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CANADA
DISTRICT OF NOVA SCOTIA
DIVISION No.: 01-HALIFAX
COURT No.: 37377
ESTATE No.: 51-1758564

NOVA SCOTIA
BANKRUPTCY COURT

**IN THE MATTER OF THE
BANKRUPTCY OF:**

HOMCO REALTY FUND (102) LIMITED

PARTNERSHIP, a Limited Partnership formed under the laws of Nova Scotia, having its head office at 1959 Upper Water Street, Suite 900, Halifax, Nova Scotia, B3J 3N2, Canada, and having a property at Hardwareweg 11, 3821 BL Amersfoort, the Netherlands

Bankrupt

– and –

DELOITTE & TOUCHE INC.

(Neil Jones, CA, CIRP, designated responsible person) having its place of business at 1959 Upper Water Street, Suite 1500, Halifax, Nova Scotia, B3J 3R7, Canada

Trustee

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

The *Bankruptcy and Insolvency Act*, a federal act in Canada (the “Act”), provides for a first meeting of creditors to discuss the creditors’ collective interest in the administration of the Bankrupt’s estate.

A) Background

Homco Realty Fund (102) Limited Partnership (“**H102**”) is a limited partnership formed under the laws of Nova Scotia and having its registered head office at 1959 Upper Water Street, Suite 900, Halifax, Nova Scotia, B3J 3N2. H102 was established for the sole purpose of acquiring and operating a real estate property.

Homburg Invest Inc. (“**HII**”) is the sole limited partner of H102. As limited partner, HII is entitled to the profits of H102 and, in the event of a liquidation of H102, to any liquidation proceeds after the payment of all of the limited partnership’s creditors, and thus has the ultimate beneficial interest of the property owned by H102.

The general partners of H102 are Homburg L.P. Management Inc. (as "holding" general partner) and HII (102) GP Inc. (as "managing" general partner). Homburg L.P. Management Inc. is indirectly owned by Homburg Canada Incorporated, whereas HII (102) GP Inc. is a wholly owned subsidiary of HII. Pursuant to the limited partnership agreement, the "managing" general partner, HII (102) GP Inc., has full power and authority to manage the business and assets of H102.

H102's sole real estate property is a 4,918 square meter property located at Hardwareweg 11, 3821 BL Amersfoort, in the Netherlands. The town of Amersfoort is situated north-east of Utrecht with a population of approximately 135,000 inhabitants.

Restructuring of HII

On September 9, 2011, HII and certain related entities (the "**HII Parties**") initiated a restructuring process by filing for and obtaining protection from their creditors under the *Companies' Creditors Arrangement Act* ("**CCAA**") pursuant to an order rendered by the Superior Court of Quebec (as amended and extended from time to time, the "**Initial Order**"). HII, through a number of entities (collectively with HII, the "**HII Group**"), owns a diversified portfolio of real estate assets in Europe (Germany, Baltic States and the Netherlands), Canada and the United States. A number of the real estate assets have been operating with negative cash flows, and/or have a realizable value that is less than the outstanding capital balance of a loan secured by a mortgage over same property. Prior to the CCAA proceedings, and up and until June 2012, HII had been funding the operational deficit of some of said properties.

In the course of the CCAA proceedings, the HII Group made a thorough analysis of its portfolio in order to identify its "bad" properties, namely the ones that, in the absence of a satisfactory agreement with the pertaining mortgage lender (i.e. an agreement to "rightsized" the loan, namely to reduce the capital in light of the property's reduced realizable value due to market conditions), should be disposed of prior to emergence from the CCAA as they would not form part of the post-restructuring portfolio. Starting in June 2012, HII halted the funding of any operating deficit of some properties, if applicable, including the property held directly by H102. Since then, to the extent that operational expenses could not be funded by the cash inflows of the given property, any operating deficits were to be funded by the mortgage lender of the respective property, namely, in the case of H102, FGH Bank N.V. ("**FGH**"). Since no satisfactory agreement was reached with FGH, a decision was made to file an assignment in bankruptcy for H102.

Financial statements

For reference purposes, below is H102's income statement for the three-month period ended March 31, 2013 as well as H102's balance sheet as of March 31, 2013. The income statement and balance sheet presented below have been converted to Canadian dollars using the exchange rate as of March 28, 2013 (1.3042) (the markets being closed from March 29 to March 31, 2013 inclusive).

