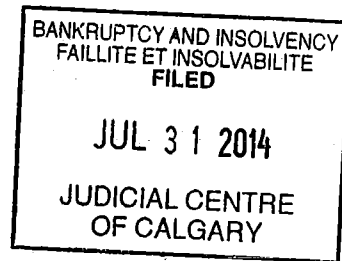


Deloitte



COURT FILE NUMBER 25-1859192
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
DOCUMENT SUPPLEMENT TO THE THIRD REPORT OF THE TRUSTEE
IN THE MATTER OF THE PROPOSAL OF 3 EAU CLAIRE
DEVELOPMENTS INC.
DATED JULY 30, 2014

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

Counsel

Blake, Cassels & Graydon LLP
3500, 855 – 2nd Street SW
Calgary, AB T2P 4J8
Attention: Kelly J. Bourassa & Ryan Zahara

Telephone/Facsimile: 403-260-9697 & 403-260-9628/
403-260-9700

Email: kelly.bourassa@blakes.com &
ryan.zahara@blakes.com

Proposal Trustee

Deloitte Restructuring Inc.
700 Bankers Court, 850 – 2nd Street SW
Calgary, AB T2P 0R8
Attention: Jeff Keeble & Vanessa Allen

Telephone/Facsimile: 403-503-1458 & 403-298-5955/ 403-
718-3681

Email: jkeeble@deloitte.ca & vanallen@deloitte.ca

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Introduction and Notice to Reader

Introduction

1. On April 11, 2014, 3 Eau Claire Developments Inc. ("3 Eau Claire" or the "Company") filed a Notice of Intention to Make a Proposal (the "NOI") under Section 50.4(1) of the *Bankruptcy and Insolvency Act* (the "BIA"). Deloitte Restructuring Inc. ("Deloitte") consented to act as Trustee under the NOI (the "Trustee"). Information on these proceedings can be accessed on Deloitte's website at www.deloitte.ca under the Insolvency and Restructuring link.
2. The Company was granted an initial 30-day stay of proceedings (the "Initial Stay") pursuant to Section 69(1) of the BIA. 3 Eau Claire was required to file a proposal within the Initial Stay or within any further extension of that period granted by the Court of Queen's Bench of Alberta (the "Court"). The Court has now granted three Orders extending the stay of proceedings with the most recent Order being granted on July 16, 2014 and extending the stay of proceedings until July 31, 2014 (the "Third Extension").
3. Pursuant to Section 50.4(2) of the BIA, the management of 3 Eau Claire ("Management") has filed a statement of projected cash flow and three subsequent amended statements of projected cash flow. The Third Amended Statement of Projected Cash Flow for the ten week period from the week ended July 12, 2014 to the week ending September 13, 2014 was filed on July 14, 2014 (the "Third Forecast") and is attached as "Schedule 2" to the third report of the Trustee filed on July 14, 2014 (the "Third Report"). All of the statements of projected cash flow were accompanied by a Report on the Cash Flow Statement by the Person Making a Proposal and a Trustee's Report on the Cash Flow Statement.
4. This report is the supplement to the Third Report (the "Supplement"). The Supplement is being filed in respect of 3 Eau Claire's application to the Court on July 31, 2014 (the "July 31 Application"), as further described later in this report.

Notice to Reader

5. In preparing the Supplement, the Trustee has relied on unaudited financial information, the books and records of the Company and discussions with Management, interested parties and stakeholders. The Trustee has not performed an independent review or audit of the information provided.

6. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of the Supplement.

Background

Operations

7. 3 Eau Claire was incorporated as a real estate development company for the purpose of building an approximately 652,000 square foot mixed-use condominium project (the "Project") located at 633 3rd Avenue SW in Calgary, Alberta (the "Lands").
8. Further information on the operations of 3 Eau Claire is available in the three reports that were previously filed by the Trustee (the "Trustee's Reports").

Court Proceedings

9. The Third Report was filed in respect of an application on July 16, 2014 (the "July 16 Application"), at which 3 Eau Claire sought the following relief:
 - 9.1 Approval of a third extension of the stay of proceedings for an additional 45 days; and
 - 9.2 An increase in the Administrative Charge (as defined later in this report) from \$50,000 to \$100,000 together with an increase in the scope of the Administrative Charge to include the reasonable fees and expenses of the Trustee's legal counsel.
10. At the July 16 Application, the Court granted the following Order:
 - 10.1 Granting the Third Extension (the Court granted a 15 day extension as opposed to the 45 days, which was originally requested); and
 - 10.2 Sealing the Third Confidential Affidavit of Andrew Seong-Jin Lee sworn on July 15, 2014 (the "Third Affidavit") pending further Order of the Court with the Trustee reviewing the need for the Third Affidavit to remain confidential prior to their discharge.
11. The remainder of the July 16 Application was adjourned until July 31, 2014 (the "July 31 Application"). The Company is seeking the following relief at the July 31 Application:
 - 11.1 Approval of a fourth extension of the stay of proceedings for an additional 45 days (the "Fourth Extension"); and
 - 11.2 An increase in the scope and amount of the Administrative Charge, as requested at the July 16 Application.

