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| COURT FILE NUMBER | 1603 11387 |
| COURT | COURT OF QUEEN'S BENCH OF ALBERTA |
| JUDICIAL CENTRE | EDMONTON |
| PLAINTIFF | ROYAL BANK OF CANADA |
| DEFENDANTS | GRANDE PRAIRIE RAINBOW AUTOMOTIVE LTD., CW BUILDCO LTD. and DUBAY PELOSKI HOLDINGS LTD., WAYNE TIMOTHY PELOSKI AND CHANDRA ANNETTE DUBAY |
| DOCUMENT | FIRST REPORT OF THE RECEIVER, MNP LTD., DATED NOVEMBER 18, 2016 |
| ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT | Duncan Craig LLP Attention: Russell Rimer 2800 Scotia Place 10060 Jasper Ave Edmonton, AB T5J 3V9 Fax No. 780.428.9683 Phone No. 780.441.4348 Solicitors for the Receiver, MNP Ltd. |

Introduction and Purpose of the Report

1. MNP Ltd. was appointed Receiver of Grande Prairie Rainbow Automotive Ltd., CW Buildco Ltd. and Dubai Peloski Holdings Ltd. (collectively referred to herein as "GP Automotive" or the "Company") pursuant to a July 7, 2016 Court of Queen's Bench of Alberta (the "Court") Order (the "July 7 Order").
2. GP Automotive is an automotive repair business located in Grande Prairie, Alberta. In accordance with a Corporate Registry Search dated June 23, 2016, the Directors of the Grande Prairie Rainbow Automotive Ltd. are Chandra Dubay and Wayne Peloski and the one-hundred (100) percent shareholder is Dubai Peloski Holdings Ltd. In accordance with a June 23, 2016 Corporate Registry Search of CW Buildco Ltd. the Directors are listed as Chandra Dubay and Wayne Peloski (shareholder information was not available).
3. This is the Receiver's First Report to the Court (the "First Report") and its purpose is to advise the Court with respect to the following matters:
 - Initial Activities of the Receiver;
 - Employees;
 - Assets;
 - Receiver's Sales Process;
 - Priority Creditors and Secured Creditors;
 - Interim Statement of Receipts and Disbursements;
 - Professional Fees; and
 - Interim Distribution

Initial Activities of Receiver

4. On July 8, 2016 the Receiver attended to the premises of GP Automotive to take possession and secure the assets. The Receiver met with the Directors to explain the receivership process. Management of GP Automotive had continued business operations following the granting of the July 7 Order and the Receiver took steps to wind down operations and close the business.
5. The Receiver met with the employees of the Grande Prairie Rainbow Automotive Ltd. and explained the receivership process and the administration of the Wage Earner Protection Program Act ("WEPPA"). All employees were employed solely by Grande Prairie Rainbow Automotive Ltd. and terminated effective July 8, 2016.
6. Customers with vehicles in the process of being repaired were contacted and arrangements were made to have the vehicles relocated.
7. In addition to vehicles in the process of being repaired the Company had a number of customer vehicles in its storage yard. The Receiver has made efforts to contact the owners of the vehicles to have them removed, however, some of the vehicles have not yet been claimed.
8. During the process of taking possession of the property of GP Automotive the Receiver has:
 - Re-directed the mail;
 - Changed locks to the premises and storage yard;
 - Ensured continuity of utilities to the property;
 - Contacted the existing insurance provider to confirm adequate insurance coverage is in place;
 - Contacted the financial institutions to freeze bank accounts; and
 - Contacted the commercial realtor where the Company had entered into a listing agreement to advise of the receivership appointment.
9. The Receiver has confirmed that the current insurance policy of GP Automotive is in effect and appears to provide adequate insurance coverage over the assets.
10. The Receiver prepared and filed the documentation to assign Grande Prairie Rainbow Automotive Ltd. into bankruptcy on October 14, 2016 for the purpose of inverting certain priority debts. A copy of the Certificate of Assignment in Bankruptcy is attached as **Schedule A** hereto.

Employees

11. Subsequent to the initial possession taking and termination of the employees the Receiver administered WEPPA providing each of the employees with a copy of the required documentation to file a claim for unpaid wages, vacation and termination pay.
12. In accordance with the books and records of Grande Prairie Rainbow Automotive Ltd. fourteen (14) employees were eligible to file claims under WEPPA.
13. Records of Employment and T4's for 2016 have been provided to each of the employees of Grande Prairie Rainbow Automotive Ltd. based upon the information available within the Company books and records.