Homco Realty Fund (102) Limited Partnership	
Income Statement (CAD)	
For the three months ended March 31, 2013 (unaudited)	
Rental revenues	<u>179,510</u>
Expenses	
Insurance	1,568
Management fees	8,363
Mortgage interest	56,609
Office and miscellaneous	605
Property taxes	3,572
Income tax	<u>6,914</u>
	<u>77,630</u>
Net income	<u><u>101,880</u></u>

Homco Realty Fund (102) Limited Partnership	
Balance Sheet (CAD)	
As at March 31, 2013 (unaudited)	
Assets	
Cash	530,096
Income tax receivable	18,676
Accounts receivable	8,387
Prepays	12,162
Due from Homburg Invest Inc.	275,675
Investment property (<i>Note 1</i>)	<u>6,390,580</u>
	<u><u>7,235,576</u></u>
Liabilities	
Accounts payable	24,516
Mortgage payable	<u>5,329,613</u>
	<u><u>5,354,130</u></u>
Partners' equity	
Retained earnings	520,644
Partners' capital	<u>1,360,802</u>
	<u>1,881,447</u>
	<u><u>7,235,576</u></u>

Note 1:

Please note however that the net realizable value of the Investment property is estimated at C\$3,650,400 as of June 11, 2013 (please refer to the Statement of Affairs in the following section of this report).

Causes of insolvency

The entire real estate property owned by H102 is currently rented to one tenant, Imtech Infra BV., with a lease agreement expiring in November 2015. The tenant has already indicated its intention not to renew the lease agreement at the current rental rate and, given the current market conditions and the property's conditions and location, H102 does not expect to be able to find a replacement tenant at the existing rental rate in time for November 2015. Moreover, H102 estimated that significant capital improvement disbursements would be required after the current lease agreement expires in order to attract a viable tenant, rendering financially unsustainable any ongoing project with respect to H102's property.

Given H102's economic situation and in the absence of a satisfactory "rightsizing" agreement with FGH, the HII Group, following a thorough analysis of its portfolio, concluded that the properties financed by FGH, including the one held by H102, should be disposed of prior to emergence from the CCAA as it would not form part of the post-restructuring portfolio. A decision was therefore made to file an assignment in bankruptcy for H102.

H102 meets the definition of an "insolvent person" under the Act because, *inter alia*, the aggregate value of its assets, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of its obligations, due and accruing due.

As at May 24, 2013, a third-party appraisal report conducted by DTZ Zadelhoff valued the property at €2.7M (under the assumption of a limited sale period of 3 to 6 months). The secured debt owed to FGH as at June 10, 2013 amounts to approximately €4.1M, exceeding the estimated realizable value of the real estate property by approximately €1.4M. The estimated value of H102's real estate property has significantly deteriorated due to the economic crisis of 2007-2008 and its impact on the European economy. Further, the total estimated realizable value of H102's assets as at June 11, 2013 was approximately \$4.2M, approximately \$1.3M lower than H102's total obligations as at June 11, 2013 (as indicated in H102's Statement of Affairs included in the following section of this report).

The third-party appraisal report conducted by DTZ Zadelhoff also included a fair market valuation of the property at €3.7M. Under this scenario, which the HII Group does not believe to be realistic or realizable in the short to medium term, the total estimated realizable value of H102's assets as at June 11, 2013 would be approximately equivalent to the value of its total obligations, excluding obligations accrued or incurred after the filing into bankruptcy.

Bankruptcy

As (i) the estimated realizable value of H102's assets is lower than the estimated value of its liabilities, and (ii) the property of H102 is not a core asset that will form part of the HII Group's restructured portfolio, the decision was made for H102 to file an assignment in bankruptcy. On June 13, 2013, H102 filed an assignment in bankruptcy and Deloitte & Touche Inc. was appointed as trustee. HII (102) GP Inc., H102's "managing" general partner, has also filed an assignment in bankruptcy and Deloitte & Touche Inc. also acts as its bankruptcy trustee.

