Clerk's Stamp

COURT FILE NUMBER	2303-11446
COURT	COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE	EDMONTON
PLAINTIFF	UMC FINANCIAL MANAGEMENT INC.
DEFENDANTS	CAREADON CORP., 1978753 ALBERTA LTD., and TERRENCE HODGSON in his capacity as trustee of ALDER INVESTMENT GROUP TRUST 2016
DOCUMENT	**RECEIVER'S FIRST REPORT** **August 21, 2023**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**<u>RECEIVER</u>** ERNST & YOUNG INC. 10423 – 101 Street, Suite 1400 PO Box 44 Edmonton, Alberta T5H 0E7 Attention: Matt McCulloch / Evan MacKinnon Telephone: 780-638-6642 / 780-441-2447 Fax: 780-428-8977 Email: matt.mcculloch@parthenon.ey.com evan.mackinnon@parthenon.ey.com **<u>COUNSEL</u>** MCLENNAN ROSS LLP 600, McLennan Ross Building 12220 Stony Plain Rd. Edmonton, Alberta T5N 3Y4 Attention: Ryan Trainer / Chuck Russell Telephone: 780-482-9153 / 780-482-9115 Fax: 780-733-9757 Email: ryan.trainer@mross.com chuck.russell@mross.com

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INTRODUCTION, BACKGROUND AND PURPOSE OF THE REPORT

1. On July 7, 2023, pursuant to an application made by UMC Financial Management Inc. ("**UMC**"), the Court granted an Order (the "**Receivership Order**") dated and filed on July 7, 2023, appointing Ernst & Young Inc. ("**EY**" or the "**Receiver**") as receiver of Careadon Corp. ("**Careadon**" or the "**Company"**). For the remainder of this report, and future reports, any reference to "**Management**" will be used to refer to Mr. Terrence Hodgson, the director of Careadon.

2. Careadon's sole physical asset is an eight-story independent living facility for adults aged 55 or over. The facility, known as Careadon Village, is located at 2 Inglewood Drive, St. Albert, Alberta (hereinafter referred to as the "**Building**"). The Building is currently under construction, with a total of 164 units, of which approximately 55 are essentially completed with the remaining 109 units to be completed (most of which are on the upper floors of the Building). Construction of the Building has been ongoing for approximately six (6) years.

3. Notwithstanding the incomplete status of the Building, as at the date of the receivership seven of the completed units were occupied as a result of rental agreements or life leases entered into between the occupants and Careadon (discussed further in this report).

4. The purpose of this report (the **"Receiver's First Report"**) is to provide the Court with information and the Receiver's comments (where applicable) in relation to the following:

   a) the conservatory measures and other actions of the Receiver to date in respect of the Building and of Careadon generally;

   b) the various secured and priority creditors known to the Receiver to date;

   c) the Receiver's discussions with the tenants of the Building (the "**Tenants**"), and information in relation to the initial review of the Tenants' life leases in place and funds held in trust relating to those life leases;

   d) the Receiver's receipts and disbursements incurred to August 16, 2023;

   e) the Receiver's evaluation of the current state of the Building, review of appraisals and cost to complete information provided to date;

   f) a proposed sale process being sought by the Receiver in relation to the Building;

   and to serve as support for the Receiver's request of the Court for the following:

   g) an Order approving the Receiver's actions to date, as outlined in this report;

h) an Order approving a sales process (the "**Sales Process Order**") for the Building; and

i) an Order sealing the 1st Confidential Supplement of the Receiver (defined later in this report).

DISCLAIMER

5. In preparing the Receiver's First Report, the Receiver relied upon certain financial information prepared by Careadon and derived from discussions with Management. The Receiver has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information provided. Accordingly, the Receiver expresses no opinion or other form of assurance on the information contained in this report or relied upon in its preparation.

6. This report should be read in conjunction with any other materials filed before the date of the upcoming application to Court which has currently been set for August 31, 2023. All reports and Orders, save for items directed to be sealed for confidentiality purposes, are available on the Receiver's website established for these proceedings that is located at *https://documentcentre.ey.com/#/detail-engmt?eid=535*

7. All references to dollars are in Canadian currency unless otherwise noted.

CONSERVATORY MEASURES BY THE RECEIVER AND OTHER ACTIONS OF THE RECEIVER TO DATE

Conservatory Measures on Possession

8. Upon appointment, the Receiver attended the Building and met with the Tenants, the leasing agent for the Building, Anita Dyrbye ("**Mrs. Dyrbye**"), and Dave Dyrbye ("**Mr. Dyrbye**") who worked for the general contractor of the Building prior to the onset of the receivership. Mr. Dyrbye has an intimate knowledge of the Building, the trades used in the construction process, Careadon's books and records relating to the Building, and also provided general maintenance and repair services for the Tenants before the date of Receivership. A representative of UMC was also at the Building at the time the Receiver took possession. Management was not able to attend site at the time of the Receiver's possession, as it is the understanding of the Receiver that Management was out of Province at the time.

