

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3

AND

**IN THE MATTER OF THE *PERSONAL PROPERTY SECURITY ACT*,
R.S.B.C. 1996, c.359**

AND

**IN THE MATTER OF THE *LAW AND EQUITY ACT*,
R.S.B.C. 1996, c.253**

AND

**IN THE MATTER OF THE RECEIVERSHIP OF
SUNRISE RIDGE RESORT LTD.**

FIRST REPORT OF THE RECEIVER

November 1, 2010

Background and Asset Overview

- 1) Pursuant to an Order pronounced 20 April 2010, the Honourable Mr. Justice Pitfield appointed G. Powroznik Group Inc. of G-Force Group as receiver and manager (the “**Receiver**”), without security, of all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including the proceeds thereof (collectively, the “**Property**”) of Sunrise Ridge Resort Ltd. (the “**Company**”), pursuant to section 243 of the BIA, Section 66 of the PPSA, Section 39 of the LEA and Rule 47 of the *Rules of Court* (the “**Receivership Order**”).
- 2) The Company was the developer of Sunrise Ridge Waterfront Resort (the “**Resort**”), located in Parksville, BC. The Resort is located south of the commercial area of Parksville on the beachfront. The Company was developing the Resort as a strata hotel and resort. The Resort offers overnight and extended (maximum 180-day) accommodation to guests and owners in some units. The Resort largely consists of self-contained one, two and three bedroom strata lot apartment units. The Company was selling whole, 1/4 and 1/8 fractional fee simple interest, or fractionals, in these units. To the date of receivership, the Company had completed four of ten planned phases. The four completed phases consist of five buildings totalling 43 units. The six remaining phases of the Resort are undeveloped.
- 3) The significant assets (collectively, the “**Assets**”) of the Company and the secured creditors holding a charge on those assets are as follows:
 - One whole unit and several one-quarter and one-eighth share units in the completed buildings on the development. Glacier Lake Investment Corp. (“**GLIC**”) holds a first charge on these assets;
 - Strata Lot 29 (“**Lot 29**”), a commercial strata lot which serves as the operating unit for the rental pool of the Resort. The unit includes three limited common property areas, and space for the front desk, lounge, meeting rooms, back-of-house, laundry and storage closets. The Resort’s Geothermal System (the “**Geothermal System**”) is also housed in Lot 29. Bromwich & Smith Inc., B2B Trust, Canadian Western Trust, and Olympia Trust Company (collectively the “**Trustees**”) hold a first charge on Lot 29;
 - The undeveloped land for the remaining phases of the resort, totalling ±5.64 acres (the “**Remnant Lands**”). There is a current legal action between GLIC and the Trustees over the priority charge on the Remnant Lands which will be discussed further in this Report; and
 - Other assets including bonds, miscellaneous inventory, furniture, equipment, leasehold interests and a moveable amenity building. GLIC holds a first charge on these assets.
- 4) The Receiver took possession of the Assets of the Company effective April 21, 2010. On April 30, 2010 the Receiver issued the Notice and Statement of the Receiver (“Form 87”) required under the *Bankruptcy and Insolvency Act*, which set out a description of the estimated financial position of the Company upon the Receiver

taking possession of its assets. A copy of the Form 87 is attached hereto as **Appendix “1”**.

Purpose of this Report

- 5) The purpose of this report is to provide this Honourable Court and the other stakeholders with a report of the activities of the Receiver, and also to obtain the Court’s approval for an increase in the Receiver’s borrowing capacity of \$120,000 pursuant to the Receivership Order to \$520,000.

Summary of Receiver’s Activities

- 6) **Appendix “2”** to this Report is a brief Summary of the Receiver’s Activities to date. Some of the items outlined in Appendix 2 relate to standard statutory, regulatory and normal operational requirements of a Receiver. However, many of the activities as outlined were unexpected at the outset of the Receivership and have required a significant amount of attention from the Receiver. Further details are provided below on some of these items.

