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COURT FILE NUMBER 0901-17420

COURT COURT OF QUEEN'S BENCH
OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF ROYAL BANK OF CANADA

DEFENDANTS HANNACO (2008) LTD. (FORMERLY 1261722
ALBERTA LTD., 341314 ALBERTA LTD. AND
HANNACO LTD.) O/A CANADA GREY MOTOR INN,
NAHEED ZIA AND NASREEN ZIA

DOCUMENT FIRST REPORT OF THE RECEIVER
DECEMBER 23, 2010

RECEIVER

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Introduction

1. On June 18, 2010, Alger & Associates Inc. was appointed Receiver and Manager (the “Receiver”) pursuant to a Receivership Order (the “Appointment Order”) granted by the Court of Queen’s Bench of Alberta (the “Court”) over the lands (the “Lands”) legally described as:

Parcel 1:

Plan 4049GU that portion of Lot F lying to the West of Easterly 271 feet excepting thereout all mines and minerals.

Parcel 2:

Plan 4049GU that portion of Lot G lying to the West of the Easterly 271 feet excepting thereout all mines and minerals.

A copy of the Appointment Order is attached as Appendix 1 to this report. The Appointment Order was limited in that it did not provide the Receiver with the power to market and sell the Lands.

2. On July 14, 2010, an Amended and Restated Receivership Order (the “Amended Receivership Order”) was granted by the Court which appointed Alger & Associates Inc. as the Receiver and Manager of Hannaco (2008) Ltd. (“Hannaco” or the “Company”). The Amended Receivership Order authorized the Receiver, *inter alia*, to take possession and control of the property (“Property”) of the Company and any and all proceeds, receipts and disbursements arising out of or from the Property and to sell, convey, transfer lease or assign the Property or any part or parts thereof out of the ordinary course of business subject to certain limits or otherwise subject to Court approval. A copy of the Amended Receivership Order is attached as Appendix 2 to this report.
3. The purpose of the Receiver’s First Report is to provide this Honourable Court with:
 - A summary of the Receiver’s Activities;
 - An overview of operations of Hannaco;
 - A Statement of Receipts and Disbursements for the period June 18, 2010 to December 23, 2010;

- A summary of Creditor Claims;
 - A summary of the sales process undertaken by the Receiver; and
 - The Receiver's comments, analysis and recommendations regarding the sale of the Property for this Honourable Court's approval thereof.
4. The Receiver has also prepared a Supplement to the Receiver's First Report ("Supplemental First Report") which includes copies of the offers received by the Receiver, a copy of the independent appraisal on the value of the Property and the executed purchase and sale agreement. This material is provided to this Honourable Court on a confidential basis to avoid disclosing certain information which would be prejudicial to the sales process in the event the Court does not approve the offer recommended by the Receiver.

Limitations of Report

5. The information contained in this report has been obtained from the records of the Company and is based upon discussions with and representations made by Hannaco's management and shareholders and other professional advisors retained in this matter. The Receiver has relied on this information and has not performed an audit, review or other verification of such information. The Receiver reserves the right to refine or amend its comments and/or findings as further information is obtained or brought to its attention subsequent to the date of this report.

Background

6. Hannaco's principal business is operating a hotel located in Hanna, Alberta which does business as the Canada Grey Motor Inn. The key characteristics of the Property are as follows:
- a. Two storey hotel built in approximately 1977 with 81 room occupancy (approximately 50 rooms are in rental condition);
 - b. Approximately 4 acres of land with a paved parking lot;

- c. Full service restaurant, lounge, bar (not operational) and liquor store (not operational). Video lottery terminals are located in the lounge.
7. The Company is indebted to its primary secured lender, Royal Bank of Canada (“RBC”), in the amount of approximately \$1,776,000. In support of the RBC loans, it is our understanding that Naheed Zia and Nasreen Zia (collectively “the Guarantors”) have pledged personal guarantees on the amounts due to RBC.