9. At the time of initial possession, the Receiver's actions included, but were not limited to the following:

a.) The Receiver conducted a general walkthrough of the Building and surrounding area with the UMC representative, Mr. and Mrs. Dyrbye, and inspected several individual units and the underground parking garage. At the same time, the Receiver photographed many points on the interior and exterior of Building;

b.) The Receiver contacted a locksmith and had the physical locks of all exterior entry points changed or disabled where appropriate;

c.) In addition to the physical locks that were changed, the main entry point of the Building is controlled by electronic key fobs which were a much better safeguard for access to the Building and were also more user friendly for both the Tenants and others requiring access. After considering the situation, the Receiver determined that the key fob access needed to be addressed immediately, and as such, the Receiver investigated and contacted the company responsible for activating and monitoring the key fobs and security system for the Building (the "**Security Company**"). A representative from the Security Company was able to attend the Building at possession and at the request of the Receiver all existing key fobs were disabled and new key fobs were issued to the Receiver, the Tenants, Mr. & Mrs. Dyrbye and Melissa Harter ("**Ms. Harter**") who provides cleaning services for the common areas in the Building. All new keys and fobs were issued in return for such parties signing and returning a keyholder agreement to the Receiver which outlined various restrictions and the terms of use; and

d.) Given Mrs. Dyrbye's familiarity with the Building and Tenants, the Receiver retained Mrs. Dyrbye as an onsite representative of the Building, to assist the Receiver with the day-to-day matters involving the Tenants, certain creditors and other matters relating to the continued occupation of the Building. In addition, the Receiver agreed that Ms. Harter should stay on to provide the necessary cleaning services to the common areas on a reduced basis.

<u>Additional Conservatory Measures</u>

10. In due course after initial possession, the Receiver proceeded to take the following additional conservatory actions:

a.) The Receiver was informed by Mr. Dyrbye that Careadon held bank accounts with ATB Financial ("**ATB**") and provided copies of the May 2023 bank statements for the two Careadon accounts held there. The Receiver contacted ATB and froze the accounts for outgoing transactions to avoid any further erosion to the existing cash on hand. As at the date of the Receivership, there was approximate $12,260 on hand in Careadon's bank accounts which has now been transferred to the Receiver's trust account set up for these proceedings;

b.) With the exception of a possible GST refund, the Receiver has been advised that there are no significant accounts receivable owed to Careadon to be collected. The Receiver is investigating the status of Careadon's GST position/exposure currently, as discussed later in this report;

c.) The Receiver has coordinated with Mrs. Dyrbye and the Tenants to have monthly rental and lease obligation payments remitted directly to the Receiver;

d.) Prior to the onset of the receivership, the Receiver was advised that UMC had paid Careadon's insurance premium for the month of July to maintain insurance coverage on the Building. The Receiver has contacted Careadon's insurer to confirm adequate coverage is in place, to advise of the receivership proceedings and be added as a loss payee. Insurance for the month of August was paid directly by the Receiver, and the Receiver will ensure that adequate coverage remains in place going forward;

e.) During the initial walkthrough of the Building, it was apparent to the Receiver that the weeds on all sides of the Building were a concern and needed to be addressed as soon as possible to avoid intervention from the City of St. Albert and possibly any associated fines that could result. In discussing its concerns with Mrs. Dyrbye, the Receiver's concerns were confirmed as Mrs. Dyrbye advised that the City of St. Albert had raised this as an issue with Management on multiple occasions. In addition, the Receiver was advised that there were some grading concerns on the lands surrounding the Building and water was pooling and possibly causing damage to the Building. Given these concerns, the Receiver retained a landscaping contractor to remove the weeds from the Building and surrounding area and to try and address the grading issues where possible. Despite its efforts in this regard, the Receiver did receive a call from the City of St. Albert complaining about weeds around the entrance to the underground parkade; however, the landscaping contractor immediately addressed the problem and at present, the Receiver is of the understanding that the weed concerns have been resolved; and

f.) At the date of the Receivership, there was a large, motorized crane and flat bed trailer parked in the yard on the east side of the building. Mr. Dyrbye advised the Receiver that it was his understanding that these assets were owned by the general contactor of Careadon, Kota Construction Inc. ("**Kota**"). Kota has since filed a property claim that was accepted by the Receiver evidencing ownership and removed the crane and the trailer from the Building's lands.