Interim Agreement with True Key Hotels & Resorts (“True Key”)

- 7) In general, Lot 29 and the management functions for the rental pool and the Sunrise Ridge Resort Owners’ Association (the “Owners’ Association”) are amenities for the development. At early stages of a development like this, the cost of amenities is subsidized by the developer in order to maximize the value of the real estate and accelerate its build out. This is what has happened in the case of the Resort. True Key assumed the management of the rental pool, Owners Association and Lot 29, from Sunrise Ridge Resort Management Ltd. (“SRRM”), a subsidiary of the Company, in approximately 2008. Two key objectives of the Receiver related to the resort amenities (the Resort Amenities”) were:
 - i) to minimize the subsidy of Lot 29 and the amenities
 - ii) to provide an efficient manager or system for the Resort Amenities as part of the sale offering to the market to maximize the overall value of the Resort Assets.
- 8) After extensive discussions and considering various options, the Receiver reached an agreement with True Key to provide an interim subsidy to True Key in order to keep it engaged in its existing capacity as the on-site property manager at the Resort.

Site Clean Up

- 9) Unexpectedly, the City of Parksville (the “City”) ordered the Receiver on April 23, 2010 to remove construction material from and otherwise clean up the property. This work was completed to the City’s satisfaction in mid-May.

BC Safety Authority (“BC Safety”) Orders

- 10) Unexpectedly, BC Safety, citing safety reasons, ordered the Receiver in late April to replace the temporary power for the Resort’s waterfront 4-Plex building (“**4-plex**”) with a permanent solution. The Receiver engaged a local contractor for the work which has now been completed and approved by BC Safety.
- 11) More recently, BC Safety, again for safety reasons, also ordered the Receiver to remove all temporary above ground telephone lines on site, two running to the 4-plex for phone and internet and one running to the 6-plex for an alarm monitoring system. The Receiver has received quotes to remove the existing lines and install the alarm monitoring line to the 6-plex using existing buried conduit. The Receiver is also proceeding with a cost effective solution to provide phone and internet to the 4-plex on the existing Shaw Cable line which is properly installed.

Deficiencies with On-Site Servicing

- 12) The City, under the Servicing Agreement, ordered the Receiver on May 7, 2010 to remedy deficiencies in the original work by the Company under this agreement, although the order did not list them. Finally, in June, the City provided us with the list of deficiencies, which we confirmed during an on-site inspection with the City’s inspector on July 5, specifically to: repair a water chamber and a drainage outfall; raise several fire hydrants to grade; and, construct the emergency access off Seaway Drive. Due to the high potential cost, and potential changes needed by a purchaser, we have written to the City requesting that it agree to delay the construction of the emergency access until after the Assets are sold to a purchaser who would then be responsible for it. The Receiver engaged a local contractor to complete work on the remaining items which has now been completed and approved by the City. The Receiver also retained McElhanney Engineering in Nanaimo who coordinated and supervised this contract (and the one with the electrical contractor) because it is the engineer of record in the Servicing Agreement.

Problematic Geothermal System

- 13) There have been a number of problems with the Resort’s Geothermal System (the “**Geothermal System**”) that have arisen since the Receiver was appointed.
- 14) The Receiver initially engaged Custom Air Conditioning (“**Custom Air**”), a geothermal and HVAC contractor, to investigate the cause and to try and fix these problems. Previous suppliers/installers of the mechanical equipment and programming systems were also contacted to enlist their help and determine whether any warranties still exist. Custom Air stabilized the Geothermal System and provided a repair and maintenance program, but advised us that without more substantial repairs it cannot fully restore the Geothermal System to optimal performance.
- 15) More recently, The Receiver retained a professional engineering consulting firm (the “**Geothermal Engineer**”) that specializes in the design and operations of geothermal

systems to provide an independent review including diagnosing the underlying problems and proposing a go-forward remediation plan, which the Receiver or a purchaser of the Assets could implement.

- 16) As of the date of this Court report, the Receiver has received a draft report from the Geothermal Engineer and is in the process of reviewing the recommendations put forth so that a plan of action can be implemented with respect to the Geothermal System.

Sales and Marketing of Assets

- 17) Over the past few months the Receiver has been methodically preparing all of the due diligence and marketing materials to offer the Assets ‘en bloc’ to the market. The original plan was to begin the marketing and sale process of the Assets in June 2010. However, the Receiver felt it prudent to delay the process until the problems discussed above were entirely or at least partially remedied since they could otherwise impair the value of the Assets and the recovery by the secured creditors. The Receiver began marketing the Assets in September and accelerated it in October now that many of the issues referred to earlier in this report have been resolved or plans for resolution are in hand.