B) Trustee's preliminary evaluation of assets and details of security interest

Below is a summary of the Statement of Affairs as of June 11, 2013, which includes the estimated net realization value of the assets of H102 as well as the estimated deficit following the distribution of estimated proceeds from the liquidation of the assets to secured and unsecured creditors:

Homco Realty Fund (102) Limited Partnership Statement of Affairs (CAD) As of June 11, 2013 (unaudited)	Book value (Note 1)	Estimate of net realization value
Assets		
Cash	199,389	199,389
Intercompany receivable	713,215	331,321
Accounts receivable	6,873	6,873
Prepaid expenses	9,102	-
Sales tax receivable	2,151	2,151
Income tax receivable	19,361	19,361
Investment property	<u>6,624,800</u>	<u>3,650,400</u>
	7,574,890	4,209,494
Liabilities		
Secured creditor		3,657,273
Secured creditor (unsecured portion)		1,839,283
Unsecured creditors (Note 2)		<u>-</u>
		<u>5,496,556</u>
Deficit (before professional fees)		<u>(1,287,062)</u>

Note 1:

All amounts denominated in Euros were converted using the June 7, 2013 exchange rate (1.3520).

Note 2:

Creditors will have the onus to prove their claims and only those claims that are proven will constitute valid claims and will receive a distribution if funds are available.

The firm Clifford Chance LLP has provided the Trustee with an independent legal opinion on the validity and enforceability of FGH's security, which is governed by Dutch law. The opinion indicates that subject to usual assumptions and qualifications, the security agreement between FGH and H102 creates a valid right of mortgage in favor of FGH over the property located at Hardwareweg 11, 3821 BL Amersfoort, in the Netherlands, and certain related rights (namely rental receivables and moveable property related to the real property).

The estimated value attributed to the various assets of H102 in the Statement of Affairs and the status of each asset as it relates to FGH's security is discussed below:

- Cash: Cash balances are based on the June 10, 2013 bank account balances. The cash balances held in H102's operating bank accounts at HSBC are not secured in favor of FGH and will thus be realized by the Trustee for distribution pursuant to the scheme of collocation of the Act.
- Intercompany receivable: The book value of the intercompany receivable was estimated based on the books and records of H102 as at May 2, 2013. The estimated net realization value of the intercompany receivable was calculated based on an election made by H102 at a meeting of creditors on May 30, 2013 pursuant to H102's claim against HII in the aforementioned CCAA proceedings. As explained in the twenty-third Monitor's report to the Superior Court of Quebec, HII's Plan of Arrangement dated June 5, 2013 (the "**Plan**") includes an option for unsecured creditors to receive a cash settlement instead of common shares of the new legal entity to emerge from HII's CCAA proceedings, which would otherwise have been issued to H102 under the Plan. As per the HII Group's and Monitor's estimates and subject to a number of variables and risk factors further detailed in HII's Information Circular in Relation to the Plan dated May 3, 2013, the final cash settlement would represent approximately 32% of H102's claim for intercompany receivables existing at the date HII filed for protection under the CCAA, September 9, 2011. Intercompany receivables outstanding for the period post-filing are expected to be realized at 100% of book value, subject to the implementation of the Plan, which is the object of a number of conditions precedent. The intercompany receivable is not secured in favor of FGH and will thus be realized by the Trustee for distribution pursuant to the scheme of collocation of the Act.
- Accounts receivable: The book value of the accounts receivable is as per H102's internal trial balance as of June 10, 2013. According to the information available to the Trustee, accounts receivable are comprised of rental receivables that are secured in favor of FGH.
- Prepaid expenses: The book value of the prepaid expenses is as per H102's internal trial balance as of June 10, 2013. Prepaid expenses are not secured in favor of FGH; however, the Trustee estimated that no proceeds will be realized from the prepaid expenses in the liquidation of H102's assets.
- Sales tax receivable: The book value of the sales tax receivable is as per H102's internal trial balance as of June 10, 2013. The sales tax receivable is not secured in favor of FGH and will thus be realized by the Trustee for distribution pursuant to the scheme of collocation of the Act.
- Income tax receivable: The book value of the income tax receivable is as per H102's internal trial balance as of June 10, 2013. The income tax receivable is not secured in favor of FGH and will thus be realized by the Trustee for distribution pursuant to the scheme of collocation of the Act.
- Investment property: The book value of the investment property is as per H102's internal financial statements as of June 10, 2013. The Trustee estimated the fair market value of the investment property based on the estimated market value of the property (under a limited sales period assumption of 3 to 6 months) as per a third-party appraisal report dated May 24, 2013. The investment property is secured in favor of FGH.

C) Conservatory and protective measures

The Trustee implemented the following conservatory and protective measures:

- Freezing of all of H102's bank accounts and requesting the funds to be transferred to the Trustee;
- Change of beneficiary of H102's insurance policy (from HII to the Trustee); and
- Execution of an amendment to the property management agreement between HINVEST REMS B.V. (the "**Property Manager**") and the Trustee to ensure the continuation of services of the Property Manager from the date of bankruptcy until July 4, 2013, the date of the first meeting of creditors when it is anticipated that the Trustee's rights to the property will be released to FGH, given the lack of equity for the unsecured creditors.

