

**TRUSTEE'S PRELIMINARY REPORT
IN THE MATTER OF THE BANKRUPTCY OF
3 EAU CLAIRE DEVELOPMENTS INC.**

Section A - Background

3 Eau Claire Developments Inc. ("3 Eau Claire" or the "Company") was incorporated as a real estate development company for the purpose of building an approximately 652,000 square foot mixed-use condominium project located at 633 3rd Avenue SW in Calgary, Alberta (the "Lands").

On April 11, 2014, 3 Eau Claire 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. consented to act as Trustee under the NOI.

3 Eau Claire was granted an initial 30-day stay of proceedings (the "Initial Stay") pursuant to Section 69(1) of the BIA. The Company was required to file a proposal (a "BIA 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 granted five Orders extending the stay of proceedings with the most recent Order being granted on August 15, 2014 (the "August 15 Order") and extending the stay of proceedings until September 29, 2014.

The August 15 Order further appointed Deloitte as receiver (the "Receiver"), without security, over all of 3 Eau Claire's current and future assets, undertakings and properties of every nature and kind whatsoever and wherever situate, including all proceeds thereof (the "Property"). Pursuant to the August 15 Order, 3 Eau Claire remained in possession of the Property with the Receiver being appointed for the limited purpose of negotiating the terms of a BIA Proposal (which could be done pursuant to a joint venture) or the outright sale of the Lands.

The activities of the Receiver subsequent to the granting of the August 15 Order are further described in the First Report of the Receiver dated September 22, 2014 (the "Receiver's First Report").

At a hearing on September 25, 2014 (the "September 25 Hearing"), the Court granted a further Order (the "Expanded Receivership Order"), which expanded Deloitte's powers as Receiver granted pursuant to the August 15 Order to those available under the Alberta model template Receivership Order.

Subsequently, on September 30, 2014, 3 Eau Claire was deemed to have made an assignment in bankruptcy and Deloitte was appointed as Trustee of the estate of the bankrupt. For clarity, the Property is in the possession of the Receiver and will be realized on by the Receiver.

Further information on the NOI, Receivership and Bankruptcy proceedings, including the Receiver's First Report, can be accessed on Deloitte's website at www.insolvencies.deloitte.ca.

Section B – Assets and books and records

The Lands

On September 25, 2014, the Receiver took possession of the Property, including the Lands.

The Trustee's First, Second, Third and Fourth Reports in the NOI proceedings and the Receiver's First Report included information on the marketing process that was undertaken with respect to the Lands in both the NOI and the Receivership proceedings.

In addition to the Expanded Receivership Order, the Court granted the following relief at the September 25 Hearing:

- Authorizing the Receiver to enter into an agreement of purchase and sale (the "APS") with Bentall Kennedy (Canada) LP ("Bentall"), or its assignee, and approving the APS and the transfer of the Lands and vesting title in the Lands to Bentall free and clear of all encumbrances upon closing of the APS and declaring that the transaction contemplated in the APS (the "Transaction") was commercially reasonable; and
- Authorizing and directing the Receiver to execute and deliver the APS to Bentall and to proceed with the Transaction and to take all steps necessary to complete the Transaction substantially in accordance with the terms of the APS, subject to such amendments as Bentall and the Receiver may agree to which do not materially and adversely alter the Transaction or the APS and approving the sale of the Lands pursuant to paragraph 3(l) of the Expanded Receivership Order.

The APS includes a total purchase price of \$39.6 million (the "Purchase Price") for the Lands. The Transaction is still subject to due diligence, which is set to expire on October 27, 2014, with the closing date being 10 days thereafter. The Purchase Price is subject to all usual adjustments relating to similar sale transactions of vacant land in Alberta, including realty taxes and utilities, as further described in the APS.

Other Assets

In addition to the Lands, the Receiver took possession of the following additional assets, which were held by 3 Eau Claire (the "Other Assets"):

Asset Description	Estimated Realizable Value
Cash held in financial institutions	\$ 200
Office and show home furniture and appliances	NIL
Leased vehicle	NIL
Total	<u>\$ 200</u>

The Receiver has reported as follows with respect to the Other Assets:

- 3 Eau Claire held a bank account with CIBC, which was estimated to have a balance of \$200 at the date of Receivership. The Receiver has requested that CIBC close the account and that all funds contained therein be forwarded to the Receiver;
- The Company leased an office located at 102, 615 3rd Avenue SW (the "Sales Office"), which contained various office and show home furniture and appliances (the "Furniture"). The Receiver solicited the input of two auction companies, both of whom advised that, taking into account the moving costs, any potential recovery from the Furniture would be nominal. In addition, the Receiver would have incurred ongoing costs to maintain the Sales Office while the Furniture was being removed. As such, the Furniture was determined not to have any realizable value for the estate and has been abandoned by the Receiver; and
- 3 Eau Claire was party to a full disclosure lease with a purchase option for a 2014 Ford Explorer (the "Vehicle") through Ford Credit Canada Leasing, a Division of Canadian Road Leasing Company ("Ford"). Following a review of a proof of claim filed by Ford, the Receiver determined that Ford's security was valid and enforceable and that there was no equity in the vehicle. The Receiver subsequently disclaimed its interest in the Vehicle and returned it to Ford.