Priority Dispute and Cost Allocations

- 18) As noted in paragraph 3 above, legal action has commenced between the Trustees and GLIC over the priority charge (the “**Priority Dispute**”) on the Remnant Lands and has created some uncertainty in terms of allocating costs, estimating net realization proceeds and funding the Receiver’s costs between the two secured creditor groups.
- 19) The Receiver takes no position in the Priority Dispute between the two secured creditor groups and has provided an outline of a practical proposal for the two parties to consider as an alternative to litigation. The Receiver’s interest is to simplify the administration of the receivership and to minimize costs that may escalate due to a protracted dispute between the secured creditors.

Potential Legal Action by the Strata Corporation

- 20) The Receiver has been drawn into many discussions with members of the Strata Corporation for the Resort regarding potential litigation against the Company, the former directors and the City of Parksville for failure to provide some of the amenities for the Resort. The Receiver takes no position on the merits of any potential claims but has asked Strata owners to consider any negative effects of their actions on the Receiver’s efforts to attract a buyer for the Resort’s Assets and on the City who may be asked to consider changes to the development plan by a buyer.

Receiver's Financial Position

- 21) Due to several unexpected issues arising during the receivership, as described elsewhere in this report, the costs are at a higher level than previously anticipated and they delayed the timing of the marketing of the Assets. In addition, the original borrowing limit of the Receiver was arbitrarily reduced from the Receiver's initial estimate of \$300,000 to \$120,000 in negotiations between counsel for GLIC and the Trustees just prior to the application for a Receiver in this matter.
- 22) **Appendix "3"** to this Report is a statement of the Receiver's receipts and disbursements to October 21, 2010. As at the date of this Report, the Receiver has \$39,738 of available cash in its account.
- 23) **Appendix "4"** to this Report provides an estimate of the anticipated costs and the cash required to the end of November 2010 before considering the following issues:
 - a) further orders for deficiencies by the City;
 - b) further delays in marketing the assets due to the geothermal or other problems;
 - c) the costs of unanticipated maintenance to the Geothermal System or costs to address further problems sufficiently to complete a sale to a purchaser without an undue discount to the Assets;
 - d) incurring significant additional time to deal with receivership matters after November 2010 to their conclusion.
- 24) Based on the estimate of anticipated costs in Appendix 4, the Receiver will require approximately \$400,000 more in known funding than is currently allowed under the Receivership Order. The estimate of anticipated borrowing requirements includes a contingency for unexpected costs of \$70,000 which will likely be utilized for activity that will occur in December.
- 25) The Receiver therefore recommends that the borrowing limit under the Receivership Order is increased by a sum of \$400,000, from the current limit of \$120,000 to a new limit of \$520,000, based on the information provided above.
- 26) The Receiver notes that its fees and costs have gone unfunded in the receivership to date, and wishes to use an increased borrowing limit to defray its outstanding fees and costs since April 2010, subject to final taxation of the Receiver's accounts.

Recommendation and Request for Direction from the Court

27) The Receiver seeks:

- (a) An Order approving an increase in the Receiver's borrowing capacity to \$520,000; and
- (b) Such further and other orders and directions as may be deemed just and appropriate.

All of which is respectfully submitted this 1st day of November, 2010.

**G. Powroznik Group Inc. as Receiver-Manager
of Sunrise Ridge Resort Ltd.**

Per:

Gary D. Powroznik
Managing Director

Appendix 1

Form 87

In the Matter of the Receivership of Sunrise Ridge Resort Ltd.
of the City of Parksville
in the Province of British Columbia

Notice and Statement of the Receiver
(Subsections 245(1) and 246(1) of the Act)

The Receiver gives notice and declares that:

1. On the 20th day of April, 2010, G. Powroznik Group Inc. of G-Force Group, was appointed Receiver and Manager of Sunrise Ridge Resort Ltd. (the "Receiver") by an Order of the Supreme Court of British Columbia pursuant to Section 243 of the Bankruptcy and Insolvency Act, Section 66 of the *Personal Property Security Act*, Section 39 of the *Law and Equity Act*, and Rule 47 of the *Rules of Court*, of all the assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof, of Sunrise Ridge Resort Ltd. ("the Company").

