

No. S-237489  
Vancouver Registry

**IN THE SUPREME COURT OF BRITISH COLUMBIA**

**IN THE MATTER OF THE RECEIVERSHIP OF  
QRD (WILLOUGHBY) HOLDINGS INC., QRD (WILLOUGHBY) LIMITED PARTNERSHIP,  
AND QRD (WILLOUGHBY) GP INC.  
PURSUANT TO SECTION 234(1) OF THE  
BANKRUPTCY AND INSOLVENCY ACT, R.S.C. 1985 c.B-3, AS AMENDED  
AND SECTION 39 OF THE LAW AND EQUITY ACT, R.S.B.C. 1996 c.253 AS AMENDED**

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**Supplemental Report to Receiver's Third Report to Court**

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**July 6, 2024**

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QRD (WILLOUGHBY) HOLDINGS INC., QRD (WILLOUGHBY) LIMITED PARTNERSHIP,  
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**Supplemental Report to Receiver's Third Report to Court**

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**APPENDICES**

Nil

## I. PURPOSE OF REPORT

### Purpose of report

1. This purpose of this supplemental report is to:
  - i. Provide the Court with further detail and commentary on a proposal for an alternative transaction put forward by the principals and Directors of the Companies (the “**BC Builds Proposal**”); and
  - ii. Provide the Court with additional detail and commentary on the potential structure of any transaction, if approved by the Court.
2. This is a supplemental report and should be read in conjunction with the Receiver’s Third Report (“**Receiver’s Third Report**”) dated June 21, 2024.
3. Unless otherwise stated, capitalized terms in this Report have the same meaning given to them in the Receiver’s Third Report.

## II. FRS SALE AND BC BUILDS PROPOSAL

### Background

4. Matt Weber and Richard Lawson are the principals and Directors of the Companies. The Receiver notes that both Mr. Weber and Mr. Lawson have cooperated and assisted the Receiver in the administration of the receivership to date.
5. The Receiver has communicated, primarily with Mr. Weber, on the status of the receivership, general process and the Receiver’s intentions when appropriate on an ongoing basis. The Receiver has arranged communications between Mr. Weber, Mr. Lawson, MCAP, CMSC and respective legal counsel as required throughout the administration.

6. In April 2024, Mr. Weber mentioned he was exploring a proposal with the Province of British Columbia through BC Builds, a recently created crown entity affiliated with BC Housing (“**BC Builds**”), regarding options for BC Builds to fund the purchase of the Project for use as rental housing.
7. The Receiver communicated to Mr. Weber that it supports any solution that would provide a superior recovery to creditors. It was also made clear to Mr. Weber, however, that until the BC Builds Proposal provided certainty on timing and a firm funding commitment from BC Builds (as described further below), the Receiver could not consider it to be a viable solution. The Receiver cannot proceed with a proposal without reasonable certainty as to timing and result.
8. Both MCAP and CMSC agreed with the Receiver’s position in relation to the BC Builds Proposal.
9. In May 2024, Mr. Weber caused the Companies to enter into a conditional Contract of Purchase and Sale with a non-profit called the Foundation Residence Society (“**FRS**”) for the Project (the “**FRS Sale**”). The Contract of Purchase and Sale was subject to BC Builds confirming that it would fund the Project, and to Court approval. The Receiver understands that the proposed purchase of the Project by FRS is entirely dependent on BC Builds financing.
10. Even though Mr. Weber had no authority to enter into a Contract of Purchase and Sale for the Project in light of the receivership, the Receiver did not intervene. The Receiver remained open to the prospect of that transaction, on the same condition as set out above, that the Receiver would proceed with its administration unless and until the FRS Sale and BC Builds Proposal became sufficiently certain as to present a viable solution.
11. In April 2024, Mr. Weber requested the Receiver’s approval for him to administer a rental marketing campaign to advertise units of the Project for rent, which would assist in satisfying BC Builds as to the rental prices that the Project would attract. The Receiver advised Mr. Weber it was not willing to support the advertising for rent of units under the Receiver’s control.

12. However, the Receiver did advise Mr. Weber that the Receiver would not intervene with his proposed rental market test on the condition that Mr. Weber disclose that FRS does not currently own or control the Project.