Other Actions of the Receiver to Date

11. Since the onset of these receivership proceedings, the Receiver's other actions include, but are not limited to the following:

a.) receiving and addressing creditor and other stakeholder questions and concerns;

b.) meeting with representatives from the two senior secured creditors, UMC and HMT Holdings Inc. ("**Harbour**"), on site and by video conference in relation to these receivership proceedings and matters pertaining to the Building;

c.) dealing with various operational challenges involving utilities, repairs and maintenance and other items;

d.) initiating a review of various matters such as the status of the various life leases and GST; and

e.) preparing this report.

CREDITOR MATTERS

Goods and Services Tax ("GST")

12. It has been brought to the attention of the Receiver that there may be a significant outstanding GST liability as a result of Careadon conducting a self assessment in connection with the Building. However, as noted earlier in this report, the Receiver was also advised that there was a possible GST refund available on account of the construction input tax credits paid by Careadon. The Receiver has raised this concern with its counsel and together they are currently reviewing the matter. Further information on the quantum of any refunds receivable or any amounts owing (if any) for GST will be reported by the Receiver in subsequent reports.

Property Taxes

13. As at the date of Receivership, property taxes owed to the City of St. Albert for the year ended December 31, 2022, in the amount of $419,892.94 which were due June 30, 2023 ("**Property Taxes**") were outstanding. The Receiver has since drawn on its approved

borrowings and issued a payment to pay the outstanding Property Taxes in full to avoid further penalties and interest that would otherwise continue to accrue.

14. It is the Receiver's understanding that property taxes are paid to the City of St. Albert on an annual basis, and the amount due for 2023 is not due until June 30, 2024. Provided the Building is sold prior to June 30, 2024, the taxes payable for 2023 would be dealt with as an adjustment to the purchase price, and ultimately paid by the purchaser when due.

Source Deductions

15. The Receiver is not aware of any liabilities in relation to source deductions. It is the Receiver's understanding that Careadon did not employ any employees and that any such individuals who worked at the Building prior to these receivership proceedings were employed by Careadon Village Inglewood Inc., an separate corporate entity.

16. The Receiver has opened a payroll account with Canada Revenue Agency ("**CRA**") and will be making all required source deduction payments to CRA for individuals retained by the Receiver to assist in these proceedings.

Secured Creditors

17. The Receiver conducted a search at the Personal Property Registry ("**PPR**") for Careadon on July 10, 2023 and obtained a Land Title Certificate ("**Land Title**") on July 17, 2023. The PPR details registrations from three specific lenders: Harbour, UMC, and KV Capital Inc. ("**KV Capital**"). The Land Title Certificate showed mortgages registered by Harbour and UMC.

HMT Holdings Inc.

18. Harbour agreed to provide Careadon with construction financing pursuant to a commitment letter dated February 21, 2021, along with amending letters dated April 21, 2021 and December 5, 2022, respectively.

19. Harbour's construction financing is supported by a security agreement, assignment of rents and leases and a mortgage (collectively the "**Harbour Security**") all dated April 29, 2021. Harbour registered its mortgage on the Land Title of Careadon on June 14, 2021 in the amount of $18,700,000 and its security agreement at PPR on April 22, 2021 .

20. The Receiver's counsel has reviewed the Harbour Security and opined that it is valid and enforceable, subject to the standard qualifications.

21. On August 17, 2023, Harbour provided a payout statement to the Receiver which indicated that the balance owing to Harbour as at that date was $13,507,762.07.

Intercreditor Agreement

22. On April 20, 2021, UMC and Harbour entered into an intercreditor agreement (the "**Intercreditor Agreement**") which had the impact of subordinating Careadon's indebtedness to UMC in favour of Harbour. The Intercreditor Agreement confirmed that UMC was to deliver in registerable form a postponement in the forms prescribed to be registered at Land Titles and PPR (the "**Postponements**"). The Receiver's counsel opined that the Intercreditor Agreement is valid and enforceable, subject to the standard qualifications. The Postponements were duly registered at PPR and Land Titles.