Operations and Receiver’s Activities

8. The Amended Receivership Order authorizes the Receiver to take possession and control of the Property and to manage, operate and carry on the business of the Company. In consultation with the primary secured lender, RBC, a decision was made to continue operations of the Company so that the Property would remain attractive to prospective buyers.
9. Upon the granting of the Amended Receivership Order, the Receiver toured the Lands and had discussions with all employees on the current status of the hotel. Shortly thereafter, the Receiver engaged an independent contractor to manage the day to day operations of the Property and to report directly to the Receiver.
10. The hotel has 51 of the total 81 rooms available for occupancy due to various deficiencies and required repairs. The hotel has been poorly maintained over the past number of years and this is partially contributing to the poor occupancy rates.
11. The hotel has historically relied to a large extent on oil and gas industry personnel to occupy hotel rooms and this source of revenue has declined dramatically as a result of the reduced oil and gas related activity in the area. This accompanied with the poor condition of the hotel has resulted in occupancy that has been approximately 23% since the appointment of the Receiver.
12. The Receiver has taken various steps in attempts to improve the condition of the hotel including:
 - a. Making necessary repairs;

- b. General clean up and maintenance of the hotel;
 - c. Operating the kitchen in the hotel;
 - d. Attending to health and safety concerns; and
 - e. Restoring the ATM service.
13. The Receiver has taken the necessary steps to obtain approval to ensure the liquor license and video lottery terminal licenses would remain in place while the Receiver operated the hotel.
14. The Receiver engaged Golder Associates Ltd. to conduct a property assessment on the Property and provide a report (the “Property Condition Report”). The Property Condition Report identified \$58,500 in immediate repairs and \$150,000 in repair costs over the next year. These amounts do not include any unplanned or unexpected maintenance. The Receiver has conducted repairs and maintenance as necessary to address safety concerns and critical repairs.
15. The Receiver mailed to all known creditors the Notice and Statement of the Receiver and Manager (“Receiver’s Notice”) as required by the subsections 245(1) and 246 (1) of the *Bankruptcy and Insolvency Act*. The Receiver’s Notice was mailed on June 24, 2010 and in addition, has been posted on the Receiver’s website at www.alger.ca/hannaco.
16. The Amended Receivership Order authorizes the Receiver to sell the Property of the Company and therefore, the Receiver has conducted a process to obtain offers on the Property. This process is discussed in further detail in the Sales Activities section of this report.

Sales Activities

17. The Amended Receivership Order authorizes the Receiver to market the Property, which includes the Lands, instruments and personal property, including advertising and soliciting offers in respect of the Property.

18. Prior to the appointment of the Receiver, an Order Nisi/Order for Sale was granted by this Honourable Court on January 25, 2010. The Order Nisi provided for the listing of the Lands by Colliers International Calgary (“Colliers”). A copy of the Order Nisi is attached as Appendix 3.
19. Upon the granting of the Amended Receivership Order, the Receiver entered into a listing agreement with Colliers to continue marketing the property on behalf of the Receiver. As part of this process, Colliers invited offers until a deadline of September 30, 2010. A copy of the Colliers invitation package is attached as Appendix 4. This invitation package included an unpriced listing to encourage offers on the Property. As a result of this process, Colliers received two offers and neither were deemed acceptable and both offers received were less than the current offer the Receiver is recommending (“Recommended Offer”).
20. During the listing agreement with Colliers, the Receiver also received an offer directly that was facilitated by Naheed Zia. This offer held a number of conditions, including a financing condition and a feasibility report condition, and was not accompanied by a deposit. The Receiver contacted the offeror to vary the conditions and provide a refundable deposit, but it appeared the offeror was no longer interested in the Property and this offeror has not expressed any further interest in the Property.
21. After the expiration of the Colliers listing agreement, the Receiver conducted its own marketing efforts and prepared an invitation for offers (“Invitation for Offers”) package for the Property. In October 2010, the Invitation for Offers was distributed to 275 persons across Alberta that are in the hotel business or were otherwise potentially interested parties. A copy of this list is attached as Appendix 5. A copy of the Invitation for Offers package is attached as Appendix 6. The Invitation for Offers package was also posted on the Receiver’s website at www.alger.ca/alberta-hotel-for-sale-hanna.htm. The deadline for receiving offers was set for November 30, 2010. The Invitation for Offers indicated an asking price of \$2.8 million.
22. As a result of this process, seven parties requested financial information and signed confidentiality agreements in order to receive financial information.

