

**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** SECOND REPORT OF THE RECEIVER  
May 24, 2011

**RECEIVER**

Alger & Associates Inc.

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## **Index to Exhibits**

1. Sale Approval and Vesting Order, dated January 15, 2011
2. Receiver Certificate, dated February 25, 2011
3. Receiver's Interim Statement of Receipts and Disbursements
4. Projected Statement of Receipts and Disbursements
5. Summary of Professional Fees
6. Discharge Certificate

## 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.

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.
3. Hannaco’s principal business was operating a hotel located in Hanna, Alberta which did business as the Canada Grey Motor Inn (the “Hotel”). The key characteristics of the Property are described in the Receiver’s first report dated December 23, 2010 (“First Report”).
4. The purpose of the Receiver’s Second Report is to provide this Honourable Court with the following information:

- a) A summary of the Receiver's activities since its First Report;
  - b) A summary of the sale of the Hannaco assets;
  - c) A statement of receipts and disbursements for the period June 18, 2010 to May 17, 2011;
  - d) Projected receipts and disbursements to the completion of the Receivership; and
  - e) A summary of professional fees.
5. The Receiver is seeking a Court Order for the following matters:
- a) authorizing the Receiver to disburse \$990,000 to the Royal Bank of Canada ("RBC") as the primary secured creditor;
  - b) authorizing the Receiver to pay the residual funds after completion of the Receivership to RBC;
  - c) authorizing the Receiver to deliver custody of all of Hannaco's books and records in possession of the Receiver to the former President of Hannaco, Naheed Zia, or, alternatively, destroy the records;
  - d) approving the accounts of the Receiver and the Receiver's legal counsel;
  - e) approving the actions of the Receiver to date and discharging the Receiver; and
  - f) any other directions this honourable Court wishes to provide to the Receiver.

### **Limitations of Report**

6. 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.

## **Operations and Receiver's Activities**

### Sale of the Hotel & Chattels

7. As detailed in the First Report, the Receiver marketed the Property to over 250 interested parties pursuant to a formal sales process in the Fall of 2010. On or about December 14, 2010, the Receiver entered into an agreement for the purchase and sale of the Property with New Imperial Inns Ltd. On January 14, 2011, this honourable Court granted an Order, for the sale of the Property to New Imperial Inns Ltd. Attached as Exhibit 1, is a copy of the Sale Approval and Vesting Order.
8. On February 25, 2011, the Receiver filed the Receiver's Certificate, indicating that the sale of the building was completed. Attached as Exhibit 2, is a copy of the filed Receiver's Certificate.

### Other Activities

9. Since its last report the Receiver has continued to operate and maintain the property until January 31, 2011, which is the date ownership transferred on the Hotel.

## **Statement of Receipts & Disbursements**

10. Attached as Exhibit 3 to this report, is a Statement of Receipts and Disbursements for the period June 18, 2010 to May 17, 2011. The Receiver currently holds a balance of \$1,009,906 in its Trust account.

## **Distribution to Royal Bank of Canada**

11. 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.

12. The Receiver is seeking this honourable Court's approval for an interim distribution to RBC in the amount of \$990,000. The Receiver's counsel has reviewed RBC's security documents and registrations and provided an opinion that, subject to the customary qualifications and assumptions, RBC's security is valid and enforceable.
13. The Receiver has received claims from Canada Revenue Agency for source deductions and goods and services tax in the amount of \$49,950 and \$16,572, respectively. These amounts have been paid by the Receiver. The Receiver is not aware of any claims that remain unpaid that would rank ahead of RBC's security.
14. Attached as Exhibit 4 to this report is an estimate of the projected receipts and professional fees and costs to complete the Receivership of Hannaco. The Receiver proposes to hold back current funds of \$19,906 to allow for estimated payments as follows:

(a)	Net closing adjustments	\$ 4,700
(b)	Professional Fees	\$ 9,000
(c)	GST	\$ 700
(d)	Contingency/Record Destruction	\$ 5,506

Upon filing the Discharge Certificate (as defined below), the Receiver proposes to pay the balance of funds, if any, to RBC.

### **Professional Fees**

15. Professional fees charged by the Receiver and its legal counsel, excluding GST and disbursements total \$160,258 and \$35,624, respectively. A summary of invoices is attached as Exhibit 5. The Receiver's fees cover a period from June 18<sup>th</sup>, 2010 until completion and reflect the Receiver's time required to operate the hotel as a going concern as well as conducting the sales process. As the Hotel was sold through a tender process the Receiver avoided incurring sales commissions on the sale.

16. In the Receiver's view, 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 and are reasonable in the circumstances. Detailed time records supporting the invoices are available and will be provided upon request.

### **Final Distribution**

17. The Receiver proposes to distribute the residual funds held, if any, to RBC after payment of costs to complete the administration of the Receivership. The current RBC loan balance is approximately \$786,000, after receipt of the proposed interim distribution. RBC will suffer a shortfall on its loan, prior to any potential recoveries on personal guarantees.

### **Proposed Activities to conclude the Administration of the Receivership**

18. The Receiver is in possession of the books and records of the Hannaco, and proposes that the Company President/Director, Naheed Zia, retrieves and takes possession of the books and records within 30 days of written notification by the Receiver to do so. If these records are not picked up after the expiration of the 30 days, the Receiver proposes to destroy all of the Company's records.

19. Following the time for any appeals of the proposed discharge Order, the Receiver is requesting to be authorized to distribute the available funds to RBC, after payment of all outstanding fees and costs as detailed in Exhibit 4. Upon the completion of the administration of the Receivership, the Receiver will file a certificate with respect to the Receivership proceedings in the form attached as Exhibit 6 (the "Discharge Certificate") to this report with the Court certifying that:

- a) All remaining funds in the Receivership proceedings have been paid to RBC;
- b) The administration of the Receivership proceedings is complete as described in this report;
- c) The books and records have been transferred to Mr. Zia's possession or destroyed;
- d) The Receiver has delivered all required statutory notices to the Creditors and Superintendent of Bankruptcy;
- e) Upon the filing the Discharge Certificate by the Receiver with this Court, the Receiver shall be discharged; and

f) The Receivership proceedings shall be terminated.

**DATED** at Calgary, Alberta this 24<sup>th</sup> day of May, 2011.

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



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