D) Information relating to provable claims

As of the time of the preparation of this report, considering no proofs of claim were received to date, the Trustee is not able to determine if there will be a significant difference between the amount of claims declared by the Bankrupt and the amount of claims proven by the various creditors.

E) Legal proceedings, transfer at undervalue, and preference payments

The Trustee has not initiated any legal proceedings and has not identified any transfer at undervalue or preference payments to date.

F) Conflict of interest and details of fee guarantees

Conflict of interest

As stated above, on September 9, 2011, the HII Parties filed and obtained protection from their creditors under the CCAA pursuant to the Initial Order. Pursuant to said order, Samson Bélair/Deloitte & Touche Inc. was appointed monitor of HII under the CCAA. As of the time of this report, the HII Parties are still under the protection of the CCAA.

Also, on June 13, 2013, following the assignment in bankruptcy of H102, HII (102) GP Inc. filed an assignment in bankruptcy. Deloitte & Touche Inc. was appointed trustee of the estate of the bankrupt by the official receiver, subject to affirmation by the creditors of the trustee's appointment or substitution of another trustee by the creditors.

As mentioned in the previous sections of this report, HII is the sole limited partner of H102 and also the shareholder of HII (102) GP Inc., H102's "managing" general partner. The Trustee, however, does not believe that Samson Bélair/Deloitte & Touche Inc.'s role as court-appointed monitor in the CCAA proceedings of HII or Deloitte & Touche's role as Trustee in the bankruptcy of HII (102) GP Inc. puts it in a position of conflict of interest to act as Trustee in bankruptcy of H102. As court-appointed monitor under HII's CCAA proceedings, Samson Bélair/Deloitte &

Touche Inc. is an officer of the Superior Court of Quebec, appointed to monitor the business and financial affairs of HII. As Trustee of HII (102) GP Inc. and H102, Deloitte & Touche Inc. is an officer of the Nova Scotia Bankruptcy Court, appointed to administer the Bankrupts' estate in accordance with the Act.

Details of fee guarantees

In an order dated October 10, 2012, the Superior Court of Quebec (overseeing the CCAA proceedings of HII and certain related entities) extended the definition of the "Administration Charge" granted in the Initial Order such that it secures the professional fees and disbursements of Deloitte & Touche Inc., in its capacity as Trustee in the bankruptcy of H102.

Pursuant to the order of the Superior Court of Quebec dated June 5, 2013, the Plan was sanctioned and the Court ordered, declared and authorized, *inter alia*, that, on the Plan Implementation Date, (i) the "Administration Charge" be continued as against certain cash pools and reserves and other non-core assets of HII, and (ii) an "Administrative Reserve" be created to cover certain fees, costs and expenses, including any unpaid fees and disbursements of Deloitte & Touche Inc., acting as trustee in bankruptcy to entities related to HII.

G) Projected distribution and Trustee's comments on anticipated asset realization

The Trustee estimates that the proceeds that will be realized from the liquidation of all of H102's assets which are not secured in favor of FGH (totaling \$0.55M as per the Statement of Affairs) could result in a dividend ranging from 0 to 30 cents on the dollar to the unsecured creditors (who have claims totaling \$1.8M as per the Statement of Affairs). The amount of the final dividend to the unsecured creditors will depend on the value that will be realized from H102's assets, the total amount of claims that will be proven by creditors before dividend distribution, and on the administration costs of the estate.

H) Trustee's remuneration

The Trustee will seek approval of the estate inspector(s) during the administration of H102's bankruptcy to settle the Trustee's professional fees and disbursements from the assets of the estate.

Further, the professional fees and disbursements of Deloitte & Touche Inc., in its capacity as Trustee in the bankruptcy of H102, are guaranteed by the "Administration Charge" and by the eventual "Administrative Reserve" approved by the Superior Court of Quebec in the course of the HII Group's restructuring under the CCAA.

D) Other matters

None.

DATED AT HALIFAX, Nova Scotia, this 3rd day of July, 2013.

DELOITTE & TOUCHE INC.

In its capacity as Trustee of the Estate of
Homco Realty Fund (102) Limited Partnership
and not in its personal capacity

Per:



Neil Jones, CA, CIRP
Vice-President