Assets

14. The Company assets include the following:
 - a. Real Property (the "Real Property") owned by CW Buildco Ltd. only and described in paragraph 15 below;
 - b. Equipment, Chattels, and Inventory owned by Grande Prairie Rainbow Automotive Ltd. only; and
 - c. Accounts Receivable, property of Grande Prairie Rainbow Automotive Ltd. only.
15. In accordance with an October 15, 2016 Land Title Search the Real Property legally described as Plan 0621904, Block 4, Lot 1 is registered in the name of CW Buildco Ltd. The Real Property consists of approximately 2.06 Acres located within the city of Grande Prairie, AB. The Real Property includes an approximately 14,500 square foot building comprised of approximately 11,500 square feet of shop space and 3,000 square feet of office space.
16. Equipment and Chattels are comprised of hoists, alignment machines, diagnostic equipment and office equipment.
17. Inventory is comprised predominately of small automotive parts.
18. The Receiver commissioned a Forced Sale Value appraisal of the Real Property from Plant & Associates Appraisal Services Inc. (the "Plant Appraisal"). A copy of the Plant Appraisal is attached as **Schedule A** to the Confidential Addendum to the Receiver's First Report (the "Confidential Addendum").
19. The Receiver obtained Forced Sale Values for the equipment and chattels by way of a site-unseen desktop appraisal from MNP Appraisals Ltd. Attached as **Schedule B** to the Confidential Addendum is a listing of the Forced Sale Values.
20. Accounts Receivable of Grande Prairie Rainbow Automotive Ltd. ("AR") were listed at approximately \$134,000 as of July 8, 2016 in the Company's books and records. Based upon the Receiver's investigation and information provided by management:
 - Approximately \$17,000 of the AR was very dated (more than 2 years);
 - Approximately \$22,000 had been paid prior to July 8, 2016 (not reflected in the books and records); and
 - Approximately \$52,500 of the remaining AR was considered not collectable
21. As of October 6, 2016 the Receiver has collected a sum of \$44,633.03 of the outstanding AR.

Receiver's Sales Process

22. On August 5, 2016 the Receiver initiated a sales process to solicit offers to purchase the property of GP Automotive en-bloc. The marketing of the sales process consisted of the following:
 - Direct distribution of an Information Summary to thirty (30) business in the automotive repair industry located in the Grande Prairie, Alberta area;
 - Direct distribution of an Information Summary to seven (7) commercial realtors located in the Grande Prairie, Alberta area;
 - Direct distribution of an Information Summary to sixteen (16) auction/liquidation companies;
 - Direct distribution to approximately one-hundred (100) MNP Partners and staff in Grande Prairie, Peace River, Fort St. John, Fort McMurray, Edmonton, Red Deer,

- Leduc, Calgary, Lloydminster and Saskatoon offices for distribution to clients and contacts;
- Advertising in the Edmonton Journal; and
 - On-line advertising on MNP LinkedIn and MNPdebt.ca websites.
23. A copy of the Information Summary distributed is attached as **Schedule B** hereto.
24. Based upon tracking data the on-line marketing material was viewed 1,047 times.
25. In response to the marketing of the sales process seven (7) parties contacted the Receiver to sign the Confidentiality Agreement and complete further due diligence.
26. The sales process closed on September 9, 2016 and one (1) Offer to Purchase was submitted by Ducor Properties Ltd. (the "Ducor Offer") in accordance with the terms and conditions.
27. The Receiver entered into negotiations with Ducor Properties Ltd. and as a result of the negotiations the Receiver has accepted a revised Offer to Purchase (the "Revised Ducor Offer") subject to Court approval.
28. Details pertaining to the Ducor Offer and the Revised Ducor Offer are contained within the Confidential Addendum.
29. The Receiver is seeking the Court's approval to accept the Revised Ducor Offer.

Priority Creditors and Secured Creditors

30. In accordance with the books and records of the Company and correspondence directly with the Canada Revenue Agency ("CRA") a total payroll source deduction debt of \$383,595.72 remains outstanding by Grande Prairie Rainbow Automotive Ltd only. This total includes both the employee and employer portions and as at the date of the First Report CRA has conducted the payroll account trust exam and the Receiver is currently awaiting the filing of CRA's proof of claim to determine the Deemed Trust portion of the indebtedness.
31. In accordance with the Company books and records and correspondence directly with CRA a total Goods and Services Tax ("GST") of \$54,782.09 remains outstanding from Grande Prairie Rainbow Automotive Ltd. The bankruptcy of Grande Prairie Rainbow Automotive Ltd. will result in the priority of the GST debt being inverted to unsecured.
32. In accordance with the Company books and records and direct correspondence with the Grande Prairie Municipality the current outstanding property taxes owing by C.W. Buildco Ltd. are \$76,608.79.
33. In accordance with the June 28, 2016 Affidavit of Andrew Holmes the Royal Bank of Canada ("RBC") had an indebtedness of \$2,143,542.46 as at June 27, 2016 (not including accrued professional fees).
34. RBC holds General Security Agreements ("GSA") over all present and after acquired property of the Company. A June 23, 2016 Personal Property Registry ("PPR") Search for Grande Prairie Rainbow Automotive Ltd. discloses that RBC registered a GSA against Grande Prairie Rainbow Automotive which remains in effect and CW Buildco Ltd. the RBC GSA was registered on August 15, 1995. A copy of the June 23, 2016 PPR Searches for Grande Prairie Rainbow Automotive Ltd. and CW Buildco Ltd. are attached as **Schedule C** hereto.