UMC Financial Management Inc.

23. Pursuant to a commitment letter dated June 23, 2015, as amended from time to time, UMC agreed to provide Careadon with the initial construction financing.

24. UMC's construction financing is supported by a general security agreement, assignment of rents and leases and mortgage (collectively the "**UMC Security**"), all of which are dated August 13, 2015. UMC registered its mortgage on the Land Title of Careadon on November 17, 2015 in the amount of $30,000,000. Subsequent amendments to the mortgage registration have been made with the most recent amending agreement in the amount of $65,000,000 dated July 7, 2022.

25. Receiver's counsel reviewed the UMC Security and believes it is valid and enforceable, subject to the standard qualifications.

26. On August 16, 2023, UMC provided a payout statement to the Receiver, indicating that the amount owing under its financing agreements with Careadon totalled $70,032,931.58 as at that date.

KV Capital Inc.

27. It is the Receiver's understanding that KV Capital is not owed any amounts by Careadon although it had registered on the PPR in anticipation of a potential financing arrangement. Counsel for KV Capital has confirmed that no amounts are currently owing.

TENANT LIFE LEASES

28. As noted in paragraph 3 of this report, a total of 7 units were occupied as at the date of the Receivership. Upon taking possession of the Building, the Receiver was made aware that one of the Tenants had made arrangements with Careadon and their corporate counsel prior to the receivership to have their life lease agreement terminated and funds related to the life lease that were being held in trust returned. This Tenant has since vacated the Building.

29. As of the date of this report, six (6) units are currently occupied by Tenants, with four (4) of them leased through life leases and the remaining two (2) under rental agreements. As noted earlier in this report, the Receiver is collecting monthly rental and lease amounts from the remaining Tenants.

30. The Receiver's counsel has been in contact with Careadon's corporate counsel, confirming that life lease deposits relating to the four remaining leased units are currently held in trust by counsel. Receiver's counsel has made numerous requests of corporate counsel for full disclosure of information and records that would allow Receiver's counsel to determine, as best as possible, whether the funds are subject to a trust. As at the date of this report, certain key information remains outstanding.

31. Copies of the life lease agreements were provided by UMC to the Receiver and their counsel for review. Upon receipt of the outstanding information from Management's counsel, the Receiver and its counsel will review the validity of the life leases and priority of the life lease funds being held by counsel, although the Receiver anticipates a further application will be required to determine these issues.

RECEIPTS & DISBURSEMENTS

32. Outlined in the analysis below is a summary of the receipts and disbursements of the Receiver from the onset of these proceedings up to August 16, 2023.

Careadon Corp. Statement of Receipts and Disbursements For the Period July 7 to August 16, 2023		
		Jul 7 to Aug 16, 2023
Receipts:	**Notes**	
Receiver's borrowings	*a*	800,000
Cash in bank		12,260
Rental/lease income	*b*	12,183
Total Receipts		**824,444**
Disbursements:		
Property tax	*c*	419,893
Insurance	*d*	65,085
Receiver's borrowing fees	*a*	10,525
Payroll	*e*	5,990
Furniture rental	*f*	3,675
Utilities		1,531
Locksmith & fob access		1,468
Waste removal		608
IT Services	*g*	220
License fee		75
Total Disbursements		**509,070**
Cash on Hand - August 16, 2023		**315,374**

33. The Receiver provides the following notes in relation to its analysis above:

a) As per the Receivership Order, $1,500,000 in total receiver's borrowings have been approved. The Receiver sought term sheets from both UMC and Harbour, and although the term sheets were comparable, UMC's term sheet was slightly favourable to the estate. As at the date of this report, the Receiver has drawn $800,000 in borrowings from UMC and paid UMC's funding fee in the amount of $10,525. The Receiver considers UMC's funding fee to be reasonable and in line with market standards;

b) Income from two rental units and four leased units for August 2023;

c) As referenced in paragraph 15 of this report, the Receiver paid the 2022 outstanding property tax amounts in order to avoid further penalties and interest from accruing;

d) Monthly insurance premiums are approximately $65,085. As noted earlier in this report, the Receiver used borrowings to pay the August insurance premium;

e) As noted in this report, the Receiver retained Mrs. Dyrbye to aid in the day-to-day operations of the Building on a part-time basis. Further, the Receiver retained Ms. Harter to perform janitorial duties also on a part-time basis. The Receiver will remit source deductions on these amounts as they come due;

f) The Receiver entered into a monthly rental agreement for the furniture in the common areas of the Building for use by the Tenants and to help stage the Building for potential purchasers (such furniture is not the property of Careadon). Property claims were filed by the party who owns this furniture prior to agreements being entered into by the Receiver; and

g) The Receiver has made payment to the IT company responsible for Careadon's remote server in order to access Careadon's books and records.

