

CANADA
Province of Alberta

District of Alberta
Division of 02 - Calgary
Court No. 25-1890623
Estate No. 25-1890623

TRUSTEE'S PRELIMINARY REPORT
IN THE MATTER OF THE BANKRUPTCY OF
TRIMOR EQUITY CORPORATION

Formerly carrying on business in the City of Calgary in the Province of Alberta

Trustee: Deloitte Restructuring Inc.

Introduction

Trimor Equity Corporation ("TEC" or the "Company") was incorporated under the laws of the Province of Alberta on March 15, 2004. The common shareholders of the Company are Jim Irvine, Art Visser, Chris Beadle, Nathan Bernhardt and Barry Bernhardt, with each owning 20% of the outstanding common shares. The directors of TEC are Jim Irvine and Randy Smyth (the "Directors"). The Trustee understands that TEC was incorporated in order to hold properties in trust for a related company called Trimor Mortgage Investment Corporation ("TMIC"). TMIC is a mortgage investment corporation which raised funds from investors, referred to as the "Preferred Shareholders", and these funds were invested in various mortgages on properties located in Alberta and Saskatchewan. As a result of foreclosure proceedings undertaken by TMIC in regards to certain mortgages, TMIC took ownership of certain properties (the "Properties") and required TEC to hold these properties in trust as TMIC can only hold mortgage investments and not actual properties.

It also appears that TEC is a general partner of a Manitoba limited partnership called CRMR Limited Partnership and the Trustee is currently investigating this structure.

TEC experienced financial difficulty as a result of its reliance on TMIC and the funding of the holding costs related to the Properties. TMIC had several non-performing mortgages and experienced a decline in values of certain real estate properties that formed its mortgage security. As a result of these difficulties, the Directors assigned TEC into

bankruptcy pursuant to the *Bankruptcy and Insolvency Act* ("BIA") on July 15, 2014 (the "Date of Bankruptcy"), and Deloitte Restructuring Inc. was appointed as the Trustee (the "Trustee") of the bankrupt estate (the "Estate"). On July 15, 2014, TMIC was also assigned into bankruptcy by the Directors pursuant to the BIA. TEC and TMIC are referred to collectively as the "Companies."

TMIC retained Bernhardt Mortgage Group Inc. ("BMG") as the investment fund manager pursuant to National Instrument 31-103. In this role, BMG was paid a monthly asset management fee pursuant to a management agreement between BMG and TMIC dated October 1, 2012 which was subsequently amended by agreement dated October 1, 2013 to include TEC. Pursuant to this agreement, BMG was responsible for managing and operating both Companies and maintaining their books and records.

The Trustee has retained McLennan Ross LLP as its independent legal counsel with respect to the bankruptcies of the Companies (the "Trustee's Counsel"). This was done by the Trustee prior to the first meeting of creditors ("FMOC") for the Companies, and pursuant to section 19(1) of the BIA, in order to attempt to preserve both a pending asset sale and funds garnished and held in Court. The Trustee will seek approval of the retention of the Trustee's Counsel from any Estate inspectors that are appointed at the FMOC for the Companies.

Class I – Inventory

TEC did not own any inventory at the Date of Bankruptcy.

Class II – Plant, Machinery and Equipment and Office Equipment

The Company did not hold any plant, equipment or office furniture at the Date of Bankruptcy.

Class III – Building and Real Estate

At the Date of Bankruptcy, TEC was listed on the title searches as the owner of the following Properties:

