

COURT FILE NO.	2001-01887	Clerk's Stamp
COURT	COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	CALGARY	
PLAINTIFF	COMPUTERSHARE TRUST COMPANY OF CANADA C/O MCAP FINANCIAL LIMITED PARTNERSHIP	
DEFENDENT	CENTRE ELEVEN CAPITAL CORP. AND CENTRE ELEVEN LIMITED PARTNERSHIP	
DOCUMENT	SUPPLEMENT TO THE FIRST REPORT OF THE RECEIVER IN THE MATTER OF THE RECEIVERSHIP OF CENTRE ELEVEN CAPITAL CORP. AND CENTRE ELEVEN LIMITED PARTNERSHIP	
FILED	October 5, 2020	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Counsel McMillan LLP Suite 1700, 421 7th Avenue SW Calgary, AB T2P 4K9 Telephone: 403-215-2752 Facsimile: 403-531-4720 Email: Adam.Maerov@mcmillan.ca Attention: Adam Maerov Receiver MNP Ltd. Suite 1500, 640 5th Avenue SW Calgary, AB T2P 3G4 Telephone: 587-702-5963 Facsimile: 403-269-8450 Email: vanessa.allen@mnpc.ca Attention: Vanessa Allen	

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INTRODUCTION AND BACKGROUND

1. On February 13, 2020 (the “Filing Date”), the Court of Queen’s Bench of Alberta granted a Consent Receivership Order (the “Receivership Order”) appointing MNP Ltd. as Receiver (the “Receiver”) over the following property of Centre Eleven Capital Corp. (“CECC”) and Centre Eleven Limited Partnership (“CELP”, “collectively “Centre Eleven” or the “Company”):
 - 1.1. Lands legally described as PLAN CALGARY 3946N, BLOCK SEVENTEEN (17), LOTS FIFTEEN (15) TO NINETEEN (19) INCLUSIVE AND THE WESTERLY FORTY (40) FEET THROUGHOUT, LOTS TWENTY (20) TO TWENTY FOUR (24) INCLUSIVE (the “Real Property”); and
 - 1.2. All of the current and future assets and undertakings and properties of every nature and kind whatsoever of Centre Eleven situated on the Real Property including all proceeds thereof (collectively with the Real Property, the “Centre Property”).

NOTICE TO READER

2. In preparing this report and making comments herein, the Receiver has relied upon, certain unaudited, draft or internal financial information, including the Company’s books and records, and information from other third-party sources (collectively, the “Information”). The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or other standards established by the Chartered Professional Accountants of Canada (the “Standards”). Additionally, none of the Receiver’s procedures were intended to disclose defalcations or other irregularities. If the Receiver were to perform additional procedures or to undertake an audit examination of the Information in accordance with the Standards, additional matters may have come to the Receiver’s attention. Accordingly, the Receiver does not express an opinion, nor does it provide any other form of assurance on the financial or other information presented herein. The Receiver may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.
3. All amounts included herein are in Canadian dollars unless otherwise stated.

PURPOSE OF THE REPORT

6. This report constitutes the Supplement to the First Report of the Receiver (the “Supplemental Report”).
7. The Supplemental Report is intended to be read in conjunction with the First Report of the Receiver dated September 28, 2020 (the “First Report”). The First Report was prepared in support of the Receiver’s application to this Honourable Court returnable on October 6, 2020 (the “October 6 Hearing”) requesting, among other relief, approval of the sale of the Centre Property (the “Centre Sale”) to

Diversified Investments LP by its general partner Diversified Investments GP Inc. (the “Purchaser”), which is an affiliate of RFA Capital Holdings Inc. (“RFA”). The terms of the Centre Sale are set out in Agreement of Purchase and Sale between the Receiver and RFA dated June 10, 2020 (the “RFA APA”) and five subsequent amendment or waiver and amendment agreements (the “Amending Agreements”). Redacted versions of the RFA APA and the Amending Agreements are attached as “Schedule 2” and “Schedule 3” respectively to the First Report.