23. The Receiver also canvassed the Guarantors for prospective purchasers of the Property as the Guarantors were working with prospective parties to make an offer on the Property. Avenue Commercial, who were previously engaged by the Guarantors to find a purchaser, were also actively involved in soliciting offers. Ultimately, the Guarantors were unable to present an offer to the Receiver by the November 30, 2010 deadline.
24. As a result of the Receiver's sales process, the Receiver received offers from three parties. The offers are included in the Supplemental First Report.
25. The Receiver obtained an updated independent appraisal on the value of the hotel, effective July 1, 2010, to reflect the recent financial performance of the hotel and occupancy rates. A copy of this appraisal is included in the Supplemental First Report. The independent appraisal and the three offers submitted pursuant to the Invitation for Offers were disclosed to legal counsel of RBC, on a confidential basis.
26. The Receiver accepted the Recommended Offer for the following reasons:
 - a. It was the highest offer for the Property;
 - b. A 25% deposit accompanied the offer; and
 - c. The offer is a cash offer with no conditions outside of typical conditions reflected in the purchase and sale agreement in a transaction of this nature.
27. The Receiver has been advised by RBC that RBC also supports the Receiver accepting the Recommended Offer. The Receiver accepted the Recommended Offer, subject to Court Approval, which is now being sought as discussed below. A purchase and sale agreement has been entered into with the prospective purchaser and is attached as an appendix to the Supplemental Report.

Interim Statement of Receipts and Disbursements

28. The Receiver has been operating the hotel since the date of the Appointment Order. Attached as Appendix 7 is a copy of the Receiver's Interim Statement of Receipts and Disbursements.

29. The Receiver has issued Receiver Certificates in the amount of \$215,000 to cover ongoing operating losses, maintenance and repair expenses, property tax assessments and other expenses.

Receiver's Fees and Legal Fees

30. Attached as Appendix 8 is a summary of the professional fees and copies of the accounts. The outstanding Receiver's fees and its counsel's fees are approximately \$116,921.86 as of December 22, 2010. These fees have not been paid and are, therefore, not reflected in the Interim Statement of Receipts and Disbursements. The professional fees will be paid as funds become available as provided for in the Appointment Order or upon the sale of the Property.

Creditor Claims

31. The primary secured creditor is the RBC who is owed approximately \$1,776,000 as of the date of the Appointment Order. There may also be claims submitted by the Government of Canada for pre-receivership unpaid source deductions. The quantum of these claims is currently unknown as no proofs of claim for the Government of Canada have been received, but it is estimated that the claim for unpaid source deductions may be as high as \$70,000 including interest and penalties.
32. The second mortgage holder on the Land is Agriculture Financial Services Corporation ("AFSC"). It is our understanding that they are due approximately \$1.5 million.
33. The third mortgage holder on the Land is Minh T. Chau. It is our understanding that this obligation arises from a vendor take back in the approximate amount of \$220,000.
34. The Receiver retained substantially all of the employees for ongoing operations. Employees were notified of the *Wage Earners Protection Program Act* shortly after the Receiver was appointed. A copy of the notification is attached as Appendix 9.
35. The amounts due to unsecured creditors for pre-receivership amounts, based on the Company's records, is approximately \$246,294.

Preliminary Conclusions and Recommendations

36. Since granting of the Appointment Order, the Receiver has operated the hotel in order to preserve the value of the Property so that it remains attractive to a potential purchaser. The Receiver has been conducting on-going marketing of the Property, first with Colliers acting as agent and subsequently with the Receiver marketing the Property. The Property has been marketed for almost a year under two Court supervised processes. Previous to that, the Guarantors were attempting to sell the Property with the assistance of Avenue Commercial which was unsuccessful. It is the Receiver's view that the Court may wish to approve the Recommended Offer for the following reasons:

- a. This is the highest offer received in terms of dollar value and higher than the forced sale value as stated in the July 1, 2010 appraisal report;
- b. The primary secured creditor supports accepting this offer;
- c. If a sale is not completed, the Receiver will be required to spend amounts on repairs and maintenance that may not be recoverable on an eventual sale of the Property. These repairs could be in excess of \$200,000, as indicated in the Property Condition Report, and does not include any unexpected maintenance costs;
- d. The Receiver may continue to incur operating losses if the hotel continues operations which will further erode the realization available to RBC;
- e. An extension of the sales process will not necessarily bring in a better offer but will certainly result in additional costs including operating costs, insurance and professional costs; and
- f. An extension of the sales process provides no guarantees that the prospective purchaser who submitted the Recommended Offer will keep its offer open through an extended sales process.

37. The Receiver respectfully requests Court approval of the following:

- a. The Receiver's activities and conduct as outlined in this report;

- b. The Court's approval of the Recommended Offer; and
- c. Any further directions the Court wishes to provide to the Receiver.

All of which is respectfully submitted this 23rd day of December, 2010.

Alger & Associates Inc.,
In its capacity as Court Appointed
Receiver of Hannaco (2008) Ltd.



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