### **Overview of Receiver's Position Respecting the FRS Sale and the BC Builds Proposal**

13. The Receiver understands both Mr. Weber and Mr. Lawson have invested considerable time and effort into the BC Builds Proposal and have made efforts to advance their application. Still, at all times, the Receiver has made clear that the administration of the receivership needs to be completed in a timely manner, and that it will not consider the BC Builds Proposal unless there is a firm commitment for funding that would bring the receivership to a satisfactory resolution.
14. At the date of this Supplemental Report, Mr. Weber has not provided any formal documentation from BC Builds to confirm approval of funding of the purchase price for the FRS Sale. The Receiver has only very recently seen the Letter of Interest from BC Builds to FRS, dated July 5, 2024. That Letter of Interest is conditional, and does not confirm approval of funding or timing.
15. Absent a firm commitment of financing from BC Builds, the Receiver is of the opinion that the FRS Sale and the BC Builds Proposal are not viable and should not disrupt or delay the administration of the receivership. The FRS Sale is entirely dependent on funding from BC Builds, and the BC Builds Proposal is significantly uncertain, and cannot, in the Receiver's view, be recommended, particularly in light of significant ongoing holding and other costs associated with delays in the receivership administration.

### **Assessment of BC Builds Proposal**

16. The FRS Sale contemplates a purchase price of \$62 million, with a ~\$21 million vendor-take-back mortgage. The net proceeds from that sale, if completed, would be sufficient to pay all secured creditors. As such, the Receiver agrees that the FRS Sale contemplates a better recovery to secured creditors than the Redekop Offer.

17. Still, for the reasons set out above and further discussed below, the FRS Sale is not viable in the circumstances.
18. The Receiver assessed the following factors in reaching this conclusion:
  - i. The purchase price of \$62 million is substantial. Based on discussions with Mr. Weber and representatives of BC Builds, the Receiver understands that this proposal requires additional levels of approval, including from the Provincial Treasury Board. BC Builds could not provide a definitive timeline for approval. They did state an estimate of 60 to 90 days in a best case scenario, for approval of funding only (and not completion of a sale). Based on the July 5 letter from BC Builds, that timeline appears optimistic;
  - ii. In addition, on discussions with industry professionals who are involved in BC Builds applications, including Bill Randall of Colliers, the Receiver does not believe that a 60 to 90 day timeline is realistic, given the high purchase price and multiple levels of municipal and provincial government approval required;
  - iii. The FRS offer underlying the BC Builds Proposal is significantly higher than the Redekop offer, the Receiver's estimates of realizable value, and indications of value prepared by industry professionals which the Receiver has commissioned. Because the purchase price under the BC Builds Proposal is significantly higher than apparent fair market value of the Project, the Receiver expects it will be difficult to achieve the extensive requisite approvals;
  - iv. The Receiver understands BC Builds is a new Crown entity that has funded few projects to date, which again indicates a longer timeline for approval and funding;
  - v. Based on a review of information available, the proposed purchaser under the BC Builds Proposal, FRS, is a new entity with no projects completed or any active projects under management, bringing into question FRS' ability to complete the proposed sale and subsequent construction of the Project, even if funding were approved;

- vi. Based on a review of FRS's website, all of FRS's projects, which are in the application process only, are former QRD projects that are in foreclosure proceedings; and
  - vii. The Receiver understands that QRD is working with FRS on at least one other QRD development project under foreclosure, which is also subject to BC Builds financing.
19. The Receiver is incurring ongoing holdings costs for the Project of approximately \$400,000 per month including:
- i. Interest costs estimated at approximately \$235,000 per month for MCAP's mortgage and Receiver's borrowings. This does not include other interest charges for CMSC, other subordinate creditors or further required Receiver's borrowings; and
  - ii. Monthly site costs and professional fees estimated at \$165,000 per month.
20. The Receiver has also discussed the BC Builds Proposal with MCAP and CMSC. Both agree with the Receiver that there is no certainty to the FRS Sale, and neither supports further delays of the sale of the Project.
21. As noted above, CMSC, the second mortgagee could lose approximately \$7 million if the Redekop Offer is approved, and would be fully paid out if the BC Builds Proposal were to proceed. Even so, CMSC does not support the FRS Sale and BC Builds Proposal, given the associated further delay and uncertainty.

### **Conclusion**

22. The Receiver has been supportive of Mr. Weber's and Mr. Lawson's efforts to advance the BC Builds Proposal. However, to date, the Receiver has received no firm and binding commitment that BC Builds has agreed to fund the BC Builds Proposal and purchase price of \$62 million.