- 1213 – 1st Street SW, Calgary (the "Calgary Property") – an older, 2-storey plus basement commercial building in downtown Calgary with a rentable area of approximately 9,800 square feet located on a site of approximately 5,000 square feet, which is currently vacant and not generating any revenue. The Calgary Property is subject to a pre-bankruptcy purchase and sale agreement that was supposed to close on July 15, 2014. The Trustee was not aware of the scheduled closing date and has met with the purchaser and is negotiating an amended purchase and sale agreement with amended terms and conditions and a closing date in August 2014. The Trustee understands that the Calgary Property had a 2013 tax assessed value of approximately \$2.2 million. The Calgary Property has a mortgage for approximately \$752,000 that is held by Axxess Capital Partners as well as outstanding tax arrears and a builder's lien of approximately \$330,000; and
- 261049 Glendale Road, Bearspaw (the "Bearspaw Property") – a 160 acre property containing a single family house on four acres. The remaining portion of the property is undeveloped land, however the entire 160 acre property is included on a single title. There is a tenant renting the Bearspaw Property at a rate of \$3,000 per month and the Trustee is still trying to locate a lease agreement. The Trustee understands that the Bearspaw Property had a 2013 tax assessed value of approximately \$968,000 and there is an outstanding vendor take-back mortgage of approximately \$1 million.

Although the title searches for the Properties indicate that they are owned by TEC, the Trustee understands that this ownership arrangement is the result of a mortgage investment corporation not being able to hold title to actual property. The Trustee is working with the Trustee's Counsel to determine whether the necessary novation agreements are in place between TMIC and TEC to clarify the ownership of the Properties.

The Trustee is trying to assemble as much information as possible on the Properties in order to review and assess the various realization options available. The total estimated net realizations from the Properties is not known at this time and the Trustee will be

seeking instructions from any Estate inspectors that are appointed at the FMOC for the Companies.

Class IV – Books and Records

The Trustee has taken possession of the available books and records of TEC that have been provided and made available to the Trustee by BMG, including electronic records that were provided to the Trustee on July 29, 2014.

The Trustee has requested access to the records of GK Mah, the accountant who prepared the Company's most recent financial statements as at October 31, 2013.

Class V – Other Assets

The Trustee has collected cash totalling approximately \$6,600 from the Company's only bank account.

Property Placed Under the Guardianship of Debtor or Third Party

Apart from the Calgary Property and the Bearspaw Property as noted earlier in this report, the Trustee is not aware of any property placed under the guardianship of the Company or a third party.

Section B – Current State of Operations

1. Conservatory and Protective Measures

The Trustee took possession of the Calgary Property and attended at the Bearspaw Property after the Date of Bankruptcy and has arranged for the Company's insurance coverage to remain in place on the Properties.

2. Carrying on Business

The Company's operations ceased on the Date of Bankruptcy and have not been re-started.

Section C – Legal Proceedings

The Trustee is not aware of any ongoing litigation against TEC at the time of the drafting of this report.

Section D – Provable Claims

The Trustee is aware that the Preferred Shareholders of TMIC may have claims as unsecured creditors as against the assets owned by TEC. Some claims have been received to date as against TEC.

Section E – Secured Creditors

The Trustee performed a Personal Property Registry Search on the Company and there appear to be no secured creditors who hold general security agreements against the Company's assets. As previously reported, there are mortgage debts owing on the Properties.

The Trustee understands that the Company had no employees and, accordingly, there should be no deemed trust claim against the Estate for any unremitted payroll source deductions and no priority claims pursuant to the Wage Earner Protection Program Act.

Section F – Realization and Projected Distribution

The Trustee is moving to realize on the assets of the Company and is in current negotiations with the existing purchaser of the Calgary Property. The Trustee is also looking at realization options with respect to the Bearspaw Property and will seek instructions from any inspectors appointed at the FMOC for the Companies.

Any distributions to the TEC creditors will be dependent on the clarification of the novation agreements between TMIC and TEC regarding the properties and mortgages and the success of the realization process and the amounts available after the Trustee's fees and costs and any priority claims.

Section G – Reviewable Transactions and Preference Payments

The Trustee is undertaking a review of the Company's books and records for the twelve months prior to bankruptcy and this work will be completed in due course.

Section H – Other Matters

Fees for the Trustee and its administrators and counsel will be based on standard hourly rates.

Dated at Calgary, this 6th day of August, 2014.

DELOITTE RESTRUCTURING INC.

In its capacity as Trustee in Bankruptcy
of Trimor Equity Corporation
and not in its personal capacity.



Jeff Keeble, CA, CBV, CIRP
Trustee