CAREADON APPRAISALS

34. As at the date of this report, the Receiver is in receipt of two (2) separate appraisals of the Building, one from each of UMC and Harbour. Both appraisals have been completed within the last year with the Building in a similar state of construction/completion as it sits today.

35. The Receiver is of the opinion that, given the early stages of these receivership proceedings and the pending sales process, the information and values contained with the appraisals are sensitive in nature and should not be made public at this time. As such, the Receiver has prepared a Confidential Supplement to the Receiver's First Report ("**1st Confidential Supplement**") which provides the details and copies of the appraisals for the Court's consideration. It is the view of the Receiver that the 1st Confidential Supplement be sealed until February 29, 2024 or such time as the Building is sold.

36. In addition to the above, the Receiver has consulted with its internal Transaction Real Estate group ("**TRE Group**") who are a licenced brokerage in Alberta. The Receiver's TRE Group reviewed relevant information relating specifically to the Building, various market information and comparative public information on similar buildings and the estimated costs to complete the construction (as provided by Management). Upon its review, the Receiver's TRE Group provided a conditional rough estimated value to the Receiver. This information is also provided in the 1st Confidential Supplement.

SALES PROCESS

37. Since the onset of these receivership proceedings, the Receiver has been considering and evaluating various options in relation to realizing on the Building and is of the view that the Building should be sold as-is leaving the completion of the Building to the new purchaser. Certain specific details (which the Receiver believes to be commercially sensitive in nature) and the rationale behind the Receiver's view in this regard are detailed in the 1st Confidential Supplement.

38. Given the above, the Receiver is requesting the Court to approve a proposed sale process of the Building, which would commence in due course following approval by the Court.

39. The Receiver has consulted with both UMC and Harbour in relation to this proposed sale process, and both of which have expressed their agreement with the proposed course of action.

40. If approved, the Receiver is looking to run a six-week request for proposals/offers process, whereby it proposes to do the following:

    a) The Receiver will reach out to its network of strategic investors, commercial realtors, known interested parties and other potential purchasers to solicit interest in the Building using an electronically delivered teaser letter. Further, the Receiver will work with its TRE Group and Corporate Finance groups in an effort to identify additional strategic investors and/or potential purchasers for the Building;

    b) Advertisements in relation to the proposed sale process will be placed in the *Globe and Mail, Edmonton Journal* and *St. Albert Gazzette* weekly for the first three weeks of the sales process. Further, the Receiver will post a copy of the teaser letter to its website and deliver a copy of the teaser letter and request at least one weekly advertisement be run in the *Insolvency Insider* weekly newsletter during the first three weeks of the sales process;

    c) The Receiver will work with interested parties to show the Building, provide information (subject to non-disclosure agreements) and allow for such parties to conduct their own due diligence; and

    d) Upon the conclusion of the sales process, provided at least one offer/proposal that is deemed acceptable to the Receiver is received, the Receiver will attend before the Court for approval of same.

41. The Receiver's counsel has drafted a purchase and sales agreement (the "**PSA**") that will be circulated to all parties interested in putting in an offer for the Building. Signed PSAs, stating the offer price and conditions (if any) along with a minimum 5% cash deposit will be considered valid offers if received by the Receiver before the sales process deadline.

42. Upon review of the offers, if no acceptable offer(s)/proposal(s) are received, the Receiver will determine if the sales process needs to be extended, or what alternative course of action would then be appropriate in the Receiver's opinion, and make an application to Court if necessary, at that time.

CONCLUSION

43. Based on the matters outlined in this report, the Receiver respectfully requests that this Honourable Court grant Orders:

a) approving the Receiver's actions as set out in this report;

b) approving the proposed sales process for the Building; and

c) sealing the 1st Confidential Supplement of the Receiver.

Respectfully submitted this 21st day of August 2023.

Ernst & Young Inc.
In its capacity as Receiver of
Careadon Corp.
and not in its Personal Capacity

Per:

Matt McCulloch, CPA, CA, CIRP, LIT
Senior Vice President