Restructuring Efforts

The Marketing Process

12. On March 12, 2014, 3 Eau Claire retained Avison Young Real Estate Alberta Inc. ("Avison") to act as the Company's agent for the sale of the Lands or to procure a development partner to complete the project (the "Marketing Process"). Further detail on the Marketing Process is available in the Trustee's Reports.
13. Pursuant to the Marketing Process, at the time of the July 16 Application, 3 Eau Claire had entered into a binding letter of intent with a party interested in moving forward with a development partnership (the "1st JV LOI", and the "1st JV Partner" respectively). The Trustee was in regular contact with 3 Eau Claire during the Third Extension. Until the morning of July 29, 2014, the Trustee understood that 3 Eau Claire was negotiating with the 1st JV Partner with the intention of executing a co-ownership agreement with the 1st JV Partner.
14. On July 29, 2014, the Trustee was contacted by Management and advised as follows:
 - 14.1 Following the July 16 Application, 3 Eau Claire had been in contact with the 1st JV Partner regarding the fact that the Third Extension had only been granted for 15 days, as opposed to 45 days as initially requested;
 - 14.2 The 1st JV Partner requested that the due diligence period contemplated under the 1st JV LOI be extended from 30 days to 45 days due to the 15 day adjournment of the July 16 Application. The 1st JV Partner took the position that the 1st JV LOI had lapsed and that a new letter of intent would need to be signed to reflect the requested extension of the due diligence period; and
 - 14.3 Prior to the execution of a new letter of intent with the 1st JV Partner, 3 Eau Claire was approached by Concord Pacific Investments Inc. ("Concord"), a Vancouver-based developer of master-planned communities and high density residential towers, who also expressed a desire to enter into a joint venture with 3 Eau Claire. On July 28, 2014, after meeting with Concord, 3 Eau Claire executed a letter of intent with Concord (the "Concord LOI"). The Concord LOI has substantially the same terms as the 1st JV LOI and is described in further detail in the next paragraph.
15. We understand that a copy of the Concord LOI will be provided to the Court on a confidential basis in conjunction with the July 31 Application. As was the case with the 1st JV LOI, selected details of the Concord LOI, including the quantum of Concord's investment, are being kept confidential in order to

prevent the tainting or compromise of any future sales process that may be required should the Concord LOI not be completed as contemplated. The Trustee provides the following comments with respect to the Concord LOI:

- 15.1 Based on the Trustee's discussions with Avison and their knowledge of Concord, the Trustee believes that Concord is a well-known and reputable developer who would have sufficient financial resources to complete the transaction contemplated in the Concord LOI. In addition, The Trustee was advised by Avison that Concord is currently completing a building similar to the Project in the Eau Claire area of Calgary. As such, Concord has both relevant experience and access to relevant resources to complete the Project.
 - 15.2 The following deposits will be payable:
 - 15.2.1 An initial deposit, which we understand has been received by Concord's legal counsel, which is refundable until such time as a joint venture agreement (the "Concord Agreement") is signed, the Fourth Extension is approved, and 3 Eau Claire's proposal receives creditor and Court approval; and
 - 15.2.2 A second deposit, to be provided within three days of the Concord Agreement being signed, which is refundable until 3 Eau Claire's proposal receives creditor and Court approval;
 - 15.3 Concord will acquire a majority interest in the Project and will work with 3 Eau Claire to complete the Project;
 - 15.4 There is a further due diligence period, which expires on August 29, 2014 at the end of which it is contemplated that the Concord Agreement will have been executed;
 - 15.5 The Concord LOI contemplates that 3 Eau Claire will provide clear title to the Lands, which would require KDIC's approval of the Postponement (as both terms are defined later in this report).
16. Avison has advised that Concord is a good partner for 3 Eau Claire due to their financial backing, contacts and resources.
 17. Avison has advised that should 3 Eau Claire be unable to file a proposal to its creditors for any reason, it believes that there are at least three parties, who would be interested in negotiating a transaction for the outright purchase of the Lands. Based on the Trustee's knowledge of the Marketing Process to date; however, in the event of the outright purchase of the Lands, any recovery to those mortgage holders registered subsequent to the Computershare Mortgage (as defined later in this report) would be highly uncertain.