The known assets of the Company at April 20, 2010 were:

	<u>Value</u>	<u>Source</u>
Unsold fractional units	\$2,420,000	Preliminary estimate by Receiver
Development remainder lands	\$1,460,000	Preliminary estimate by Receiver
Strata Lot #29	\$185,000	Preliminary estimate by Receiver
Admin/Sales office	\$90,850	Book value*
Geothermal system	\$200,000	Preliminary estimate by Receiver
Deposits/bonds	\$628,225	Book value*
Cash on hand	\$37,915	Book value*
Furniture, fixtures & equipment	\$36,800	Book value*
Computer equipment & software	\$10,475	Book value*
Accounts Receivable	\$27,400	Estimated realizable portion by Receiver, from book value of \$316,300
Building materials and supplies	\$10,000	Estimated by Receiver

*These values were obtained from the Company's financial records as at April 20, 2010

2. The Receiver took control of the property described above beginning on the 21st day of April, 2010.

3. Copies of the Court Order and other receivership documents can be viewed on the Receiver's website at <http://www.g-forcegroup.ca/projects/sunrise>

4. The following information relates to the receivership:

(a) Address of the Company: 10 Bighorn Boulevard, Radium Hot Springs, British Columbia

(b) Principal line of business: Real Estate Development

(c) Location of business:

Sunrise Ridge Waterfront Resort
1175 Resort Drive
Parksville, British Columbia

(d) Secured Creditors

Amounts owing to secured creditors of the Company as at April 20, 2010 have been estimated through the Receiver's preliminary investigations of the Company's available books and records and is included below:

	\$
▪ Glacier Lake Investment Corp.	4,613,515
▪ Sunrise Ridge Investment Corp.	5,884,446
▪ B2B Trust	1,072,075
▪ Bromwich & Smith	2,533,994
▪ Canadian Western Trust	797,411
▪ Olympia Trust Co.	26,580

(e) Unsecured Creditors

A list of known unsecured creditors of the Company is attached as Schedule "A". The amounts owing to unsecured creditors are those listed in the Company's books and records. The attached Schedule may not be an all-inclusive list as additional amounts could surface in the normal course of the receivership and as additional reviews are done.

At this time, a formal claims process has not commenced because it is unlikely that there are any available assets for the unsecured creditors. We will update our findings in subsequent reports.

(f) The initial plan of action of the Receiver includes:

- Secure control of the assets and operations of the Company.
- Ensure that the services provided by Sunrise Ridge Resort Ltd. to the owners of the development continue.
- Liaise with the Manager of the Owners' Association and for the rental operation of the owners' units.
- Liaise with current strata owners at Sunrise Ridge Waterfront Resort through the Owners' Association and its manager to update them on the receivership process.
- Liaise with the manager of the strata corporation.
- Return third party deposits on pending sales where appropriate.
- Cease all sales and marketing until a new Disclosure Statement can be filed with the Superintendent of Real Estate.
- Assess options to maximize the values and recoveries from the assets.
- Determine the relative priorities of the claims against the Company.
- Report our findings and recommendations to the Court.

(g) Contact person for Receiver:

Chris Sinclair

Tel: 778.371.0013

Fax: 778.370.0043

Email: csinclair@g-forcegroup.ca

Mailing Address: #780-333 Seymour St, Vancouver, B.C., V6B 5A6

Dated at Vancouver, British Columbia, this 30th day of April, 2010.

G. Powroznik Group Inc.

**solely in its capacity as Receiver-Manager of Sunrise Ridge Resort Ltd.
and not in its personal capacity**



Per: Gary Powroznik

Managing Director

Schedule "A"
Sunrise Ridge Resort Ltd. in Receivership
List of Unsecured Creditors as at April 20, 2010