8. The Supplemental Report is being provided in response to an affidavit filed by Ms. Tara Wilson (“Ms. Wilson”) of Pulse Studios Inc. (“Pulse”) on October 1, 2020 (the “Pulse Affidavit”). Pulse is a tenant of Centre Eleven. In the Pulse Affidavit, Ms. Wilson asks that the Court deny or amend the Sale Approval and Vesting Order that is being sought in relation to the Centre Sale (the “AVO”) on the basis that it unfairly varies and assigns Pulse’s lease agreement.
9. The Receiver’s legal counsel, McMillan LLP (“McMillan”), has been in discussion with Pulse’s legal counsel, JSS Barristers (“JSS”) to assure them that the AVO does not affect any rights or remedies that Pulse may have under the Pulse Lease (as subsequently defined). An agreement has now been reached as to additional wording to be included in the AVO that the Receiver understands is satisfactory to both Pulse and RFA and addresses the concern outlined in the Pulse Affidavit. Nevertheless, the Receiver is filing this report to address various statements made in the Pulse Affidavit and to provide additional information about the matters addressed therein.

THE PULSE AFFIDAVIT

10. Pulse entered into a Lease Agreement with CECC in October 2010 (the “Original Lease”) that has since been amended and renewed. Most recently, a Lease Expansion, Renewal and Amending Agreement was executed in March 2020 (the “LEAA”). Pursuant to the LEAA, Pulse expanded from unit 210A (the “Main Premises”) to unit 100 (the Expansion Premises”) of the Real Property.
11. The Receiver entered into a Property Management Agreement with Colliers Macauley Nicolls Inc. (“Colliers”), dated February 13, 2020 (the “PMA”) to manage, operate, administer and maintain the Real Property.
12. The following section attempts to clarify comments made in the Pulse Affidavit regarding the Pulse Lease, Pulse’s requests for rent abatement or deferral during the Receivership and Pulse’s claim related to a significant weather event in Calgary on June 13, 2020, which event resulted in water entering the Main Premises and the Expansion Premises (the “Flood Event”).

The Pulse Lease

13. The Receiver notes the following statements in the Pulse Affidavit regarding the Pulse Lease that are inaccurate or require clarification:

- 13.1. The LEAA had already been negotiated prior to the Receiver's appointment and was executed on March 2, 2020.
- 13.2. The LEAA included a 90-day fixturing period (the "Fixturing Period"). The Fixturing Period expired on June 1, 2020, at which time Pulse had not yet completed work on the Expansion Premises. Pulse has indicated that, at the time of the Flooding Event, the work on the Expansion Premises was close to completion.
- 13.3. The LEAA includes two-years of free rent for the Expansion Premises (the "Free Rent Period"). As such, Pulse has not been paying rent on the Expansion Premises and is not scheduled to begin paying rent on the Expansion Premises until June 1, 2022.
- 13.4. If the AVO is granted, the Pulse Lease is expected to be assigned to the Purchaser (the "Pulse Assignment"). The AVO will not vary the terms of the Pulse Lease. The Receiver notes that the Pulse Lease requires the Purchaser's consent for an assignment but does not require Pulse's consent.
- 13.5. Section 11 of the LEAA includes certain flood remediation work to be completed by the Landlord (the "Flood Remediation Work"). While a detailed discussion of the Flood Remediation Work is outside the scope of this report. The Receiver notes as follows:
 - 13.5.1. The requirement for the Flood Remediation Work relates to the Expansion Premises;
 - 13.5.2. Prior to the Flood Event, all of the Flood Remediation Work had been completed to the extent possible with the exception of item 11.f. (the installation of a larger threshold plate on the exterior door) and item 11.m. (the provision of a report outlining that the Flood Remediation Work has been completed). Item f was subsequently completed, and the report referenced in item m of the Flood Remediation work has now been obtained.

Requests for Rent Abatement/ Deferral by Pulse

14. The Receiver is advised by Colliers that during the time that Pulse was closed due to the Covid-19 pandemic, Ms. Wilson reached out to discuss possible rent abatement. Colliers has advised that they informed Ms. Wilson (based on discussions with the Receiver) that requests were being considered for rent deferral but not rent abatement. Ms. Wilson indicated that she did not wish to submit a request for rent deferral and no formal request for rent deferral was received by either Colliers or the Receiver until July 15, 2020 (the "July 15 Letter"). The July 15 Letter included a request that 75% of Pulse's rent be deferred for a four-month period (the "Deferral Request");
15. Following receipt of the July 15 Letter, the Receiver scheduled a call with a representative of Colliers and Ms. Wilson to discuss the July 15 Letter. That call between the Receiver, Colliers and Ms. Wilson took place on July 16, 2020 (the "July 16 Call"). At the July 16 Call, the Receiver requested that Pulse provide specific financial information for Pulse, including a two-year budget (the "Pulse Budget") so that the Receiver could consider Pulse's deferral request (the "Pulse Financials"). Also, on the July 16 Call,

Ms. Wilson indicated that Pulse's insurer had declined to provide coverage for the Flood Event. The Receiver requested that Ms. Wilson provide the letter from Pulse's insurer for the Receiver's review (collectively with the Pulse Financials, the "Information Requests"). The July 15 Letter and the Receiver's follow up email to Ms. Wilson following the July 16 Call are attached hereto as "Schedule 1". The Receiver subsequently followed up on the Information Requests several times.