Books and Records

The Receiver took possession of the books and records of 3 Eau Claire, which will be used by the Trustee to complete its statutory duties.

Section C – Current state of operations

Conservatory and Protective Measures

The Receiver took possession of the Property on September 25, 2014 and undertook the necessary conservatory and protective measures, including confirming that insurance was in place on the assets.

Carrying on business

3 Eau Claire previously entered into a management agreement with Imperial Parking Canada Corporation ("Impark", the "Impark Agreement") whereby Impark operates a parking lot on the Lands. Pursuant to the Impark Agreement, 3 Eau Claire receives monthly parking revenue of approximately \$35,000. The Receiver intends to allow Impark to continue to operate the parking lot on the Lands until such time as the Transaction has been completed.

Section D – Legal Proceedings

The Trustee is not aware of any pending or actual legal proceedings for or against 3 Eau Claire.

Section E – Provable Claims

Priority Claims

On May 8, 2014, the Court granted an Order approving a charge in the amount of \$50,000 as security for professional fees and disbursements of the Trustee and the Company's legal counsel (the "Administrative Charge"). The Administrative Charge formed a first charge over the Property. On July 31, 2014, the Court granted a further Order approving an increase in the Administrative Charge 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, Blake Cassels & Graydon LLP ("Blakes").

3 Eau Claire was being managed by three individuals, who were believed to have been retained by the Company on a contract basis. Following the Receiver's review of 3 Eau Claire's books and records, it appears that one of these individuals (the "Employee") had been retained pursuant to an employment agreement with the Company dated January 1, 2014. We understand that 3 Eau Claire had not been remitting any payroll source deductions on behalf of the Employee and, as such, it is anticipated that Canada Revenue Agency will have a deemed trust claim for the employee portion of those payroll source deductions that should have been remitted by the Company. It is currently believed that the Employee was acting in a managerial capacity and that his responsibilities would preclude his eligibility to make a claim under the *Wage Earner Protection Program*.

The Company has indicated that there are outstanding property taxes due on the Lands in the amount of approximately \$163,000, which will be adjusted for upon the closing of the Transaction.

Secured Mortgage Holders

As at September 25, 2014, the Company listed creditors with claims totaling \$50.6 million, of which approximately \$48.3 million related to claims by the following seven secured mortgage holders.

Mortgage Holder	Amount ('000)
Korea Exchange Bank of Canada ("KEB")	\$ 8,500
Computershare Trust Company of Canada (the "Computershare")	30,200
Shorebrook Capital Inc. ("Shorebrook")	326
Bosa Properties (Eau Claire) Inc.	4,767
MMP Structural Engineers Ltd.	646
PM Rec Holdings Inc.	450
1713744 Alberta Ltd.	3,400
Total	<u>\$ 48,289</u>

At the Receiver's request, Blakes has completed a review of the security held by KEB, Computershare (Korea Deposit Insurance Corporation is the beneficiary of Computershare's registered mortgage) and Shorebrook and has determined that the security held by those parties is valid and enforceable.

Two additional creditors filed builders' liens on the Lands totaling approximately \$538,500.

Unsecured Creditors

3 Eau Claire listed two preferred unsecured creditors, one for rental arrears of which the preferred portion was estimated to be approximately \$12,000 and one for wages of which the preferred portion was estimated to be approximately \$2,000. As the Furniture held at the Sales Office does not have any realizable value, the claim for rental arrears, which relates to the Sales Office will not be preferred and will rank as an ordinary unsecured claim.

In addition to the above, 3 Eau Claire listed claims of ordinary unsecured creditors totaling approximately \$1.4 million.

At the time of preparing this report, several creditor claims had been filed against 3 Eau Claire. The Trustee is in the process of reviewing and validating these claims in advance of the first meeting of creditors.

Section G – Realization and Projected Distribution

As described above, the Court has approved the sale of the Lands to Bentall as contemplated in the APS (defined above as the Transaction). The Receiver intends to complete the Transaction. Once the Transaction has been completed and all administrative matters have been finalized, the Receiver will be seeking an Order to distribute the net proceeds and to be discharged.

As noted above, the Property will be realized by the Receiver and all funds will be distributed by the Receiver subject to the required Court approvals. Funds will be made available from the Receivership to satisfy the cost of administering the bankrupt estate.

It is anticipated that there will be a significant shortfall in satisfying the claims of the secured creditors and that no funds will be available for distribution to the unsecured creditors.

Section H – Transactions at Undervalue

The Trustee has not yet completed a review of 3 Eau Claire's books and records for the twelve months prior to bankruptcy to determine if there are any transactions at undervalue. The Trustee notes however, that during the period between the NOI and the date of bankruptcy, 3 Eau Claire's cash flow was being monitored by the Trustee.

Section I – Other Matters

As reported above, Deloitte acts in a dual capacity as both Court-appointed Receiver and Manager and Bankruptcy Trustee of 3 Eau Claire.

Dated at Calgary, Alberta, this 20th day of October, 2014.

DELOITTE RESTRUCTURING INC.

In its sole capacity as Bankruptcy Trustee of
3 Eau Claire Developments Inc. and not in its personal
capacity



Jeff Keeble, CA, CIRP, CBV
Senior Vice-President