Negotiations with KDIC

18. As previously reported, Computershare Trust Company of Canada ("Computershare") has a second-place registered mortgage against the Lands (the "Computershare Mortgage") with an outstanding

principal balance of approximately \$20.7 million and approximately \$6.0 million in accrued interest. Computershare acts as the Trustee for the Hyundai Wise Private Investment Trust ("Hyundai Wise"). Hyundai Wise, in turn, acts as the fund manager for the Computershare Mortgage. We are advised that due to the insolvency of a syndicate of Korean banks who originally advanced the funds, the current beneficiary of the Computershare Mortgage is the Korea Deposit Insurance Corporation ("KDIC"), who acts on behalf of the Korean government.

19. The Trustee previously reported that 3 Eau Claire has had ongoing discussions with KDIC regarding KDIC postponing all but approximately \$10.0 to \$13.0 million of the principal balance as well as the accrued interest on the Computershare Mortgage (the "Postponement"). We understand that KDIC asked 3 Eau Claire to provide a written request regarding the Postponement, which KDIC would then present for approval to the appropriate internal committees and officials within KDIC. On July 28, 2014, we were provided with a draft of such a request (the "Confirmation Letter"), which we understand is being provided to KDIC on or around July 30, 2014. We note as follows with respect to the Confirmation Letter:

- 19.1 The Confirmation Letter considers that upon the receipt by KDIC of 10.0 billion South Korean Won, which is the equivalent of approximately \$10.6 million (the "KDIC Payment"), KDIC would deliver discharges of their mortgage security registered against the Lands;
- 19.2 The residual balance due to KDIC is to be repaid in the same manner and at the same time as 3 Eau Claire's equity interest in and from the proceeds from the development and sale of the Project;
- 19.3 The interest accrued to date plus additional interest accrued from the date the KDIC Payment is made will be eligible for repayment when 3 Eau Claire is entitled to repayment of 3 Eau Claire's equity interest in the Project. KDIC's right to repayment will be registered by way of a caveat (the "KDIC Caveat") in respect of 3 Eau Claire's ownership interest in the Project;
- 19.4 The KDIC Caveat will be subordinated from time to time to all interests, security and other registrations of any kind as and when required to facilitate, promote, advance or complete the development, continuation, financing, leasing or sale of all or any part of the Project; and
- 19.5 We understand that 3 Eau Claire anticipates that it will take approximately 30 days to receive a response to the Confirmation Letter.

Bosa Proposal

20. As previously reported, on July 11, 2014, the Trustee, together with its legal counsel held a meeting with legal counsel for Bosa Properties (Eau Claire) Inc. ("Bosa"). Bosa's legal counsel had requested the meeting to discuss a possible proposal pursuant to the BIA to be advanced by Bosa. The structure of the proposal discussed by Bosa at that meeting was substantially the same as that outlined in the Affidavit of Brett Sandler, sworn on July 28, 2014 (the "Bosa Proposal"). We note as follows with respect to the Bosa Proposal:

- 20.1 The Bosa Proposal contemplates that Bosa will pay Korea Exchange Bank of Canada ("KEB"), the first registered mortgage holder, upon Court approval of the Bosa Proposal and then finish the Project with further creditor distributions being available only upon the successful completion of the Project.
- 20.2 The Bosa Proposal contemplates that the Project will only be developed at such time as condominium unit sales are sufficient to support the development of the Project and that Bosa may elect not to proceed with the Project if market conditions and pre-sales of condominium units do not support the economic model for the Project. No funds would be available to 3 Eau Claire's creditors, outside of KEB until such time that Bosa actually completed the Project.
21. The proposal being contemplated by 3 Eau Claire would provide for a distribution to creditors following Court approval of that proposal based on the proceeds received pursuant to the Concord Agreement. Based on the information provided in the Bosa Proposal, at this point, it appears that the proposal being contemplated by 3 Eau Claire would provide for a more certain, more timely and potentially greater payment to the Company's creditors than the Bosa Proposal.
22. Other than as described above, the Trustee is not aware of any further developments since the date of the Third Report with respect to 3 Eau Claire's other creditors

Comparison of Actual vs. Projected Cash Flow

23. Attached as "Schedule 1" is a variance analysis for the three week period ended July 26, 2014 (the "Variance Period"), which is based on the Third Forecast (the "Variance Analysis"). The Variance Analysis reflects an overall net positive variance of \$631.
24. 3 Eau Claire reported the following two permanent negative variances during the Variance Period:
 - 24.1 \$2,880 related to travel expenses (the "Travel Variance"), which Management has indicated was largely due to additional trips to Toronto, which were required to execute the 1st JV LOI when 3 Eau Claire was still negotiating with the 1st JV Partner; and
 - 24.2 \$677 related to an insurance renewal payment, which was erroneously excluded from the Third Forecast (the "Insurance Variance").
25. With the exception of the Travel Variance and the Insurance Variance, all of the variances included in the Variance Analysis are timing related and are anticipated to reverse themselves in future weeks.