16. On July 29, 2020, Ms. Wilson provided a portion of the Pulse Financials and on August 5, 2020, the remainder of the Pulse Financials were provided. Upon reviewing the information, the Receiver identified a significant discrepancy in the information included in the Pulse Financials and asked that Ms. Wilson re-submit an updated version of the Pulse Financials (the "Updated Pulse Financials"). The Updated Pulse Financials were received by the Receiver on September 16, 2020.
17. Despite the delay in receiving the Pulse Financials, Pulse has been granted a deferral of their base rent and parking for the months of August through October 2020 and has only paid operating costs on the Main Premises during those months.
18. The Receiver is advised by Colliers that, in April 2020, Pulse did make a request to Colliers for an extension of the Fixturing Period but that this request was withdrawn by Pulse following discussions with Colliers where Ms. Wilson was reminded that she is currently in the Free Rent Period with respect to the Expansion Premises.
19. On August 14, 2020, a letter from JSS referenced an extension of the Free Rent Period and, on September 9, 2020, the Receiver had a call with Pulse and JSS at which time they indicated that Pulse would like to make a formal request for an extension of the Free Rent Period. Attached hereto as "Schedule 2" is the Receiver's follow up email to JSS in which the Receiver requested that Pulse submit that request in writing and provide the Updated Pulse Financials. As noted above, the Updated Pulse Financials were provided on September 16, 2020. As at the date of this report, the Receiver has not received a request from Pulse for an extension of the Free Rent Period.

The Flood Event

20. The Receiver is advised as follows by Colliers with respect to their discussions with Pulse following the Flood Event:
 - 20.1. At no time did Colliers indicate that the Landlord was responsible for the damage from the Flood Event.
 - 20.2. Colliers inquired as to whether Pulse would like to use its own contractor or a contractor recommended by Colliers to complete the required remediation. Pulse elected to use its own contractor, Xerri Custom Home Builders Ltd. (the "Pulse Contractor"), who was already on-site. Colliers further indicated that, in their experience, where a space was under repair, at the time damage occurred, a claim would generally be made through the contractor's insurance

policy. The Receiver understands that the Pulse Contractor did not attempt to make such a claim and that Pulse has not made a further request for the Pulse Contractor to do so.

21. A discussion of the merits of the Pulse Claim is outside the scope of this report, however, the Receiver notes the following:

- 21.1. The Receiver advised its insurer of the Flood Event shortly after it occurred but did not initially submit a claim. Until the July 16 Call, the Receiver understood that Pulse was making a claim for the damage caused by the Flood Event through Pulse's insurer. Only on July 22, 2020 did Ms. Wilson provide a letter dated July 16, 2020 from Canadian Claims Services ("CCS") (the "CSS July 16 Letter") outlining its view that the damage caused by the Flood Event was a landlord responsibility. Since receipt by the Receiver of the CSS July 16 Letter, the Receiver has had ongoing communication regarding the Pulse Claim, first with CSS and subsequently with Pulse and their legal counsel.
- 21.2. Based on consultation with Colliers and McMillan, the Receiver is of the view that, while the Flood Event is extremely unfortunate, the landlord is likely not responsible for the resulting repairs. Having said that, the Receiver is empathetic to the financial hardships experienced by Pulse as a result of the Covid-19 pandemic and the difficulties experienced by Pulse as a result of the Flood Event. In addition, the Receiver recognizes that the relationship between the Pulse and the landlord is an ongoing one and that a mutually acceptable resolution is in the best interest of all parties. As such, the Receiver has attempted to advance, to the extent possible, the resolution of the Pulse Claim.
- 21.3. The Receiver received quotes for repair/ remediation work from Pulse Studios totaling approximately \$98,900. The Receiver notes that of the quotes provided approximately \$11,400 related to initial remediation work, approximately \$44,300 related to repairs to the Main Premises and approximately 43,200 related to repairs of the Expansion Premises. Based on discussions with Colliers, the Receiver understands, while some water did enter the Main Premises during the Flood Event, that beyond a basic cleaning of the Main Premises, there did not appear to have been any damage done or repairs required at the Main Premises as a result of the Flood Event. Pulse subsequently estimated the value of the Pulse Claim at \$140,000 (the "Estimated Damages"). Outside of the Pulse invoices, the Receiver has not been provided with any backup to support the Estimated Damages.
- 21.4. The Receiver holds a commercial insurance policy through Lloyd Saad Insurance Brokers Ltd., which is underwritten by various parties as arranged by Cansure Underwriting Ltd. (collectively the "Insurer"). On September 3, 2020, the Receiver asked the Insurer to initiate a claim with respect to the Flood Event (the "Insurance Claim"). As of the date of this report, the Receiver has been advised that the insurance adjuster has completed its review of the Insurance Claim and is waiting for the Insurer to make a determination as to coverage. Depending on the