35. RBC registered a mortgage against the Real Property on October 5, 2010 in accordance with an October 13, 2016 Land Title Search. A copy of the October 13, 2016 Land Title Search is attached as **Schedule D** hereto.
36. Counsel for the Receiver has reviewed the security documents provided by RBC and provided an opinion that RBC holds a valid and enforceable first charge over the Real Property of C.W. Buildco Ltd. and a valid and enforceable first charge over all other assets and undertakings of GP Automotive.
37. Bonnie Klettke ("Klettke"), the former owner of GP Automotive, advised the Receiver that she is owed approximately \$1,068,000 from Grande Prairie Rainbow Automotive Ltd. and \$682,000 from CW Buildco Ltd. Klettke has registered a secured interest against the Real Property on April 26, 2012 and a GSA as against the property of Grande Prairie Rainbow Automotive Ltd. on April 25, 2012. The Receiver's counsel has not reviewed supporting documentation in relation to debts owed to Klettke at this time as the Revised Ducor Offer would not result in a distribution to creditors in priority behind RBC.
38. Management advised the Receiver that certain equipment of Grande Prairie Rainbow Automotive Ltd. was subject to a lease agreement with Pat's Auto Supply (Grande Prairie) Ltd. ("Pat's Auto"). The Receiver was provided with a copy of the lease agreement and advised that the equipment subject to the lease agreement was originally owned by GP Automotive, however, in the spring of 2016 an agreement was made whereby GP Automotive would sell the assets to Pat's Auto (as an offset to a debt owed to Pat's Auto from GP Automotive) who would in turn lease the equipment back to GP Automotive.
39. Counsel for the Receiver reviewed the Pat's Auto Lease Agreement and provided an opinion that RBC's secured interest was in priority to the assets subject to the Lease Agreement. Details pertaining to the Receiver's Counsel's opinion were shared with Pat's Auto and its counsel for rebuttal and opportunity to provide additional information. A copy of the Receiver's Counsel's opinion is attached as **Schedule E** hereto.
40. Based upon the Receiver's Counsel's opinion the Receiver seeks the Court's approval to include the assets claimed to be subject to the Pat's Auto Lease Agreement in the en-bloc sale to Ducor Properties Ltd. with the assets to be conveyed free and clear of any claim or interest to the assets or their proceeds by Pat' Auto.
41. Fusion Business Solutions Inc. ("Fusion") provided the Receiver with a copy of a contract for IT/Network Professional Service which contained a lease clause pertaining to the computer hardware. The Receiver's counsel has reviewed the contract and determined that RBC's GSA security interest ranks in priority over the computer hardware. A copy of the Receiver's Counsel's opinion is attached as **Schedule F** hereto.
42. Based upon the Receiver's Counsel's opinion the Receiver seeks the Court's approval to include the assets claimed to be subject to the Fusion contract in the en-bloc sale to Ducor Properties Ltd, with these assets to be conveyed free and clear of any claim to the assets or the proceeds by Fusion.

Interim Statement of Receipts and Disbursements

43. Attached as **Schedule G** is the Receiver's Interim Statement of Receipts and Disbursements.

Professional Fees

44. Attached as **Schedule H** is a summary of the Receiver's Fees and Disbursements and a summary of the Receiver's counsel's fees and disbursements.

Interim Distribution

45. In accordance with the analysis within the Confidential Addendum the Receiver proposes to complete an interim distribution of the available estate proceeds subsequent to closing the Revised Ducor Offer:

- Property Taxes paid to the Grande Prairie Municipality of approximately \$76,000;
- CRA Deemed Trust Claim for payroll source deductions as detailed in the Confidential Addendum (upon filing of a deemed trust claim by CRA and limited to the assets within Grande Prairie Rainbow Automotive Ltd.);
- Payment to RBC in the amount of \$900,000 as first position secured creditor; and,
- Payment of Receiver's fees and Receiver's Counsel's fees.

Conclusion

46. The Receiver submits this First Report to Court in support of an application for the following:

- Approval of the Receiver's Activities to date as outlined in the First Report;
- Authorization to accept the Revised Ducor Offer and complete the sale in accordance with the terms stated substantially in the same form as the Order Confirming Sale and Vesting Order being circulated with this Report; and
- Authorization to complete an interim distribution as outlined in paragraph 45.

MNP Ltd.

In its capacity as Receiver of

Grande Prairie Rainbow Automotive Ltd., CW Buildco Ltd. and Dubay Peloski Holdings Ltd.

And not in its personal capacity



Per: **Eric Sirrs**, CIRP, Licensed Insolvency Trustee
Senior Vice President