23. The timing and ultimate approval and funding of the BC Builds Proposal is uncertain. At minimum, BC Builds estimates a 60 day timeline for financing approval.
24. The Receiver is of the opinion that the BC Builds Proposal is not an offer to be considered, as it is conditional and entirely dependent on BC Builds financing, which has not been sufficiently supported. The Receiver, MCAP, and CMSC all oppose further delays of a sale, given the continued accrual of monthly costs approximating \$400,000.

### III. STRUCTURE OF POTENTIAL SALES TRANSACTION

25. The Redekop Offer is structured as an asset sale. The Receiver understands that Redekop and CMSC, who is projected to suffer an estimated \$7 million shortfall on their secured debt, have held discussions about changing the structure of the transaction, if approved by the Court, to a share sale and transfer of beneficial interest by way of a Reverse Vesting Order (“**RVO**”).
26. The RVO is a more complicated transaction structure, and thus creates a higher transaction cost in terms of professional fees, but the benefits to the secured creditors and purchasers significantly outweigh those costs. The proposed RVO transaction being discussed amongst the parties would increase the recovery to CMSC by approximately \$800,000.
27. An alternative offer by Redekop in the form of an RVO was not available in time for the current application to approve the sale, but the Receiver provides the following commentary for the Court’s consideration:
  - i. An RVO will not trigger Property Transfer Tax, which tax savings will, in turn, result in additional recovery to creditors through an increased purchase price;
  - ii. An RVO allows a purchaser to select and retain specific non-transferable attributes of the Project, such as building permits and licenses, which may benefit the purchaser in completing the Project; and
  - iii. An RVO may allow access to tax loss attributes that would be unavailable in an asset sale.



28. The Receiver understands that CMSC, who is the affected creditor that would benefit by an increase in purchase price, supports an RVO transaction structure, provided it achieves the objective of increasing purchased price and recovery.
29. Provided an RVO contains the same commercial terms as the Redekop Offer that has been accepted by the Receiver, the Receiver supports a sale via RVO, as it will provide better recovery to creditors.
30. Specifically, to be supported by the Receiver, any RVO must include the replacement of Letters of Credit held by the Township of Langley on account of the Project. Replacement of those Letters of Credit is a term of the current Redekop Offer.

### **Competing Offers**

31. The sales and marketing process conducted by Colliers, as detailed in the Receiver's Third Report, did not contain a set timeline for potential purchasers to submit offers. Colliers has continued to market the Project up to the Court approval date, including by notifying previously interested parties of the date of the Receiver's application to approve the Redekop Offer.
32. The Receiver's Third Report contains a full copy of the Redekop Offer. The Receiver notes that the accepted Redekop Offer includes a break fee of \$200,000 (the "**Break Fee**"), should a superior offer be accepted by the Court. The Receiver understands that Redekop included that term in their original offer because of the likelihood that competing bids might arise, and to hedge against the costs that Redekop was incurring to diligence the Project and retain counsel to assist through the process. The Receiver accepted this term, with the support of MCAP and CMSC, because they all believed that the potential cost was justified; the Break Fee would only be payable if a superior competing bid was made, and having an accepted offer in hand was the key to motivating those competing bidders.
33. At the date of this Report, the Receiver is aware that competing offers have been submitted to the Receiver's legal counsel, Lawson Lundell LLP.

#### IV. RECOMMENDATIONS

34. Competing offers have been submitted to the Receiver's legal counsel.
35. The Redekop Offer is currently structured as an asset sale, and the Receiver understands that discussions have occurred regarding changing the structure of the Redekop Offer to an RVO, largely to increase recovery to creditors.
36. The Receiver supports converting the structure of the Redekop Offer, if ultimately approved over other competing offers, from an asset sale to an RVO, provided that all other commercial terms remain unchanged from the original Redekop Offer.
37. If a superior competing bid is ultimately approved over the Redekop Offer, and that bid is structured as an asset sale, the Receiver also supports the conversion of that sale to an RVO.

#### MNP Ltd.

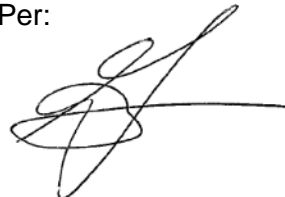
In its capacity as Receiver and Manager of QRD (Willoughby) Holdings Inc., QRD (Willoughby) Limited Partnership and QRD (Willoughby) GP Inc.

Per:



Mario Mainella, CPA, CA, CIRP

Per:



Gordon Brown, CPA, CA, CIRP