disbursements					
Payroll and contract labour costs	4	58,687			58,687
Purchases of medicine	5	23,170			23,170
Occupancy rent of leased premises		12,445			12,445
Supplies and operating expenses		2,057			2,057
Post-receivership GST paid		5,299			5,299
Equipment leases		3,663			3,663
Insurance		1,808			1,808
IT systems consultant		890			890
Utilities on operations		994			994
Locksmith		310			310
Business license		348			348
Filing fees to the Official Receiver		70	70	70	210
Other operating and administrative expenses		164			164
Canada Post, courier and creditor mailings		323			323
Transfer of funds to related Estates	3	140			140
WEPPA Super Priority		5,500			5,500
Receiver's fees paid through receiver borrowings	2	25,000			25,000
Receiver's fees paid from net assets		56,053			56,053
Total disbursements		196,921	70	70	197,061
Funds on hand at March 26, 2018		(0)	-	-	(0)

NOTES

- The Receiver entered into an asset purchase agreement dated July 28, 2017 and as further amended (the "Sale Agreement") in connection with certain assets of 1508686 Alberta Ltd. o/a Macleod Guardian Pharmacy. The Sale Agreement was approved by the Court on August 18, 2017, and that transaction closed on August 23, 2017. Pursuant to the flow of funds contemplated by the Sale Agreement, \$54,078.04 were held in-trust and subsequently released to the Landlord on closing of the sale transaction.
- In accordance with the Receivership Court Order dated June 23, 2017, the Receiver has borrowed \$25,000 by way of a Receiver's Certificate dated June 30, 2017 to facilitate pharmacy operations and patient safety. The Receiver will retire and repay part of these borrowings from any proceeds received from the estimated post-receivership GST refund of approximately \$5,300.
- At the date of the receivership, Paul Lackan Consulting Inc. and PMBRK Holdings Ltd. had ceased operations. 1508686 Alberta Ltd. was the operating entity and effectively possessed the only assets. The Court Order appointing the Receiver dated June 23, 2017 refers to the companies collectively as the Debtors and the Receiver attributes any realizations for the debtors to be for the benefit of all companies. For efficiency, the Receiver has used the Receivership account of 1508686 Alberta Ltd. as the general operating account for the entities of the Receivership and will from time-to-time transfer funds to cover the general administrative costs of the receivership estate of Paul Lackan Consulting Inc., and PMBRK Holdings Ltd. as necessary.
- Payroll of licensed pharmacists, pharmacy assistants and contract pharmacists.
- Purchases of medicine from licensed supplier and other pharmacies, as necessary.
- The Receiver entered into an Administrative Agreement with Canada Revenue Agency ("CRA") on August 17, 2017, allowing for reasonable fees and expenses for the receivership administration. Accordingly, amounts for CRA priority claims have not been paid or included in this Statement of Receipts and Disbursements.