Creditor	\$
1019728 AB Ltd.	551,044.48
783036 AB Ltd.	193,214.81
Alliance Strata	659.73
BDO Dunwoody LLP	7,875.00
Bighorn Meadows Resort Ltd.	3,075.30
Black Press Group Ltd.	2,107.77
Bossert, Annette	140,020.52
Calgary Herald	2,625.00
Coast Outdoor Advertising Ltd.	3,740.64
Cogo Productions	577.50
Connery, Tracy	112.50
Edmonton Journal	1,819.13
Glacier Lake Investment Corp.	5,155,751.05
Global Canada	52.50
Global Canada (f)	52.50
Global Canada (H)	105.00
Global Designs Internet Solutions	94.50
Hodgson, Cheryl	250.00
IndCom Transportation Leasing Inc.	699.99
Irwin Commercial Finance	228.65
Lane, Robert	122,093.36
Manulife Financial	548.71
Maximizer Software Inc.	1,355.20
MTS Allstream	13.14
Mullen, Lara	250.00
OVP Management Ltd.	700,273.52
Pacific Newspaper Group	3,898.12
Pitney Bowes	217.29
Prose Art PR Design Inc.	872.55
Reed Pope LLP	347.34
Roving Experts Management Inc.	22,605.45
Shaw Cable	118.62
Sunrise Ridge Resort Owners' Association	9,852.97
Super Save Fence Rentals Inc.	1,081.92
Swartz, John	105,545.22
Telus Communications Inc.	291.12
Tingle Merrett llp	1,426.48
Trane Canada	22,776.16
True Key Resorts Ltd.	308,876.58
TOTAL	\$ 7,366,550.32

Appendix 2

In the Matter of the Receivership of Sunrise Ridge Resort Ltd. Summary of Receiver's Major Activities since April 20, 2010

- Took possession and control of the assets on April 21, 2010;
- Attended the property, met with on-site management, changed lock to sales office building, performed other preliminary investigations of company financial affairs;
- Complied the statutory Notice and Statement of the Receiver and distributed to creditors on April 30, 2010;
- Inventoried books and records and on-site assets including furniture, fixtures and equipment, and remnant building materials;
- Froze the company's existing bank account at TD and received funds in July 2010 after multiple follow ups;
- Held discussions with Owners' Association and Strata Corporation to identify potential issues, obtain information and follow-up on ongoing matters;
- Reviewed insurance policies for the Company's assets and continued coverage;
- Attended strata council meetings in our role as Receiver and as unit owner at Sunrise;
- Complied with a City of Parksville (the "City") directive to clean up the site which included our selling of the remnant building materials for \$12,285 to a local contractor;
- Arranged for removal of the leased construction trailer on site;
- Met with representatives of the City to discuss servicing deficiencies, bonding/cash posted with the City and the status of development;
- Engaged a local contractor to address servicing deficiencies (repair water chamber, repair drainage outfall and raise fire hydrants to grade) on site;
- Engaged McElhanney Consulting Services to perform engineering and project management services for on-site projects including electrical work and servicing work required to be done by the City (McElhanney was the Engineer of Record with the City);
- Met with BC Safety Authority ("BC Safety") to discuss temporary power supply to 1100 building and addressed BC Safety's order to install permanent power on-site by engaging a local contractor to complete the electrical work (in progress);
- Received correspondence from BC Safety on August 16 informing us the communication conductors (telephone cable) on site are in non-compliance with the Canadian electrical code and must be removed or installed in a more permanent manner ; we have obtained a quote for the repairs and work will commence shortly;
- Held multiple discussions with and assessed proposals from True Key Hotels and Resorts ("TKHR") with respect to its continued involvement in Resort management and began the process of formalizing an contractual agreement between the Receiver and TKHR (in progress);