response of the Insurer, the Receiver will need to determine whether further review of the Pulse Claim, including a further assessment of whether any damage was done to the Main Premises as a result of the Flood Event is warranted. The Receiver notes that should Pulse wish to make a claim for business interruption, they would need to pursue this through their own insurance provider.

22. The Receiver does not believe that Pulse is prejudiced by either the AVO or the Pulse Assignment and notes the following:

22.1. The terms of the RFA APA required that the Purchaser be provided with Estoppel Certificates from the various tenants of Centre Eleven, including Pulse. The Receiver notes that, at Pulse's request, specific language was included in the Estoppel Certificate to address the Pulse Claim. This language references that the Pulse Claim is estimated at \$140,000. Again, the Receiver has only been provided with quotes for work totaling \$98,900, of which \$44,300 does not relate to the Expansion Premises.

22.2. As referenced in the First Report, the Fifth Waiver and Amending Agreement provides for a holdback of \$140,000 to be set aside to specifically address the Pulse Claim and is based on Pulse's estimate of the Pulse Claim.

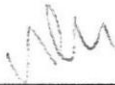
22.3. An agreement has now been reached as to additional wording to be included in the AVO that the Receiver understands satisfies Pulses' concerns with respect to the AVO.

CONCLUSION

23. The Supplemental Report has been prepared to provide the Court with additional information regarding the statements made in the Pulse Affidavit.

All of which is respectfully submitted this 5th day of October 2020.

MNP Ltd., in its capacity as Receiver and Manager of Centre Eleven Capital Corp. and Centre Eleven Limited Partnership and not in its personal or corporate capacity

Per: 

Vanessa Allen, B. Comm, CIRP, LIT
Senior Vice President

SCHEDULES

SCHEDULE 1



E: info@pulsestudios.ca
T: 403.452.2846
W: www.pulsestudios.ca

Attn:
Enam Islam
Property Manager
Colliers International
On behalf of
Meyers Norris Penny LLP,

I am writing this letter to make a formal request for rent relief due to COVID -19 and the effect it has had on my business.

On March 15, 2020 we closed our doors due to the State of Emergency declared for Calgary due to COVID 19.

This closure has had far reaching effect on my business and we need assistance in order to continue and to recover to the point that we can run the business efficiently.

Since the closure we have been faced with the following challenges:

We have had to refund client fees in the amount of \$60,000 as we had to cancel programs, shows, monthly memberships and all registered classes.

We have lost approximately \$165,000 in revenue after being closed for 4 months. Our annual income is approximately \$500,000 per year so being closed for 4 months has been catastrophic to the health of the business.

We have had no rent relief and so have paid rent in full this entire time except to this point July's rent.

We have had to spend approximately \$2500 on hand sanitizer, paper towels, cameras, zoom accounts and other COVID -19 specific supplies in order to have any oncome coming in.

We opened as soon as was possible but can only operate at half capacity: 8 people in class at a time/maximum 10 kids in summer camp. People are not anxious to come back to class because of the remaining fear around the pandemic and so we are struggling to meet the daily expenses of running the business. As a point of reference, we were previously running 6-8 classes per night Monday- Friday and 18 classes on the weekend. Summer camps on average had registrations between 15 and 25 per week. Because of this reduced capacity we are staying open mostly to keep the name of the business on people's minds for when the pandemic is over.

The main floor was affected by the flood. This space would have at least allowed us to have a few more people in class and another cohort of 10 children in camp. The flood was a result of the flood remediation that was supposed to have been completed by the landlord by April 1 - not being completed. We are now in a holding pattern with the insurance company and construction has stopped.