Administrative Charge

26. As previously reported, on May 8, 2014, the Court granted a charge in the amount of \$50,000 as security for reasonable fees and disbursements of the Trustee and the Company's legal counsel (the "Administrative Charge"). The Administrative Charge formed a first charge over all assets, rights, undertakings and properties of 3 Eau Claire of every nature and kind whatsoever, and wherever situated, including all proceeds thereof.
27. As at the date of this report, the Trustee has three outstanding invoices totaling approximately \$59,600 (including GST) for the period ended July 25, 2014. The Trustee retained Blake, Cassels & Graydon LLP ("Blakes") to act as its legal counsel in these proceedings. As of the date of this report, Blakes has outstanding work-in-progress of approximately \$6,500. We are advised that 3 Eau Claire's legal counsel currently has outstanding invoices totaling approximately \$17,500 and has unbilled work in progress of approximately \$25,000. As such, there are currently outstanding professional fees for the Trustee, the Trustee's legal counsel and the Company's legal counsel of approximately \$108,600. As noted above, 3 Eau Claire is requesting an increase in the Administrative Charge to \$100,000 at the July 31 Application, as well as an increase in the scope of the Administrative Charge to include the reasonable fees and expenses of the Trustee's legal counsel.

Summary and Recommendation

28. Based on the Trustee's dealings and our review of 3 Eau Claire's operations and restructuring efforts to date, we advise that:

28.1 3 Eau Claire appears to be continuing to act in good faith and with due diligence;

28.2 Based on the information received, Concord is a viable joint venture partner and has the financial capacity to complete the Concord Agreement. Assuming that KDIC agrees to the Postponement, proceeding with the Concord Agreement should allow 3 Eau Claire to make a proposal to both the mortgage holders registered subsequent to KDIC and to the ordinary unsecured creditors. Management has indicated that they believe that it will take approximately 30 days to obtain KDIC's approval for the Postponement; and

28.3 3 Eau Claire requires the Fourth Extension to allow time to negotiate the Concord Agreement, to gain KDIC's approval for the Postponement and to file a proposal to its creditors.

29. The Trustee is of the view that 3 Eau Claire's creditors will not be materially prejudiced by the Fourth Extension.

30. The Trustee respectfully recommends that this Honourable Court approve:

30.1 The Fourth Extension; and

30.2 An increase in the quantum and scope of the Administrative Charge as set out herein.

DELOITTE RESTRUCTURING INC.,
in its capacity as Trustee under the proposal of
3 Eau Claire Developments Inc. and not in its
personal or corporate capacity



Jeff Keeble CA, CIRP, CBV
Senior Vice-President

Schedule 1

3 Eau Claire Developments Inc. ("3 Eau Claire")
Variance Analysis
For the three week period ended July 26, 2014

	Forecast Total	Total Actual	Variance (A-F)	Notes
Receipts				
Parking receivables	\$ 22,000	\$ 22,078	\$ 78	1
Total Receipts	\$ 22,000	\$ 22,078	\$ 78	
Disbursements				
Travel expenses	(1,500)	(4,380)	(2,880)	2
Utilities	(550)	(261)	289	3
Business taxes	-	-	-	-
Salaries and wages	(19,000)	(19,060)	(60)	3
Real estate rental	(2,744)	-	2,744	3
Meals and entertainment	(600)	(804)	(204)	3
Office Supply	(300)	(219)	81	3
Vehicle	(974)	(1,015)	(41)	3
Insurance	(316)	(993)	(677)	2
Professional fees	(1,000)	-	1,000	3
Contingency	(600)	(300)	300	3
Total Disbursements	(27,584)	(27,032)	552	
Net Cash Flow	\$ (5,584)	\$ (4,953)	\$ 631	
Bank Balance				
Beginning Cash Balance	\$ 6,706	\$ 6,706		
Net Cash Flow	(5,584)	(4,953)		
Ending Bank Balance	\$ 1,122	\$ 1,753		

Prepared as at the 30 day of July, 2014

Notes & Assumptions - General:

1. All amounts include applicable GST.
2. Actual results include transactions between July 6, 2014 and July 26, 2014

Notes & Assumptions - Specific:

1. 3 Eau Claire entered into a management agreement with Imperial Parking Canada Corporation ("Impark"), pursuant to which 3 Eau Claire receives monthly parking revenue of approximately \$35,000 with \$10,000 advanced on the 1st of the each month and the balance due from the prior month to be paid on or before the 10th of each month.
2. Permanent variances as a result of actual required expenditures being slightly lower/ higher than originally forecast.
3. Timing related variances, which are expected to reverse themselves in future weeks.