- Engaged Integrated Hospitality Management (“IHM”) to:
 - 1) review the sales and marketing plan for the Resort including budgeted costs to maximize value of advertising dollars spent leading into the summer and assist in evaluating TKHR’s proposals; and
 - 2) review the overall management function at the Resort and report to us including recommendations for changes or increased efficiencies in management (we await IHM’s final report) as the Resort management function will be of interest to a purchaser;
- Engaged Reed Pope to consolidate the historical disclosure statement into one consolidated document (for later distribution to prospective purchasers) and deal with other matters relating to the development as required;
- Engaged Davis LLP as the Receiver’s independent counsel to address matters where Reed Pope or FMC may be conflicted;
- Engaged Custom Air Conditioning, a geothermal and HVAC contractor, to investigate the cause of, and attempt to fix in certain cases, the problems with the geothermal system after receiving information from multiple sources to suggest geothermal system was not operating correctly;
- Assessed initial reports and cost quotations from Custom and engaged Custom to perform the required maintenance on the geothermal system to maintain the system in an operating state;
- Engaged a professional engineer to report to us on the problems with the geothermal system and to make recommendations for a go-forward plan with respect to operation of the system;
- Obtained cost quotations for an appraisal of the real estate assets and for an environmental assessment ;
- Liaised with Reed Pope and with customers who had not closed their purchase of units at Sunrise to terminate those agreements upon the customers’ requests;
- Investigated status of “reservation deposits” that had been mingled with other funds and obtained a legal opinion;
- Appealed the property tax assessments for the remnant lands as well as for certain units at Sunrise;
- Terminated two former employees of the company and determined wage and termination pay obligations to these individuals, advanced a partial sum to each individual, and assisted each individual making a claim for remaining outstanding funds through the federal Wage Earner Protection Program;
- Regularly contacted individuals historically associated with the Development to discuss historical issues and problems arising to obtain background information, suggestions for dealing with issues and feedback on recommendations from third parties and/or Receiver’s proposed courses of action;
- Provided periodic correspondence and reporting to the secured creditors and other former employees of the Company to obtain background information and input into decisions required by the Receiver;
- Prepared materials for the marketing of the assets including: updating the Disclosure Statement, a confidential information memorandum summarizing information about the assets and operations, and an on-line data room to facilitate due diligence by prospective purchasers;

- Assembled the relevant information and documents in the on-line data room; and
- Commenced marketing the assets by placing ads and contacting a long-list of prospects.

Appendix 3

**In the Matter of the Receivership of Sunrise Ridge Resort Ltd.
Statement of Receiver's Receipts and Disbursements
as at October 21, 2010**

	\$
Receipts	
Receiver's Borrowings	120,000
Sale of building inventory and materials	12,285
Geothermal lease revenue	6,570
Receipt of funds previously held at TD bank	37,916
GST Refund	7,687
Total receipts	<u>184,458</u>
Disbursements	
Electrical permitting and installation	9,702
Site clean up costs	793
Project management, engineering, and servicing works	5,428
Geothermal maintenance and inspection	28,561
Fence and copier rentals	3,327
Review of rental management marketing plan	7,875
Strata fees	3,958
Marketing and sales advertisements and costs	946
Geothermal energy payments	3,750
Owners' Association fees	59,118
Payment of former employees' outstanding wages and deductions	4,635
Legal fees	15,398
Utilities and telephone	577
Bank fees and wire transfer commissions	188
OSB filing fee	70
Other disbursements	393
Total disbursements	<u>144,720</u>
Closing Cash Position, October 21, 2010	<u><u>39,738</u></u>

Appendix 4

**In the Matter of the Receivership of Sunrise Ridge Resort Ltd.
Cash and Funding Deficit Projection
for the period October 1, 2010 to November 30, 2010**

	October	November
Opening cash balance	39,738	(146,913)
<i>Receipts</i>		
Receipt of Receiver's borrowings	-	-
Geothermal lease from strata	2,766	2,766
<i>Available cash before disbursements</i>	42,504	(144,147)
<i>Disbursements</i>		
Owners' Association fees	9,853	9,853
Strata fees and geothermal energy	1,446	1,446
Electrical installation and repair	22,000	-
Telco installation and repair	-	19,000
Geothermal maintenance and repairs	6,000	3,000
Fence and photocopier rental	630	630
Legal fees	10,000	10,000
Engineering/consulting	15,000	10,000
Utilities	150	150
Contingency (including for December)	-	70,000
<i>Net cash deficit before Receiver's fees</i>	(22,575)	(268,226)
<i>Receiver's fees & disbursements</i>		
Receiver's fees - April 2010	51,751	-
Receiver's fees - May 2010	34,777	-
Receiver's fees - June 2010	21,133	-
Receiver's fees - July 2010	16,677	-
Receiver's fees - August 2010 (estimated)	-	40,000
Receiver's fees - September 2010 (estimated)	-	30,000
Receiver's fees - October 2010 (estimated)	-	30,000
Receiver's fees - November 2010 (estimated)	-	30,000
Cash surplus/(deficit) after Receiver's fees	(146,913)	(398,226)