Because of the Black Lives Matter movement and the discussions and protests around this movement we have not felt it was the right time to host a fundraiser or to engage in aggressive marketing for the business. Our business is specifically



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and exclusively Hip Hop and is directly affected by the BLM movement. Most of our staff and faculty are BIPOC and our branding, vision, core values and business practices must be aligned with all discussions around racial equality, injustice, discrimination, and police brutality. We have a moral and social responsibility to listen at this time and not try to have a marketing message speak over the conversation, or to be perceived as using the BLM movement to push our own agenda and business goals.

For all these reasons, I am asking for rent relief until we can get PULSE into a healthy and sustainable state.

I feel that it may take until Dec 2020 to get a sense of where the business is going to be.

I understand that taking part in the commercial rent relief program put forward by the Federal Government was not a possibility, but I am begging for the same relief.

If I could pay 25% of my rent from July – October it would make a huge difference in my ability to keep going.

I am proposing that my rent for the next 4 months be reduced to \$1575.00. If not including July then Aug – Nov.

We are doing the best we can. We have a fundraiser planned for August.

We are operating as best we can at half capacity.

We are planning for the fall and to run programs to the best of our ability.

We are planning to finish the main floor as soon as possible.

I am not asking for an extension of the fixturing period for the main floor and I have already lost almost 2 months of revenue from that space.

We are waiting to hear if masks indoors will be mandatory. If they are mandatory, once again, this will impact my business negatively and we will be looking at another shut down.

I thank you for your time and for your consideration.

Sincerely,
Tara Wilson
Owner
PULSE Studios

Vanessa Allen

From: Vanessa Allen
Sent: July 16, 2020 10:48 AM
To: Tara Wilson
Cc: Rick Anderson (Rick.Anderson@mnp.ca); Islam, Enam
Subject: Centre Eleven - Follow up

Categories: Red Category

Hi Tara,

The following are the follow up items from our call today:

1. Please provide us with the referenced letter from your insurer. We understand you can send this over today.
2. July 2020 rent will be paid on Monday, July 20, 2020. Enam will confirm today whether accounting can do an automatic withdrawal or not.
3. In order to consider your further request for rent deferral, please provide the following:
 - a. Last year's financial statements – we understand that you will send these over today.
 - b. YTD financial statements – we understand that you will consult with your accountant to determine what can be provided and when.
 - c. Budget (2 years) – we understand that there is a significant amount of uncertainty right now and ask that you include your assumptions, which will facilitate our review.

Thanks very much,

Vanessa

Vanessa Allen, B. Comm, CIRP, LIT
SENIOR VICE PRESIDENT

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SCHEDULE 2

Vanessa Allen

From: Vanessa Allen
Sent: September 10, 2020 12:26 PM
To: Geoffrey Boddy; tara@pulsestudios.ca
Cc: Preet Saini; Rick Anderson (Rick.Anderson@mpn.ca)
Subject: Centre Eleven Capital Corp. and Centre Eleven Limited Partnership - in Receivership/
Follow up
Attachments: new doc 2020-07-27 15.37.21.pdf; Budget aug 2021-2022.pdf; Profit and Loss
Report_from_PULSE_STUDIOS_INC.pdf
Importance: High

Hi Geoff,

As discussed, please submit a formal written request if you wish to have the free-rent period extended. Please include the following information:

1. The specifics of the extension that is being requested. We note that it is unlikely that an indefinite extension request would be approved. As such, we would suggest that your request include a specific timeline with an agreement that a further request may be considered if required.
2. The specifics on the work that needs to be completed prior to Pulse Studios being able to expand their operations to the main floor.

As discussed, in order to consider both this request and the outstanding request for a further rent deferral, we would appreciate receiving updated financial information.

Geoff, for your reference, the financial information that was previously provided is attached.

1. Financial statements for the period ended January 31, 2020;
2. A budget to August 31, 2022. We note that this does not appear to contemplate use of the main floor, which will certainly be available for use during the forecast period; and
3. YTD financials – we were previously provided with a P&L for February 1 to August 2, 2020. We asked that items 2 & 3 be resubmitted, in part due to a discrepancy in ShowTyme rental, which was originally listed as costing \$240,000 but which we now understand costs \$24,000.

Please let us know if you require additional information.

Thanks very much,

Vanessa

Vanessa Allen, B. Comm, CIRP, LIT
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